CASE NUMBER:

99-434

III. SIGNIFICANT REGULATORY, STRUCTURAL AND TECHNICAL CHANGES

A. REGULATORY AND LEGISLATIVE ACTIVITY

In this section, a brief description of regulatory and legislative activities which have occurred since the implementation of the PRP are described.

TELECOMMUNICATIONS ACT OF 1996

This sweeping Federal legislation was intended to provide the framework for opening local competition. It describes the obligations which local exchange carriers have with respect to resale, number portability, dialing parity, access to rights-of-way, the obligations of a local exchange carrier for Section 252, Procedures for Negotiations, Arbitration and Approval Agreements associated with requests for interconnection, unbundled access, resale and collocation. The provisions for an arbitrated agreement between an incumbent local exchange carrier and another carrier were detailed, including the associated responsibilities of the State Commission.

A broad requirement detailing the pricing standards for interconnection and network element charges was provided. It stated that the charges should be based on cost, without reference to a rate-of-return or other rate-based proceedings, be nondiscriminatory, and include a reasonable profit.

The procedures to review Universal Service requirements are also detailed. The FCC was directed to refer to a Federal-State Joint Board a proceeding to recommend changes required to implement Universal Service. Universal Service principles were established as well as individual state authority regarding their universal service funding requirements.

Another major piece of the legislation spoke to the requirements for Bell Operating Company entry into InterLATA services (Section 271). In particular, two tracks for the RBOC to petition were defined: presence of a facility-based competitor and no interconnection requests. Additionally, a competitive checklist set of requirements for the RBOC to satisfy was established.

Other issues related to affiliate relations, joint marketing, and manufacturing were discussed. Another section of the legislation (*Section 301*) dealt with cable reform.

FCC INTERCONNECTION ORDER

This Order was the FCC's effort at establishing the operational rules to effect the implementation of the Telecommunications Act of 1996. It defined the specific interconnection rules and addressed the concept of "technically feasible."

The requirements for UNEs were detailed and the specific unbundling requirements were defined. Collocation issues and standards were established. Finally, the pricing of interconnection and UNEs was defined. The FCC defined the appropriate pricing standard to be based upon Total Element Long Run Incremental Cost (TELRIC) including a component of common cost. De-averaging of UNE costs was also discussed. The second pricing issue resolved was resale pricing. A detailed account-by-account methodology was described for computing the wholesale discount value. Other issues associated with wholesale service, such as promotions, discounts, cross-selling, below-cost pricing and provisioning were discussed.

UNIVERSAL SERVICE

At the Federal level, the issue of the High Cost Fund continues to be unresolved. Significant differences exist between members of the Federal-State Joint Board. In its May 7th, 1997 Order, the FCC defined supported services, defined criteria for designating eligible carriers, and determined the allocation between state and federal funding. The formula for determining support amounts was based upon a revenue benchmark approach. The revenue benchmark, which included local service, vertical service and Inter/Intra state access revenues, was subtracted from the forward looking cost. However, the appropriate model definition was not provided, as the model to be used was still being debated along with the definition of critical model input parameters. Finally, the FCC determined the funding split as federal 25% and state support at 75%. These proposals were met with much criticism. As such, the FCC (based upon input from the state members of the Joint Board) referred back to the Joint Board for additional discussion issues related to the determination of the support level and the federal/state contribution levels.

The Joint Board's Second Recommended Decision significantly modified earlier FCC actions. Essentially, the support level was now being set upon a national average cost benchmark, which would be between 115 and 150% of the national weighted average cost per line. The contribution levels also were significantly modified. Federal support would only be provided to the extent that a state was unable to support high cost areas through its own efforts.

No final decisions related to cost model selection, model input parameters, and structure of the Federal High Cost Fund have yet been made.

The Commission issued on May 22, 1998, an Order stating that the Kentucky Universal Service Fund (KUSF) would begin January 1, 1999. This Order was predicated upon a revenue benchmark approach using the HAI model, with specified input variable values, as the determinant of the forward-looking cost. Based upon the indecision at the Federal level, the Commission, in an Order dated August 7, 1998, delayed implementation of the high-cost support until July 1, 1999. However, it did retain the earlier date for implementation of the low-income support of the KUSF. Then, in an Order issued November 16, 1998, the Commission defined the surcharge amount $.05 that each ILEC, CLEC and wireless carrier could bill monthly per access line to fund the estimated low income fund size of $1 million. The fund is known as the Kentucky Lifeline Support.

A credit of up to $10.50 for eligible customers is available in which $3.50 is funded by the Kentucky Lifeline Support and $7.00 is supported by the federal USF.

As of this report, the Commission has not yet established a high-cost fund mechanism. Until the FCC resolves the federal issues, states will not have clear policy paths to follow.

B. INDUSTRY STRUCTURAL CHANGES

This task assessed the changing competitive markets in Kentucky in light of rapid technological innovation and deployment and regulatory changes, and evaluated BST's response in terms of its strategic, network, marketing, and operational plans and decisions. Of particular interest, is the impact of Kentucky regulation and the Telecommunications Act on planning and decision making.

This task presented the greatest challenge of the *Tier 2* review in that it required a determination of the very meaning of competition as a baseline. This was no menial task nor is it academic. There are numerous factors at work in the telecommunications environment at the present time that challenge the traditional view of competition in the local exchange market. Some of the very real questions that Vantage grappled with throughout the review included:

- Does competition mean that the market is open to competition or that competitors have actually entered the market?
- What defines "market" for purposes of competition?
  - Does facility based competition to any one area of customers served by an ILEC mean that competition exists in that market segment?
  - Does competition in the Louisville business market mean that all business markets in the BST-KY service territory have competition?
- Does the opportunity for competition that has not been acted upon by CLECs mean that there is no competition?
- Do alternative technologies, most notably wireless at this point in time, qualify as competition?

CONVERGENCE

Convergence refers to the coming together of technologies necessary for provision of telecommunications services. Video over copper, voice over IP, Internet over cable and satellite, the distinctions are becoming very blurred. Increasingly, convergence also means the mergers and combinations of companies providing the various services. Market participants can no longer be labeled as wireless, cable, ISP, local exchange or inter-exchange. The speed of this convergence is nothing short of phenomenal.

The following changes have taken place in the industry structure just during the course of this review:

- AT&T acquired TCI and MediaOne giving AT&T access to 26 million homes via cable lines.

- BellSouth acquired an interest in Qwest. Less than two weeks later, Qwest announced a planned acquisition of US West (which was being sought by Global Crossings and who was also pursuing Frontier). Qwest ultimately merged with US West, while Global Crossings merged with Frontier.
- AOL formed a strategic alliance with DIRECTV®, which among other things, provides AOL a high-speed delivery mechanism for broadband Internet services.
- Bell Atlantic has announced a planned acquisition of GTE, which has direct implications for Kentucky.
- SBC appears to have cleared regulatory hurdles in Illinois, which will allow it to acquire Ameritech. (SBC had previously acquired PacTel.)

The AOL alliance provides a good example of not only industry convergence, but also technology and service convergence. Only a few years ago, AOL was a value-added ISP providing services to primarily the home market through the Public Switched Telephone Network (PSTN). Now AOL is offering numerous services through various alliances and with multiple delivery mechanisms.

The alliance with DIRECTV® provides AOL a mechanism of providing interactive AOL TV and high-speed Internet access. AOL also has partnerships with Bell Atlantic and SBC to deliver DSL broadband connectivity to its members. According to Bob Pittman, President and CEO of AOL:

> *"Through this alliance [with DIRECTV®], along with the partnerships we've forged with telecommunications companies, we now have the ability to offer best-of-breed services ranging from long distance telephone and broadband access to interactive TV and dial-up connectivity at attractive package prices to our members—making AOL even more central to their daily lives."*

This example was chosen because it highlights several important themes of the modern telecommunications environment.

- Partnerships and alliances may include companies that continue to compete in certain areas even while partnering on particular service offerings or facility sharing. This is not new (witness the IXC and ILECs), but it is becoming visible.
- Focus is shifting to the service being provided, not the facilities that are used to deliver the service.
- The future of telecommunications lies in packaged offerings or "one stop shopping". These bundled packages will be assembled in all manner of ways using different technologies and often combining offerings from various companies seamlessly bundled under one umbrella.
- Companies are willing to cannibalize their own service offerings allowing the market and the customer to decide what technology will "win".

The telecommunications industry of tomorrow will see relatively fewer providers who are capable of offering a total package of telecommunications services (long distance, local, vertical services, cellular or PCS, paging, video) all bundled under one bill. Indeed this is happening today as Sprint offers reduced rates on Earthlink, AT&T can bundle long distance landline, wireless (analog, digital cellular or PCS) and other services on one bill.

COMPETITORS

During the original consideration of the PRP, there was considerable testimony concerned with the issue of whether BellSouth was experiencing competitive pressure or even whether such pressure would ever really exist. Vantage did not concern itself with the state of competition at that time, other than for trending. However, that competition has now arrived in Kentucky is a certainty. The Vantage tasks were to attempt and determine the impact that the price regulation plan has had on competition, and determine what, if any, changes to the plan would forward the Commission's goal of competition.

In order to determine these factors, the state of competition must be determined as well as trends. Even this task has become increasingly complex and difficult. The fact that competition has arrived means that all inclusive data is no longer available. This is for several reasons:

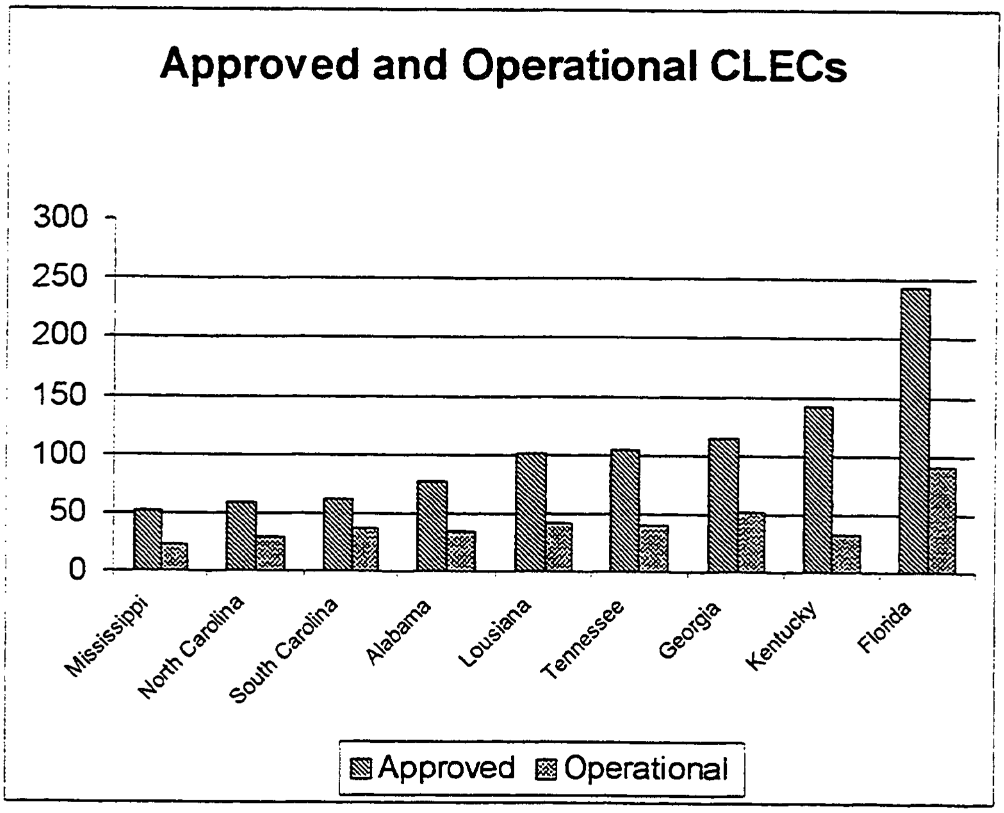
- CLECS and CAPS are not required to provide the information that is available from BellSouth.
- Companies are increasingly wary of divulging any information which may make its way to a competitor. This makes benchmarking and other comparisons almost impossible.
- The definition of competition itself is changing to include a multitude of new products, services and delivery mechanisms.
- Much of the competition is coming in the form of new products and services (primarily data). This means that market losses by BellSouth are often invisible and take the form of lost opportunities rather than stolen customers.

Even with these limitations, Vantage felt it critical to make some determination on the state of competition in Kentucky and to compare that to other states.

APPROVED AND OPERATIONAL CLECS

As of January 1999, nearly 1,000 CLEC approvals had been granted for Wireline Service in the nine BellSouth states.[1] Kentucky had approved 143 CLECs and another 14 applications were pending. As shown in the following exhibit, the number of approved CLECs does not necessarily correspond to operational CLECs. Kentucky has the second highest number of approved CLECs in the nine-state territory at 143, but the lowest number of operational CLECs at only 22. *Exhibit III-1,* below, shows approved and operational CLECs in the BellSouth states.[2]

Exhibit III-1[3]
Approved and Operational CLECs



Even the number of operational CLECs can be misleading in terms of the extent of competition in a state since many target only high revenue customers or special applications (ISPs, campus facilities etc). For example, Florida has nearly three times the number of operational CLECs as Kentucky. However, this can not be interpreted to mean that Florida has more widespread competition.

FACILITIES

Kentucky has the lowest number of resold lines in the nine-state region. As of April 1999, Kentucky had 35,928 resold lines. The distribution of these lines is shown in *Exhibit III-2,* below:

Focused Review of the Price Regulation Plan
BellSouth Telecommunications, Inc. - Kentucky

Exhibit III-2[4]
Kentucky Resold Lines

	Number	Percent of Total
Business Lines	17,244	48.0
Residential Lines	17,132	47.7
ISDN	176	.5
PBX (trunks)	1,193	3.3
Multiservice Lines	127	.4
Private Lines/Data Circuits	56	.2

The mix of resold lines in Kentucky shows slightly fewer residential resold lines than the other eight BellSouth states, as shown below in *Exhibit III-3*.

Focused Review of the Price Regulation Plan
BellSouth Telecommunications, Inc. - Kentucky

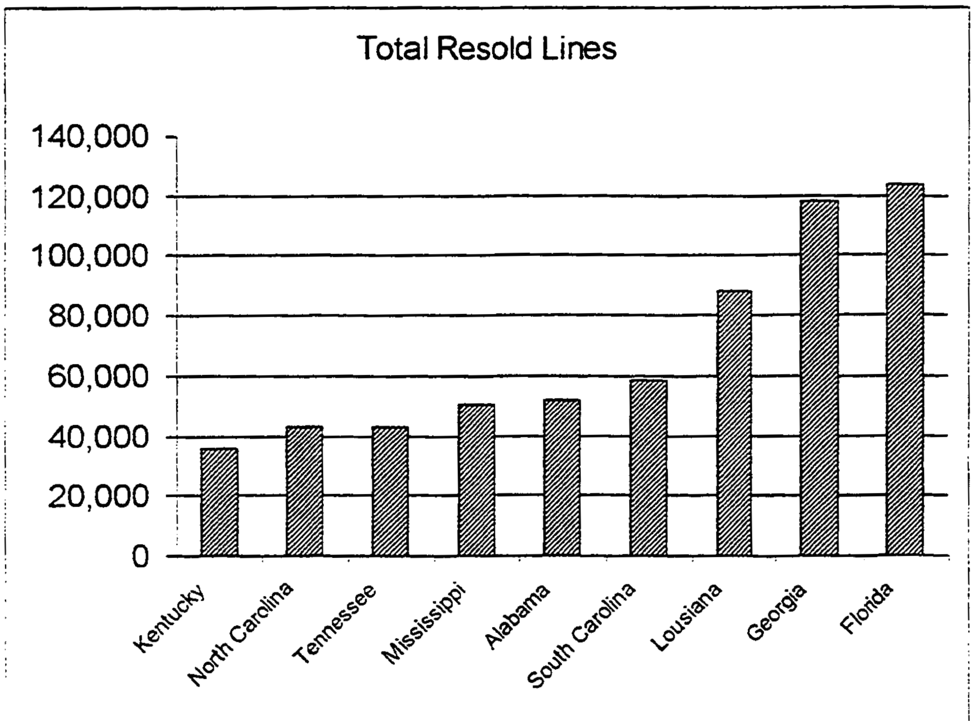
Exhibit III-3[5]
Percent of Resold Lines In BellSouth Region (Excluding Kentucky)

Type of Resold Line	Percent of Total resold Lines
Business Lines	37.8
Residential Lines	58.5
ISDN	0.3
PBX(trunks)	2.3
Multi-service Lines	0.6
Private Lines/Data Circuits	0.5

As shown in *Exhibit III-4*, below, Kentucky has the fewest number of resold lines of any BellSouth state. The reasons for this are not entirely clear. There are other anomalies such as Alabama having more resold lines than Tennessee or North Carolina. It is our conclusion that the resale market is still so small that any analysis based on comparative state numbers is misleading.

Focused Review of the Price Regulation Plan
BellSouth Telecommunications, Inc. - Kentucky

Exhibit III-4[6]
Total Resold Lines



CLEC GROWTH

Competition is evident from CLECs many of which are experiencing tremendous growth. The vast majority of this growth has been in the business markets. Despite the growth in CLECs, they still represent a small percentage of total access lines. This is because of the small base upon which their growth has been built. (basically starting from zero) The V.P. of Data and Internet Product Management at e.spire had this to say about CLEC growth:

> *"The new competitive carriers, such as **e.spire**, are like the grains of rice; starting out very small, but then doubling, tripling, even quadrupling in size in a remarkably short period of time. In fact, CLEC industry revenue has doubled every year since the Telecom Act, and is expected to continue doubling for the next several years at least.*
>
> *At my own company, our revenue grew by a factor of six last year alone, and as a result, we won the distinction of being named the "fastest growing network company in the industry" by Network World Magazine."[7]*

At the end of 1998, new phone entrants controlled 2.7 million access lines or 1.7% of the market. This is up from 1.7 million access lines or one percent of the market a year earlier. The FCC estimates that the number will exceed 4 million access lines by the end of 1999.[8] (To be consistent, Vantage has used the term "market" as used in the referenced document. However, as we will point out, "market", in fact, constitutes vastly different customers, technology and competitors.)

Hyperion (Adelphia)[9]

Hyperion is a regional CLEC operating in the Eastern United States and Canada. Hyperion is a subsidiary of Adelphia Cable, one of the largest cable TV companies in the U.S. with more than 1.3 million subscribers in 13 eastern states. Hyperion provides phone service in 22 networks in 11 states, including Kentucky. In Kentucky, Hyperion operates in Louisville and is constructing network facilities in Lexington. Through agreements with fiber optic network providers, Hyperion interconnects much of its 22 markets with first- and second-tier cities in the eastern U.S.

In a press release announcing agreements with several fiber optic providers, Hyperion listed benefits and opportunities to local business communities served by its expanded network.

> *"First, it allows Hyperion to efficiently and cost-effectively access under-served third tier markets and provide them with the latest on fiber optic communications. The network also provides Hyperion with the enabling architecture to extend service offerings to include data applications such as IP, ATM and Frame Relay. Additionally, it provides Hyperion with the foundation for an Internet backbone."*

In Kentucky, Hyperion is thought to serve the largest private sector employer in the state, Humana, located in downtown Louisville. BellSouth provides no telecommunications services to the Humana building.

ICG Telecom Group

ICG Telecom is part of the ICG Communications family, which includes Canadian and U.S. Companies. ICG Telecom is headquartered in Denver, where the company first began offering competitive telecommunications to the business markets in 1991. ICG offers competitive local exchange telecommunications services via a fiber-optic network. ICG offers local, long distance, data services and enhanced telephony in Colorado, California, Texas, the Ohio Valley, and parts of the Southeastern U.S., including Kentucky. ICG Telecom has been primarily a CAP until recently.

In addition to ICG Telecom, ICG also has at least two other telephony related companies operating in the U.S. Fiber Optic Technologies provides network design, installation, maintenance and support of IT and communications systems for large businesses. ICG Satellite Services provides satellite based voice, data and video transmission services through teleports in Atlanta, Denver, Los Angeles, and New York. ICG Satellite Services also operates a maritime telecommunications network and VSAT (very small aperture terminal) private data networks.[10] The Satellite Services Division was sold during August 1999, but the sale was not expected to be finalized until after completion of this report. On

September 5, 1999, as this report was being prepared, ICG announced the sale of its fiber optic unit to ACG Communications.

ICG Telcom's stated mission is:

> *"to become the leading, state-wide CLEC in markets served by bringing the benefits of advanced communications technology and world-class services to an audience once held captive by the incumbent local exchange carriers."* [11]

ICG would apparently leverage its relationship with long distance carriers. ICG Telecom has operated primarily as a "carriers carrier", providing services to resellers and IXCs. ICG Telecom currently has a network in Louisville. Within the BellSouth territory, it also operates in Atlanta, Birmingham, Charlotte, and Nashville. Networks are under development in Greensboro and Winston-Salem. As of August 1999, ICG had announced no plans to offer residential local exchange service.

e.spire

e.spire, headquartered in Maryland, operates its network in 23 states offering fiber, switched services and or ATM. e.spire offers data availability in 47 of the 48 contiguous states.[12] As of the fourth quarter of 1998, e.spire was thought to have more than 70 miles of self-healing fiber SONET ring technology in Louisville. The SONET ring passed the hospital district, Federal reserve building and the East End, e.spire was expanding its network to the areas around the University of Louisville and the Louisville Airport.[13]

e.spire focuses on the business market with targeted services offered through a bundled package. A prominent service promoted by e.spire is the Platinum service, which is an integrated T-1. Platinum service includes local, long distance, 800 service (inbound), Internet and data services. The local service under this plan provides flat rate pricing and includes several custom calling features, including call hunting, call waiting, call forwarding, and three-way conferencing. Customers can also add voice and data circuits under this plan with no additional charge (up to the capacity of the T-1).[14]

Case Study – A Residential Facility Based CLEC

While it sometimes seems that all of the competition in telecommunication to date has been focused on large businesses, there are some instances of small, facility-based CLECs pursuing the residential customer. During the course of this study, one of the Vantage consultants had the opportunity to sign up for residential service with a CLEC. Vantage took advantage of this fortuitous timing and arranged interviews with the CLEC. The company does not operate in the BellSouth service territory, which hopefully provided more open and revealing interviews than might have been the case with a direct competitor of BellSouth.

By no means do we suggest that the operation described in the following is representative of CLEC competition in the future or indicates competition. The purpose of the case study is to describe for the reader how a successful, if small, facility-based CLEC can operate in the post-TA96 environment.

King's Deer Telephone is a small CLEC which currently serves Monument, Colorado and portions of Colorado Springs. They are the exclusive provider of service to one subdivision (King's Deer) of 150 homes. Ultimately, the subdivision will have 530 homes and a golf course. The minimum lot size in King's Deer subdivision is 2.5 acres. With a golf course and certain natural terrain features that prevent development, the area is relatively low density. The home prices in King's Deer range from $350,000-$700,000. Despite the relative affluence of the market, US West was not willing to install upgraded facilities and had categorized the new development as rural.[15]

The CLEC also serves the immediate surrounding area of Monument, Co. Monument is a rapidly expanding area in northern El Paso county. The communities are being spurred by easy access to both Denver and Colorado Springs. Many of the newcomers to the area are two income families with one family member working in each of the cities. The CLEC had 10% penetration or 630 homes out of 6,300 in Monument and the surrounding area as of June of 1999. Their goal is 30 percent market penetration by EOY 1999.

The King's Deer subdivision is served exclusively with CLEC facilities. In this subdivision, the CLEC uses no UNEs and no resale. US West has no facilities in this subdivision. They operate in the subdivision with deep fiber.[16] They go within 2-3k feet of homes with fiber and then go copper the rest of the way. They carry the signal to electronics which are collocated in a US West MUX hut. They then carry via King's Deer fiber on to their 5ESS switch in Colorado Springs.

The CLEC just signed an agreement with a local neighborhood through a homeowners association to also provide facilities based phone service with a guarantee of 30 percent of the homes. This neighborhood is older and has US West facilities as well. Consumers in this neighborhood will have a choice. The CLEC is an affiliate of the local cable company (Tri-lakes cable) and lays in coax at the same time as the phone lines. This is interesting because they are coming in with fiber in the loop and then providing cable and phone via coax and twisted copper.

The surrounding area is served via resale exclusively at this point. The plan is to eventually take these lines at the US West switching office, transport them via their collocated electronics to their switch down in more urban Colorado Springs.

King's Deer Telephone also is running services in Colorado Springs to several apartment complexes. Again, it was unclear as to whether they would sell "wholesale" to the complex like some electric and gas utilities do or if they are going to try and pick up service one by one from the tenants.

IXCs as CLECs

Following the Telecommunications Act of 1996 and the resulting arbitration, it appeared that competition for residential customers in the local phone network would come from the IXCs. Sprint, MCI (now MCI WorldCom) and AT&T all appeared to be the most likely early competitive entrants into the local phone market due to their experience, capital resources and prominence in arbitration proceedings.

It should come as no surprise to any student of the industry that local competition from the IXCs has not yet materialized. AT&T has seemingly chosen to enter the facilities based marketplace through cable rather then the PSTN. Sprint and MCI, in addition to merging, are focusing on the LD and wireless market as well as providing services to mid-market and large customers. It is only after the major IXCs have the opportunity to sell totally bundled services to residential customers and RBOC OSS Systems are fully open that residential customers will see competition. Also, IXC's are disencented to enter local markets as their very entry creates RBOC competition in the long distance market.

Non-traditional Competition

No discussion of competition would be complete without addressing competition coming from non-traditional sources. At the present time, these non-traditional competitors consist primarily of wireless service providers with cable appearing on the brink of becoming a very real alternative on a widespread basis.

Wireless

While wireless service is not quite ubiquitous, it is approaching that level in many states. Wireless for purposes of this review consists of analog cellular, digital cellular, and digital PCS. Before discussing the competitive aspects of wireless service, the following is a brief description of the three primary wireless technologies.

Analog cellular has been in widespread use since the early 80's and service is now available in 90-95 percent of the United States. Analog cellular transmits voice over continuous radio waves at frequencies in the 800 MHz range. Analog cellular has few data applications and has the additional disadvantage that calls can be heard over scanners and service theft is possible.

Digital cellular uses the same approximate frequency range as analog cellular, but uses technologies called CDMA (Code Division Multiple Access) or TDMA (Time Division Multiple Access) to transmit the digital signal. Nextel uses a TDMA technology called iDEN that allows both digital and two-way radio service. Until recently, digital cellular was primarily found in the larger metropolitan areas. The Web sites of AT&T and Sprint would indicate that the service is being rapidly expanded. Digital cellular has the advantage that it can also operate as an analog phone if outside a digital cell. Other advantages over analog cellular are that digital cannot be heard over scanners, the service is very difficult to steal, service quality (clarity) is generally better, capacity is greater meaning fewer busy signals, and finally, messaging and paging is available usually as an option.

Digital PCS (Personal Communications Service) transmits at frequencies around 1900 MHz using CDMA, TDMA and GSM (Global System for Mobile Communications). Like some digital cellular phones, some PCS phones can also be used with analog cellular systems. These phones are referred to as dual-mode. PCS phones that can also operate over the digital cellular network are also available. These phones are referred to as dual-band. PCS is still primarily found in urban areas and the handsets are more expensive. Advantages beyond that of digital cellular include a larger system capacity and more options features including alphanumeric paging, e-mail, and Internet and Intranet access.

Wireless is a current viable alternative to landline voice service in those areas where it is available. As to whether a viable alternative constitutes competition is discussed elsewhere in our report. However, there is no question that wireless (both analog and digital cellular and PCS) can serve not only as adjuncts to landline telephony, but can function as a replacement. This is at least tacitly acknowledged by the FCC. In its Order on Universal Service, wireless carriers can be declared as eligible telecommunication carriers and receive Universal Service support. Also, they do not have to be the primary line into the house. According to an article in the *New York Times, Anderson Consulting* predicts that cellular phones will achieve "25 to 35 percent displacement" of wired telephones in five-to-seven years.[17] Competition has also driven down prices of both wireless service and hardware. According to *point.com:*

> *"There's never been a better time to buy wireless service. With four-to-seven major wireless carriers in every major city competing for customers, competition has pushed airtime prices down by at least one-third and sometimes much more—during the last 18 months."*[18]

While cellular service has been competing with landline service for some time, PSC is becoming increasingly competitive for not only voice but data services. These services compete for the residential as well as the business customer. PSC competes not only on a standalone basis for voice, but offers the customer the opportunity to obtain bundled services as well. Not only is PCS becoming increasingly competitive as an alternative to landlines, but the competition among PCS providers is increasing. The following is a sampling of both cellular and PCS offerings available to residential customers. As with other sections of the report, we present these with the caveat that the costs and service plans are changing so rapidly that we fully expect changes between the report preparation and issuance dates.

Sprint offers PCS plans that start as low as $29.99 per month with 120 minutes up to 1000 minutes for $99.99 per month. These rates apply to all calls made on the Sprint network with roaming and long distance applying to calls made off network. These plans all include the following:

- Voice mail
- Numeric paging
- Caller ID
- Call Forwarding
- Call Waiting
- Three-way calling
- DA
- OS
- Basic 911

Text messaging is offered as an option as are numerous other features heretofore not considered part of telecommunications, such as roadside assistance.

AT&T also offers numerous wireless plans. One of the more interesting is Digital One Rate (DOR), which is offered in the following plans:

- 600-minutes $89.99 a month
- 1000-minutes $119.99 a month
- 1400- minutes $149.99 a month

The DOR plan allows for the use of the wireless phone anywhere on the extensive AT&T wireless systems for the same price with no roaming or additional long distance charges. As with the Sprint plans, AT&T offers numerous vertical features with the plan, although many of those features are only available in PCS areas, and the phone can be used for voice service over analog cellular and digital cellular. AT&T also offers PCS plans for as low as $24.99 for 100 minutes.

AT&T also offers a service called Personal Network, which is an example of bundling. Personal Network allows the residential customer to combine wireless, long distance and Internet on one bill with potential cost savings based on plans and service. In addition, the plan allows for on-line billing with various sorting capabilities.

Voice and fax over IP

During the course of the study, voice over Internet ProtocolP (VoIP), fax over IP (FoIP), and voice and fax over IP (V/FoIP) were seemingly moving from discussion and business Intranet applications into widespread implementation. This technology again illustrates the phenomenal speed with which the industry is changing. This section had to be almost continuously updated during the review in the summer 1999, because of the almost daily announcements of new products, technology and alliances. Again, Vantage fully anticipates that the VoIP and V/FoIP environment will have changes after completion of the draft report in September 1999 and its finalization. This is the environment in which BellSouth is now operating and which Commissions must be prepared for.

A sample of real world V/FoIP, currently available is the August 1999 offering from excite.com. Any user with Internet access can get FREE voice mail and fax service up to 60 messages per month just by signing and obtaining a user ID with excite.com (also free). The service requires that callers dial a toll free number (1-888-excite2) and then enter a 10-digit "extension" code. Vantage tests indicate that the voice quality of this voice mail service is very good. Other Internet portals are offering voice "chat" as this report goes to press.

Cable (COAX)

Perhaps the most visible competition in the local network is from cable. Not only the long anticipated entrance of cable modems into the fray, but from the mergers and alliances which have taken place. More specifically, the purchase of cable giant TCI by AT&T. The purchase gives AT&T the potential entry into 33 million U.S. homes via the Coax cable already installed by the cable company.[19]

According to Kinetic Strategies Inc. which publishes Cable Datacom News, more than one million households in the U.S. and Canada now subscribe to cable modem services. Approximately 70 percent of these are in the U.S. According to the same source, 32 million households have access to cable modem service.[20]

In addition to providing high speed data transfer, cable has the capability of providing voice communications using only a fraction of the available bandwidth. Despite its promise, cable telephony faces significant requirements for capital in order to upgrade the network. The industry will need to spend $15 billion by 2003 to reach 57% of cable homes and will need to spend an estimated $31 billion to reach 100%.[21]

Cable (Satellite)

Satellite television offers the potential of providing not only digital entertainment, but also high-speed Internet services. As an example, in June of this year, AOL and Hughes Electronics Corporation announced a strategic alliance. The intended outcome of the alliance is to:

> "*....accelerate subscriber growth and revenue-per-subscriber for Hughes' DIRECTV® television entertainment service and DirecPC® satellite-based broadband Internet delivery system, as well as extend the reach of America Online's developing AOL TV interactive television and high-speed AOL-Plus services.*"[22]

This alliance brings access to 16 million AOL and CompuServe members in the U.S. AOL gains access to the seven million DIRECTV® customers for AOL TV services. The alliance will make AOL-Plus broadband service available via the satellite network by early 2000. The current technology for this service uses a standard telephony uplink with a satellite broadband download. The download is touted to be as much as 14 times faster than a standard 28.8 Kbps analog modem. These services directly compete with DSL and ISDN service offerings which provide high-speed capacity.

Technology Competition

In *Exhibit III-5*, below, we have summarized some of BellSouth's service offerings that are coming under or are under competitive pressure. [23]

Focused Review of the Price Regulation Plan
BellSouth Telecommunications, Inc. - Kentucky

Exhibit III-5[24]
Technology Competition

Product/Services and Technology Summary[25]

Product/Service	Basic rate ISDN BRI	Primary Rate Interface PRI	Frame Relay	ATM
Target Markets (Bold Indicates primary market)	**Large Customer** Mid-Market Small Business Consumer	**Large Customer** Mid-Market Small Business	**Large Customer** Mid-Market Small Business	**Large Customer** Mid-Market Small Business
Market Competition	Large Customer Mid-Market Small Business	Large Customer Mid-Market	Large Customer Mid-Market	Large Customer
BellSouth facilities used to provide service	ISDN Equipped CO DSL Access Line	ISDN Equipped CO Copper or fiber DS1 line. ISDN Network Termination	At least one Central Office in the Network Serving Area must be a Frame Relay switch. (Ascend/Cascade 9000 switch.) Customer connections may be provided over fiber or copper depending on speed. Interoffice facilities are direct fiber or fiber rings. Digital Cross Connect for speeds less than 1.536Mbps. All Frame Relay switches are connected via DS1 to BST Network Administration System (in Atlanta)	At least one Central Office within a Network Serving Area must house an ATM switch. (ATM CBX 500 switch) Customer connections may be provided over fiber or copper depending on speed. Interoffice facilities are direct fiber or fiber rings. All ATM switches are connected via DS1 to BST Network Administration System (in Atlanta)
Special Customer Facilities Required	Requires ISDN capable customer premise equipment.	ISDN CPE. CPE, Network Termination and Exchange Termination (ISDN CO) must match exactly in configuration and protocol.	Broadband Exchange Line Frame Relay Service Customer Connection Broadband Exchange Line Extension if outside the Network	Broadband Exchange Line ATM Customer Service Connection Broadband Exchange Line Extension if outside the Network Serving Area

Primary Kentucky Competitors	Hyperion e.spire Community Telephone*	AT&T MCI ICG Hyperion e.spire Community Telephone*	AT&T MCI ICG ICI e.spire Community Telephone*	AT&T MCI e.spire
How do competitors provide service?	Facilities based and resale. Unbundled provision requires 2 wire ISDN port, 2-B Channels, 1- D Channel and the 2 wire ISDN loop.	PRI equivalent is offered almost exclusively through CLEC switches, wires and terminating equipment although it is available for resale. Can be offered through a combination of unbundled elements and CLEC facilities. This would require a 4-wire DS1 digital loop and 4-wire ISDN DS1 port.	Through CLEC facilities or by purchase of unbundled local loop and transport elements combined with CLEC Frame Relay switch. Frame Relay is available for resale.	Through CLEC facilities. ATM switches may be collocated at BellSouth Co.'s or elsewhere. ATM is available for resale.
Notes	BRI offered to both business customers (IBS) and residential (IRS). IBS allows special channel configuration. There is no mileage limitation on BRI and it is compatible over subscriber line carrier systems.		Frame Relay available at 56 Kbps, 64 Kbps, 128 Kbps, 1.536 Mbps, 44.210 Mbps. Fractional connections available at 128 Kbps and 1.536 Mbps. ATM and Frame Relay are connection oriented packet-switched technologies.	ATM available at 1.536 Mbps, 44.210 Mbps, 149.760 Mbps and 599.040 Mbps. ATM and Frame Relay are connection oriented packet-switched technologies.

Product/Services and Technology Summary

Product/Service	ADSL	Centrex	Megalink	Lightgate
Target Markets (Bold Indicates primary market)	ADSL is marketed to Network Service Providers (NSPs) who sell the service to their customers.	**Large Customer** **Mid-Market** Small Business	**Large Customer** Mid-Market Small Business	**Large Customer** Mid-Market
Market Competition	Large Customer Mid-Market Small Business Consumer	Competition for both Centrex replacement of PBX and for PBX trunks in all of the above markets.	Large Customer Mid-Market	Large Customer Mid-Market
BellSouth facilities used to provide service	BellSouth provides ADSL to the NSP via in service facilities and ATM service and appropriate transport.	Provided via central office via station lines. Customer Provided Equipment apparatus provides access from Co. to local and long distance networks.	Megalink local and interoffice facilities at 1.544 Mbps. Although not technically facilities, MegaLink also requires various services in the terminating Co.	Fiber optic single mode cable. Optical multiplexing terminals at each end of facilities. May require D4 channel banks and circuit specific plug-in equipment for certain customer requested services.
Special Customer Facilities Required		Customer Provided Equipment station apparatus to terminate station line facilities.	Customer Provided Equipment to digitize and encode functions and to provide switching and multiplexing.	None.
Primary Kentucky Competitors	BellSouth.net provides ADSL.** Competitors are BlueStar and DSL.net..	AT&T ICG Hyperion e.spire Community Telephone* Southeast Telephone*	ICG Hyperion e.spire These three CLECS offer DS0,DS1 and DS3 level service. Numerous other smaller CLECs offer similar private line services in Eastern and Western Kentucky.	ICG Hyperion e.spire These three CLECS offer DS0,DS1 and DS3 level service. AT&T partner with CLECs. Numerous other smaller CLECs offer similar services in Eastern and Western Kentucky.
How do competitors provide service?	NSPs collocate in BellSouth CO and buy loops from BST or a CLEC.	PBX is provided by customer premises equipment. Centrex can be provided by combining 2 wire analog loop	Available for resale. Can be provided with UNEs. Requires 4 wire DS1 loop and the 4 wire interoffice transport..	Available for resale. UNEs would require a BFR. Louisville CLECs offer primarily through their own facilities.

	CLECs can also provide ADSL using two and four-wire UNEs. ADSL is not available for resale.	and CLEC switch. Also available for resale.	Louisville CLECs offer primarily through their own facilities. Eastern and Western Kentucky CLECs provide through their own services.	
Notes	Intermedia cable company offers cable modems as an alternative to ADSL.		Allows for various configurations at the customer request.	LightGate is offered in two asynchronous capacity sizes; a single DS3 capacity offering 28 DS1 channels or 672 voice grade channels or a three DS3 capacity with up to 84 DS1 channel or 2016 voice grade channels.

*Western Kentucky competitor

** Fast Access

The technologies summarized above also represent the areas where revenue and customer growth is expected in the future.

Kentucky Information Highway (KIH)[26]

The KIH is a statewide integrated communications and information network using a digital network for high speed, high capacity delivery of voice, data and video transmissions. The Commonwealth of Kentucky entered into a 10-year contract in 1995 for the KIH, with BellSouth as the prime contractor. BellSouth, along with 19 other local exchange companies and Qwest/LCI International, teamed to develop and implement the network.

The goal of the KIH is to provide access to public information, educational resources, health resources and agency provided services in urban and rural locations. The KIH does this by supporting educational and healthcare initiatives across the state, linking local communities to the state capital, and providing expanded access to Internet service providers.

KIH Facilities and Rate Structure

The KIH partners have deployed a fiber optic backbone, 12-Frame Relay and 6 ATM switches for delivery of KIH services. KIH charges are distance insensitive so schools in outlying areas pay the same rates as schools in urban areas. A simplified rate structure consists of an on ramp in every county. An access fee is billed for the portion of the network from the end user's premise to the servicing wire center.

KIH Service Delivery

KIH has taken part in a number of diverse and innovative telecommunications solutions in Kentucky. Some of these include:

- The Model County project which provides communications connections between local offices and state governments agencies. Applications utilized include Internet access, e-mail, and file transfer.

- The Kentucky Tele-Linking Network (KTLN) is a voice, video, and data network that has been expanded throughout the state using KIH for connectivity. KTLN links schools, colleges, universities and public and private agencies for delivery of services. Every district school office in the state is linked back to the Department of Education in Frankfort.

- Empower Kentucky is a broad based effort that will use KIH and other resources to improve the efficiency and delivery of state government services to constituents.

- The Workers Information SysTem (TWIST) Project is an automated social services case information system. Programs include child protection, foster care, adoption, juvenile and adult protection. The information is available 24 hours per day/7 days per week. Information is stored and retrieved over the KIH Frame Relay network

- The Cabinet for Health Care Services (CHS) is involved in a redesign of the Local Health Network to eliminate redundant data collection and provide shared access. All public health care facilities will connect to KIH for such data as birth and death certificates, immunization records, lab tests, patient demographics etc.

KIH Accolades

The KIH has recently received several awards. The KIH was nominated for the Computerworld Smithsonian Award and inducted into the Smithsonian's National Museum of American History on April 12,1999. The award is based on utilization of new information age tools to extend the benefits of technology to society. KIH also won a 1999 Recognition Award for Outstanding Achievement in the Field of Information Technology from NASIRE, which represents Chief Financial Officers of the States. The award was in the category of Public-Private Partnerships.

FINDINGS AND CONCLUSIONS

III-F1 The Commission must prepare for and understand markets and services outside their direct regulatory control.

The future of telecommunications has broadened far beyond just the services provided by the LECs through twisted copper. As we have pointed out, customers (including residential customers) will or already have access to telecommunications services through the ILEC public switched network, V/FoIP, cable modem, and wireless services. In many cases, customers will have access to services from all these delivery mechanisms from multiple competing providers.

The future will hold considerable uncertainty for the customer. They will look to the Commission for guidance and complaint resolution. History has shown that many customers will not understand the changes taking place in the industry. To this day, many customers do not understand the difference between their long distance carrier and the local phone company. This confusion will be magnified many fold as customers encounter bundled services, the same service offered through different technologies, and one provider offering services, heretofore, always considered separate. (For example, cable and phone service from one company.)

III-F2 The Commission must be prepared for the problems that competition may bring.

A significant issue that came out of our case study of King's Deer Telephone was the potential replacement of one facility monopoly with another. In a dense urban residential area, this problem is not a major concern because facilities could be built out with relative ease if residents wished to be provided alternative service. However, in a more rural and less populated area, if a CLEC were to have the only facilities in place, then the problem is much larger. This is an example of an issue that has never even arisen in the past. The Commission must prepare for such issues as:

- Can the ILEC forego its obligation as carrier of last resort if a CLEC is serving an entire area with its facilities?
- How will USF and Lifeline funds be distributed?
- How can the Commission ensure service quality from CLECs? Even with regulations to require reporting, how will the Commission enforce such regulations?
- Slamming and cramming continue to be a problem with long distance charges. What is to suggest that local competition will be spared this problem? If anything, the problem may be magnified.
- How can the Commission be sure that customers receive credit when switching from one carrier to the next during a billing cycle? BellSouth and the large IXCs (soon to be CLECs) will, undoubtedly, provide credits as part of ongoing business practice, but what of CLECs who lose customers back to BellSouth?
- Billing issues have been major problems with Telcos in the past. The large IXCs and RBOCs have resolved these, but how can the Commission control the multitude of billing formats, cutoff, procedures etc. that could potentially face the customer?

There is no good answer to many of these and other potential problems because they have not yet been faced. Also, many of these problems may be beyond the Commission's jurisdiction, which may only serve to further confuse the ratepayer. Fortunately, there is time to prepare for the details of the problems that will be encountered.

III-F3 The total role of BellSouth in state economic development must be considered.

BellSouth (and most other RBOCs) makes a number of contributions to the economy of the state beyond their obvious payroll and infrastructure contributions. In a new competitive environment, many of the CLEC's will not be willing or able to make these same contributions. Vantage is not making the argument that BellSouth or any other competitor should receive regulatory favoritism as a result of social contributions. However, the extent of the contributions to the state cannot be ignored. *Exhibit III-6*, below, summarizes BellSouth contributions over the 1995-1999 period.

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Exhibit III-6[27]
Contributions By Category ($000)

			Voluntary Payments		
Year	Cash	Memberships	General Company Benefit	Specific Organization Benefit	Stimulation of Business
1995	564	171	238	28	46
1996	560	214	273	4	22
1997	559	153	244	1	76
1998	582	154	265	0	63
1999	238*	60**	81*	0*	16*

*Through 8/15/99.
**Through 8/17/99.

This says nothing of the Telecommunications Research Center or the Kentucky Information Highway. The Kentucky Information Highway (KIH) is a statewide digital network for high-speed, high capacity delivery of voice, data, and video transmissions. The KIH was discussed in more depth in the main body of this chapter. BellSouth has also been a major contributor to business development efforts including the Telecommunications Research Center on the University of Louisville's Shelby Campus and the Paducah Information Park.

III-F4 The argument that competition does not exist because of low penetration of access lines is specious.

The number of access lines served by competitors of BellSouth (or any ILEC), is often used as an argument that competition does not exist in the state or in any state in the U.S. This is misleading and points more to the economics of providing service in an unregulated environment than it does to the openness of markets to competition.

Full blown competition with multiple providers using multiple technologies has not yet entered the residential marketplace because of a multitude of factors. Cable modems and Section 271 approval should shortly change this situation. Competition has benefited the business market first because these customers offer higher revenue per facility cost. Wireless service is not just a supplement, but a very real alternative to landline service. Wireless data services remain costly because of end user equipment, but the cost of wireless voice service has dropped appreciably.

In fact, competition is far too broad a term. Each market and category of service must be looked at separately in terms of competition. The large business customer most certainly has seen competition at the "local" level. Medium and smaller businesses are beginning to see competition primarily for high-speed access and multiple lines. Some smaller businesses that happen to reside in buildings served by CLEC facilities (such as on a fiber ring) may also be seeing competition. The term "may" is used because there is no reasonable means of obtaining reliable information on the extent of competition. The unregulated competitors are not required to file such information.

III-F5 The residential POTS customer with no enhanced services and little long distance usage is not likely to see any noticeable reduction in rates as a result of competition.

Competition will come to the residential Kentucky customer, but not all customers will benefit from the competition in terms of reduced rates or even enhanced services. This is especially true for the rural customer (or perhaps more appropriately the customer in low density areas) for whom the cost of providing phone service is greater than the revenue under current regulatory pricing.

Just as pure economics have determined that business customers would be the first to see telephony competition, so too will economics determine that high usage residential customers are the first to see advantages of competition. Opportunities for competitors to profit in the residential marketplace come from the bundling of multiple services. Those customers who utilize not only voice, but some additional combination of Internet, high usage long distance, wireless, paging, and cable television provide the immediate targets of opportunity for the competitors in the residential market. For example, Qwest announced in August that it would give "free" Internet access to customers who sign up for special long distance services.[28] As previously noted, Sprint offers reduced rates on bundled long distance and Internet service.[29] Ironically, the recent heated competition in long distance rates for residential customers may mean even less opportunity for reductions with bundled services as revenues are being driven out of the long distance component.

RECOMMENDATIONS

III-R1 The Commission needs to develop a formal plan for how it plans to deal with competition at the residential level. *(Refer to Findings III-F-1 and III-F2.)*

This plan would include:

- Service guidelines to be applied equally to CLECs and ILECs.
- Means of disseminating information to new competitors.
- Plans for dealing with service complaints on non-regulated companies.
- Education plans for Commission staff to enable them to function efficiently in the new environment.

III-R2 The Commission needs more open dialog with BellSouth and its competitors. *(Refer to Findings III-F3 and III-F4.)*

The Commission should work with not only BellSouth, but also the IXCs, the CLECS, cable, wireless providers, and others to identify potential problems and resolve them in a cooperative manner.

CHAPTER 4
BST PERFORMANCE
DURING PRP PROGRAM

IV. BELLSOUTH PERFORMANCE DURING PRP PROGRAM

A. FINANCIAL PERFORMANCE

This section of the BellSouth Telecommunications - Kentucky Report details the revenue and expense changes from 1995 through 1998 to show an overall perspective of BST-KY financial performance. This section analyzes:

- Revenue and Expense Activity
- Asset Depreciation
- Employee Changes
- Access Line Growth
- Capital Investment

REVENUE AND EXPENSE ANALYSIS

Revenues

IV-F1 Increased revenues result from additional access lines and increased demand for calling features by customers.

Revenues are increasing most significantly in the largest revenue category, Local Service Revenue. In 1998, Local Service Revenue comprised 81% of total revenues for BellSouth-Kentucky (Intrastate revenues only). *Exhibit IV-1* shows the amount of Local Service Revenues, as compared to the other revenue categories.

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Exhibit IV-1[30]
1998 Revenues by Category

Revenue Category	Amount	Percent
Local Service Revenue	$469,645	81%
Network Access Revenue	$48,882	8%
Unidirectional Long Dist. Revenue	$4,110	1%
Long Dist. Private Network Revenue	$34,171	6%
Miscellaneous Revenue	$28,042	5%
Uncollectible Revenue	$4,827	(1)%

Local Service Revenue has increased approximately $75 million, from 1995 to 1998, as shown in *Exhibits* IV-2 and *IV-3*. The other revenue categories are flat or decreasing, as shown in *Exhibit IV-2*. In 1996 over 1995, and 1997 over 1996, the decreases in the other revenue categories almost completely offset the increases in Local Service Revenue, as shown in *Exhibit IV-2*, increasing .89% and 1.18%, respectively. In 1998 versus 1997, total revenue increased by 3.99% representing more than $20 million.[31]

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Exhibit IV-2[32]
1995-1998 Revenue and Percent Changes
($ in 000's)

($000s & %)	1995	% 96vs95	1996	% 97vs96	1997	% 98vs97	1998
Local Service Revenue	394,150	6.51%	419,823	5.78%	444,105	5.75%	469,645
Network Access Revenue	49,217	-7.18%	45,681	7.91%	49,296	-0.84%	48,882
Unidirectional Long Dist. Revenue	6,350	-9.92%	5,720	-12.57%	5,001	-17.82%	4,110
Long Dist. Private Network Revenue	62,772	-17.04%	52,076	-17.40%	43,016	-20.56%	34,171
Miscellaneous Revenue	38,498	-16.53%	32,133	-35.31%	20,786	34.91%	28,042
Uncollectible	(4,566)	-9.05%	(4,153)	6.72%	(4,432)	8.91%	(4,827)
Total Revenue	546,421	0.89%	551,280	1.18%	557,772	3.99%	580,023

In 1996, Local Service Revenue increased by approximately $26 million (6.51%) from 1995. This increase was offset by other decreases and total revenues increased by less then the increases in Local Service Revenue, approximately $4.9 million (0.89%). In 1997, Local Service Revenues increased approximately $24 million (5.78%) but, again, was offset by other decreases and total revenues increased by a lesser degree, approximately $6.5 million (1.18%). In 1998, Local Service Revenue increased approximately $26 million and total revenue increased approximately $22 million.[33]

Exhibit IV-3 takes the Local Service Revenue category and details the component increases and decreases of that account.

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Exhibit IV-3[34]
Local Service Revenue Detail
($ in 000's)

	1995	% 95 v 96	1996	% 96 v 97	1997	% 97 v 98	1998
5001: Basic Area Revenue	241,893	1.07%	244,482	7.34%	262,420	3.93%	272,748
5002: Optional Extended Area Revenue	20,657	29.12%	26,672	22.89%	32,776	16.23%	38,095
5003: Cellular Mobile Revenue	0	-	0	-	0	-	0
5004: Other Mobile Service Revenue	16	0.00%	16	12.50%	18	0.00%	18
5010: Public Telephone Service	11,990	-1.91%	11,761	-68.81%	3,668	-100.00%	
5040: Local Private Line Revenue	15,708	12.66%	17,696	15.85%	20,500	24.01%	25,423
5050: Customer Premises Revenue	3,688	4.47%	3,853	-1.61%	3,791	-5.75%	3,573
5060: Other Local Exchange Revenue	100,679	14.54%	115,316	4.85%	120,907	7.33%	129,767
5069: Other Local Exchange Revenue Settlements	27	0.00%	27	-7.41%	25	-16.00%	21
Summ of 5001 - 5069:	**394,658**	6.38%	**419,823**	5.79%	**444,105**	5.75%	**469,645**

* Public Telephone was deregulated in 1997 and moved to another account for part of 1997 and 1998.

The largest dollar increase, approximately $31 million from 1995 to 1998, is noted in the Basic Area Revenue category. This increase is driven by the increase in access lines, 199,000 since 1995 or a 17% increase. The next largest increase is in the Other Local Exchange Revenue category. This category is comprised of the Complete Choice features or Custom Calling features, such as Caller ID and Call Waiting.[35]

Number of Calls

The number of calls has been increasing steadily since 1995, as shown in *Exhibit IV-4*. Total Local Calls increased 4.5% from 1995 to 1998. IntraLATA Toll Calls increased 29.4% and total interLATA Toll Calls increased 27% during the same time period. Interstate, interLATA Toll increased 28.9%, 1995 to 1998, and 8.1% from 1997 to 1998. Intrastate interLATA Toll increased 20.9%, 1995 to 1998, and 7.9% from 1997 to 1998. The largest number of calls in 1998 is in the Total Local Calls category at 4,689,495,000.[36] *Exhibit IV-5* shows the percentage change in the number of calls by category. The category with the largest number of calls, Total Local Calls, shows a flat percent change of 3.87%, 0.13%, and 0.47% for 1995 versus 1996, 1996 versus 1997, and 1997 versus 1998. The largest percent change is an increase of 22.54% 1996 versus 1997 in the intraLATA Toll Calls. The changes for the previous and subsequent year in this category are more flat, increasing 4% and 1.56%, respectively.[37]

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Exhibit IV-4[38]
Number of Calls and Billed Minutes
(Amounts in 000's)

	12/31/95	% 96v95	12/31/96	% 97v96	12/31/97	% 98v97	12/31/98	% 98 v 95
Calls								
Local	4,487,999	3.9%	4,661,683	0.1%	4,667,587	0.5%	4,689,495	4.5%
IntraLATA Toll	136,757	4.0%	142,226	22.5%	174,290	1.6%	177,007	29.4%
InterLATA Toll, Interstate	303,989	9.4%	332,547	9.0%	362,525	8.1%	391,910	28.9%
InterLATA Toll, Intrastate	94,038	16.7%	109,764	-4.0%	105,380	7.9%	113,725	20.9%
Total InterLATA Toll Calls	398,027	11.1%	442,311	5.8%	467,905	8.1%	505,635	27.0%
InterLATA Toll, Interstate	2,914,367	9.5%	3,191,324	8.6%	3,465,538	6.7%	3,696,851	26.8%
InterLATA Toll, Intrastate	844,071	22.2%	1,031,308	16.4%	1,200,813	15.4%	1,386,260	64.2%
Total InterLATA Toll Calls	3,758,438	12.4%	4,222,632	10.5%	4,666,351	8.9%	5,083,111	35.2%

As number of calls have increased, so have the number of billed minutes, as shown in *Exhibit IV-4*. Total interLATA Toll Calls Billed Minutes increased 35.2% from 1995 to 1998, and 8.9% from 1997 to 1998. Intrastate interLATA Toll Minutes increased 64.2% from 1995 to 1998 and 15.4% 1997 to 1998, easily the category with the largest increase.[39] *Exhibit IV-6* shows a decline in the percentage increases, but each year represents an increase over the previous year. In the case of interLATA Intrastate Toll Minutes, these increases are 22.18%, 16.44%, and 15.44% for 1995 versus 1996, 1996 versus 1997, and 1997 versus 1998, respectively. In total, interLATA Toll Minutes increased by approximately 12%, 11%, and 9%, respectively, for the same time periods.[40]

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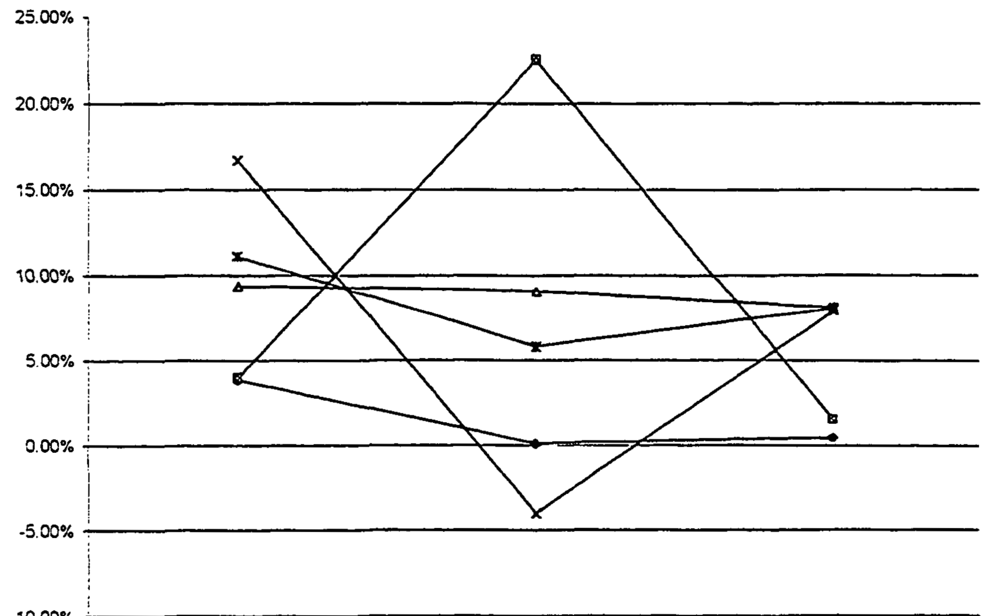
Exhibit IV-5[41]
Percent Change in the Number of Calls



	95 v 96	96 v 97	97 v 98
Total Local Calls	3.87%	0.13%	0.47%
Intralata Toll Calls - #	4.00%	22.54%	1.56%
Interlata Toll, Interstate - #	9.39%	9.01%	8.11%
Interlata Toll, Intrastate - #	16.72%	-3.99%	7.92%
Total Interlata Toll Calls - #	11.13%	5.79%	8.06%

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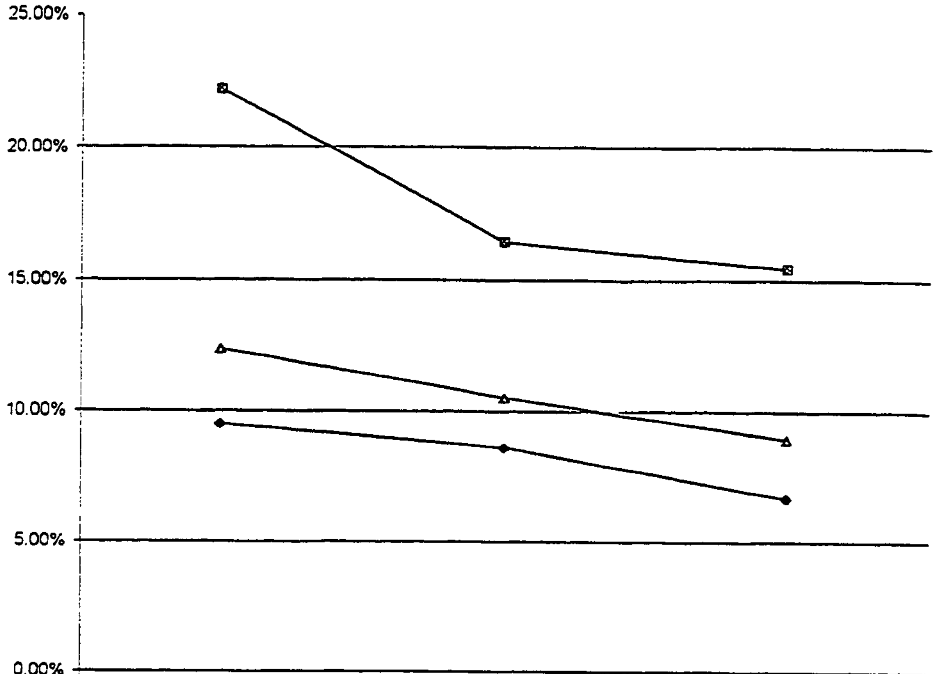
Exhibit IV-6[42]
Percent Change in the Number of Billed Minutes



	95 v 96	96 v 97	97 v 98
Interlata Toll, Interstate - Minutes	9.50%	8.59%	6.67%
Interlata Toll, Intrastate - Minutes	22.18%	16.44%	15.44%
Total Interlata Toll - Minutes	12.35%	10.51%	8.93%

Expenses

Total operating expenses and taxes swing around year to year from 1995 to 1998, as shown in *Exhibit* IV-7. They increase by approximately $3 million, 1996 over 1995, decrease by approximately $17 million, 1997 over 1996, and decrease again by approximately $0.5 million 1998 over 1997. The leading expense categories in dollar amounts are *Deprecation and Amortization, Customer Operations – Services, Corporate Operations – General and Administrative,* and *Operating Taxes.* These categories comprise 69% of the total operating expenses and taxes category in 1998, 67 % in 1997, 67% in 1996, and 62% in 1995. A comparison of the increases and decreases in these largest categories is depicted in *Exhibit IV-8.*[43]

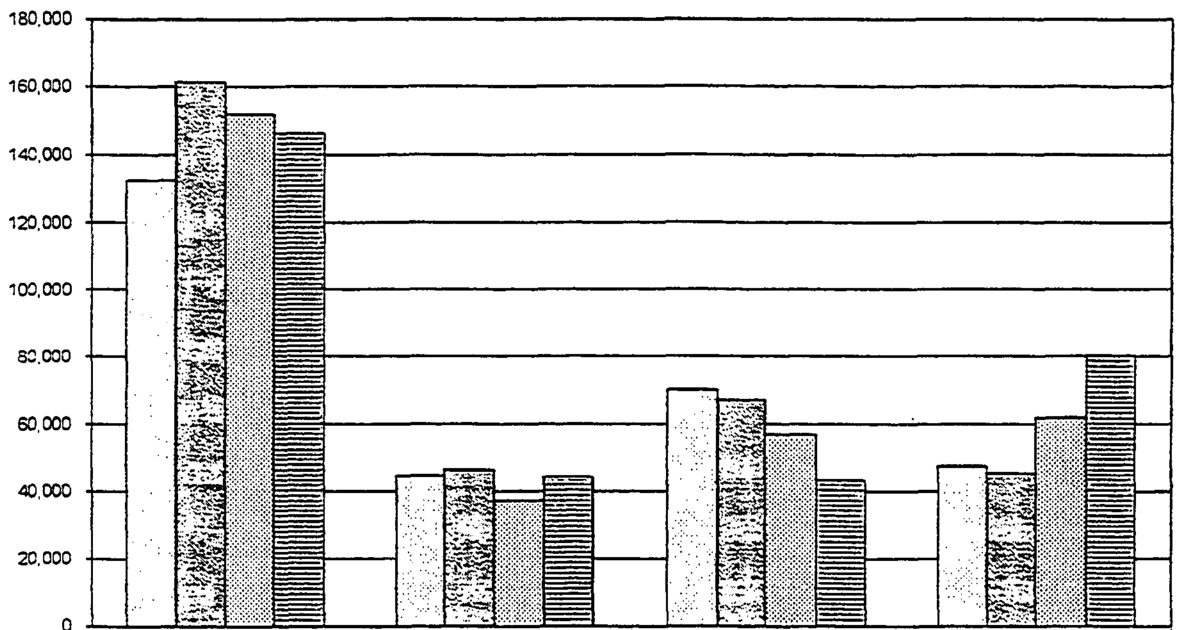
Exhibit IV-7[44]
Operating Expenses and Taxes
($ in 000's)

	1995	% 95 v 96	1996	% 96 v 97	1997	% 97 v 98	1998
Network Support Expense	997	-9.33%	904	-25.11%	677	-86.41%	92
General Support Expense	25,951	-13.66%	22,405	-15.95%	18,831	-6.54%	17,600
Central Office Switching Expense	19,532	-15.54%	16,497	8.30%	17,866	-4.57%	17,049
Operator System Expense	357	-14.01%	307	242.02%	1,050	-62.57%	393
Central Office Transmission Expense	6,951	-2.09%	6,806	-4.16%	6,523	-9.80%	5,884
Inf. Orig./Term. Expense	5,615	-31.50%	3,846	-2.34%	3,756	4.18%	3,913
Cable and Wire Facilities Expense	36,401	-2.63%	35,442	1.25%	35,886	4.23%	37,403
Other Prop, Plant, & Equip. Expense.	238	72.27%	410	-54.63%	186	207.53%	572
Network Operations Expense	38,074	-16.22%	31,897	0.40%	32,024	-21.01%	25,296
Access Expense	23,616	-35.36%	15,266	1.96%	15,565	-1.03%	15,405
Depr. & Amortization Expenses	132,479	21.74%	161,278	-5.82%	151,897	-3.64%	146,372
Marketing - Cust. Ops	18,191	8.23%	19,688	-14.80%	16,774	3.93%	17,434
Services - Cust. Ops	44,808	3.89%	46,552	-20.18%	37,160	19.07%	44,247
Executive and Planning - Corp Ops	2,286	0.48%	2,297	-26.08%	1,698	95.76%	3,324
General and Administrative - Corp Ops	70,147	-4.15%	67,234	-15.43%	56,863	-24.07%	43,174
Prov. for Uncollect. Notes Rec. - Corp. Ops	0	-	0	-	0	-	0
Other Operating Expenses	(153)	-114.38%	22	-150.00%	(11)	-154.55%	6
Operating Taxes	47,539	-4.46%	45,418	36.72%	62,094	29.20%	80,223
Operating Expenses and Taxes	**473,029**	**0.68%**	**476,269**	**-3.66%**	**458,839**	**-0.10%**	**458,387**

Exhibit IV-8 shows that Depreciation and Amortization are clearly the largest single expense categories. The large increase 1995 to 1996, and subsequent decreases 1996 through 1998, reflects the asset life changes approved in the PRP. (See next section for additional details.) *Exhibit IV-8* also shows significant decreases in *General and Administrative - Corporate Operations* reflecting decreased personnel 1995 through 1997. The personnel decrease also shows, to a lesser extent, in *Service - Customer Operations* category with a large decrease 1996 to 1997. *Service - Customer Operations* hit a low in 1997 of approximately $37 million and increased to approximately $ 44 million in 1998, while *General and Administrative - Corporate Operations* has steadily decreased from a 1995 high of approximately $70 million to a 1998 low of approximately $43 million.[45]

Focused Review of the Price Regulation Plan
BellSouth Telecommunications, Inc. - Kentucky

Exhibit IV-8[46]
Major Expense Categories
($ in 000's)



	Depr & Amortization Expenses	Services - Cust Ops	General and Administrative - Corp Ops	Operating Taxes
1995	132,479	44,808	70,147	47,539
1996	161,278	46,552	67,234	45,418
1997	151,897	37,160	56,863	62,094
1998	146,372	44,247	43,174	80,223

Focused Review of the Price Regulation Plan
BellSouth Telecommunications, Inc. - Kentucky

Exhibit IV-9[47]
Employee and Compensation Changes

	1995	1996	1997	1998	Total
Total Employees	2,675	2,403	2,203	2,344	
Total Compensation	$131,901,464	$126,301,040	$107,423,960	$103,919,093	
Average Compensation per employee	$49,309	$52,560	$48,763	$44,334	
Employee Increase/(Decrease)		(272)	(200)	141	(331)
% Employee Increase/(Decrease)		-10.2%	-8.3%	6.4%	
Compensation Increase/(Decrease)		(5,600,424)	(18,877,080)	(3,504,867)	(27,982,371)
% Compensation Increase/(Decrease)		-4.2%	-14.9%	-3.3%	

IV-F2 <u>Numbers of employees decreased from 1995 to 1997 and then increased in 1998, while total compensation decreased almost $28 million over the four-year time period.</u>

Exhibit IV-9, above, shows that the number of employees decreased 10.2%, from 1995 to 1996, and 8.3% from 1996 to 1997, and then increased 6.4% from 1997 to 1998. In total, employees decreased by 331 from 1995 to 1998. Total compensation decreased from 1995 to 1998 from $132 million to $104 million. The largest decrease in compensation occurred in 1997 of almost $19 million. Average compensation per employee fluctuated around $48,000 and $52,000, 1995 through 1997, and decreased to $44,000 in 1998.[48]

Asset Depreciation

IV-F3 <u>Depreciation expense for BellSouth Telecommunications - Kentucky increased in 1996 and then reduced to lower levels in following years.</u>

As part of the PRP, BellSouth Telecommunications - Kentucky was allowed to re-estimate and reduce asset lives to more realistic lengths considering environmental and technological changes. Asset lives in the past were approved by the PSC, but not at this time. The asset life re-estimate had the effect of accelerating total depreciation. As a result, depreciation expense for BellSouth Telecommunications - Kentucky jumped up in 1996, increasing 22% over the previous year, as shown in *Exhibit IV-8.*[49] From 1995 to 1996, depreciation expense increased almost $30 million. Depreciation expense for the following two years decreased approximately $10 million and $6 million, respectively, as shown in *Exhibit IV-10.*[50]

Focused Review of the Price Regulation Plan
BellSouth Telecommunications, Inc. - Kentucky

Exhibit IV-10[51]
Depreciation Expense

	1995	1996	1997	1998
Depreciation and Amortization Expense	132,479,000	161,278,000	151,897,000	146,372,000
Dollar Increase/(Decrease)		28,799,000	(9,381,000)	(5,525,000)
Percentage Increase/(Decrease)		21.7%	-5.8%	-3.6%

Depreciation expenses increased substantially with the approved asset life adjustment in the PRP and then reduced to more normal levels, as shown in *Exhibits IV-8 and IV-10.* Depreciation is calculated using a remaining life formula. This calculation is performed using the asset value at 100%, minus the Asset's Reserve, minus the Asset's Future Net Salvage, all divided by the Asset's Average Remaining Life. The formula is self-correcting with each component included at its current level when the calculation is made.[52]

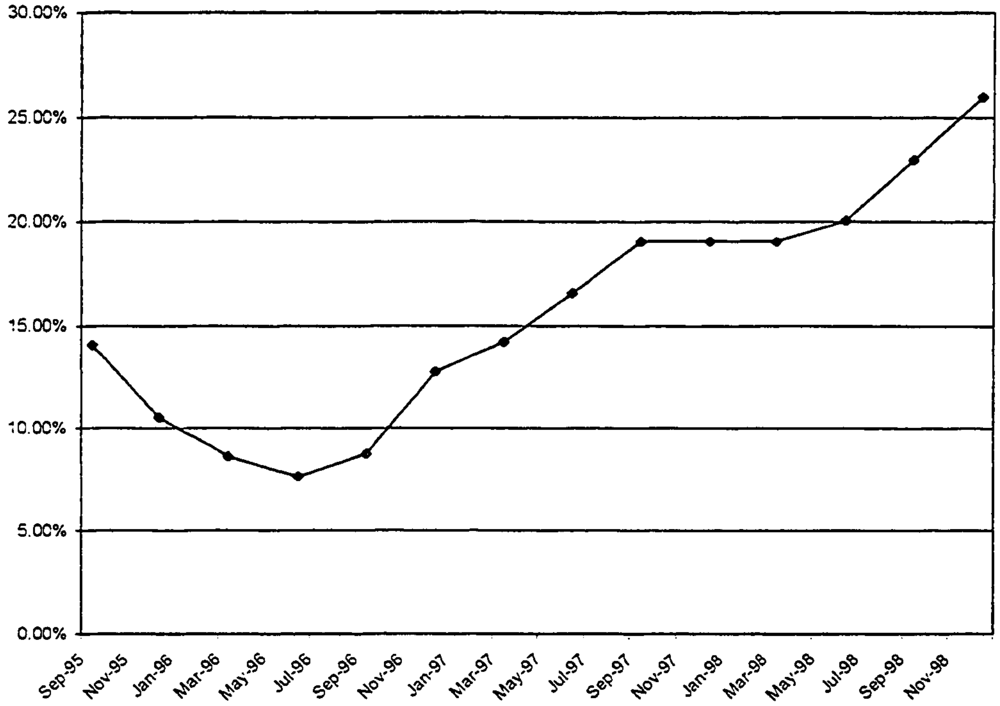
The Director of Capital Recovery was charged with determining the appropriate depreciation levels for BellSouth-Kentucky assets. His area, including four managers and ten support staff, conducted depreciation studies and financial studies to this end. He determined the appropriate depreciation rates and levels, including economic life and salvage rates. Depreciation is reviewed and recalculated on an ongoing, annual basis.[53]

Rate of Return

Exhibit IV-11, Common Equity Percent of Capitalization Cost, *Exhibit IV-12,* Net Operating Income, and *Exhibit IV-13,* Rate of Return on Shareholder's Common Equity, each have the same general shape showing the same general trend. From 1995 to 1998, each of these figures or ratios shows a start at a middle range, a decrease into the middle of 1996, and then a gradual increase to the end of 1998. Each of these charts has an income component that reflects BellSouth - Kentucky's reduction in personnel and related expenses, decreasing depreciation expense (giving increasing income results year after year), and increased revenues in the local service revenue category. Each of these components were discussed above in the Revenue and Expenses section.

Focused Review of the Price Regulation Plan
BellSouth Telecommunications, Inc. - Kentucky

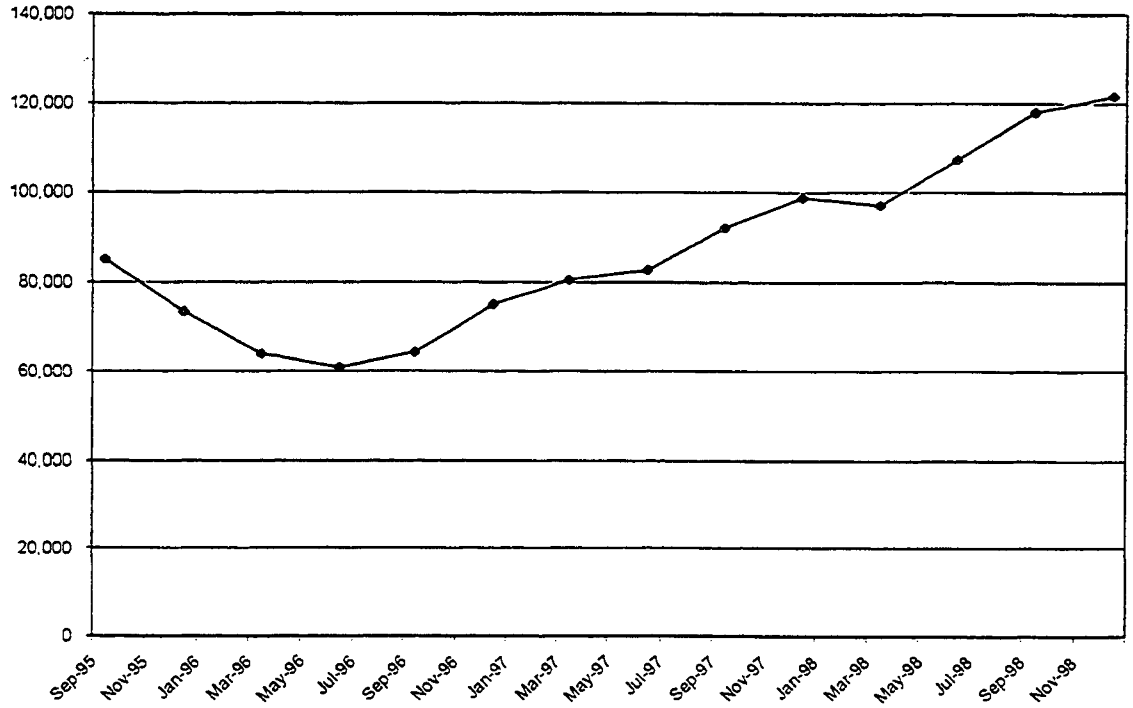
Exhibit IV-11[54]
Common Equity Percentage of Capital Cost



	Sep-95	Dec-95	Mar-96	Jun-96	Sep-96	Dec-96	Mar-97	Jun-97	Sep-97	Dec-97	Mar-98	Jun-98	Sep-98	Dec-98
CE % of Cap Cost	14.08%	10.53%	8.62%	7.65%	8.74%	12.76%	14.22%	16.56%	19.07%	19.05%	19.05%	20.06%	22.99%	25.98%

Focused Review of the Price Regulation Plan
BellSouth Telecommunications, Inc. - Kentucky

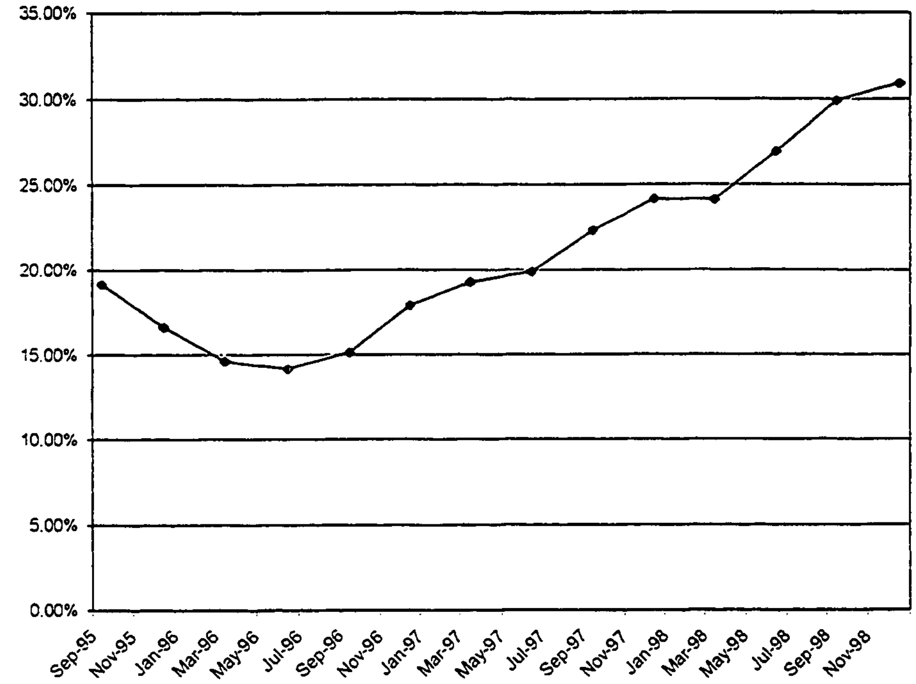
Exhibit IV-12[55]
Net Operating Income 1995 - 1998



	Sep-95	Dec-95	Mar-96	Jun-96	Sep-96	Dec-96	Mar-97	Jun-97	Sep-97	Dec-97	Mar-98	Jun-98	Sep-98	Dec-98
NOI	85,151	73,392	63,887	60,959	64,222	75,011	80,581	82,688	92,102	98,933	97,196	107,368	118,054	121,636

Focused Review of the Price Regulation Plan
BellSouth Telecommunications, Inc. - Kentucky

Exhibit IV-13[56]
Rate of Return on Shareholder's Common Equity



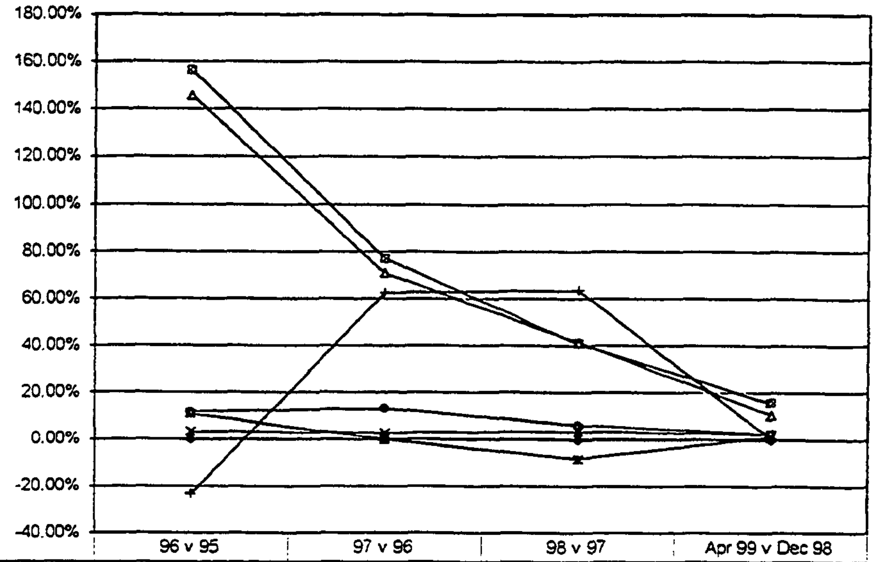
	Sep-95	Dec-95	Mar-96	Jun-96	Sep-96	Dec-96	Mar-97	Jun-97	Sep-97	Dec-97	Mar-98	Jun-98	Sep-98	Dec-98
ROR on S/H Common Equity	19.17	16.62	14.65	14.17	15.15	17.87	19.27	19.89	22.30	24.17	24.13	26.97	29.92	30.90

Change in Access Lines

As described earlier, revenues are increasing with increased access lines. Access line subscribership, by technology, are increasing in almost every category, as shown in *Exhibit IV-14*. When viewed by technological category, only a couple of decreases are noted since 1995. From 1997 to 1998, Analog Centrex Extensions increased 63.64%, similar to the previous year increase of 62.6%. The next largest increase was in the Main Digital Access Lines of 41.41%, down significantly compared to the previous year increase of 71.12%. The third largest increase is noted in the ISDN category of 40.94%, down from the previous year increase of 77.43%. From the end of the year 1998 to April 1999, Analog Centrex Extensions is flat, increasing 0.44%, while Main Digital Access Lines have increased 10.59% and ISDN have increased 15.56%. Digital DS-1 access lines were flat 1996 to 1997 and flat from end of the year 1998 to end of April 1999, while Main Digital Access Lines continues to grow at a decreasing rate. The largest number of lines by far is still the Main Analog Access Lines, totaling 1.1 million at the end of April 1999, as shown in *Exhibit IV-15*.

Focused Review of the Price Regulation Plan
BellSouth Telecommunications, Inc. - Kentucky

Exhibit IV-14[57]
Percentage Growth in Access Lines Listed by Technology



	96 v 95	97 v 96	98 v 97	Apr 99 v Dec 98
# of Central Office Switches	0.00%	0.00%	0.00%	0.00%
ISDN 16kb/sec D channels (/4)	156.57%	77.43%	40.94%	15.56%
Main Digital Access Lines 64 kb/s or Equiv	145.68%	71.12%	41.41%	10.59%
Main Analog Access Lines 4 khz or Equiv	3.48%	2.73%	3.40%	2.24%
Digital DS-1 Access Lines To PBX's & Centrex	10.96%	0.07%	-8.45%	1.31%
Analog PBX and Centrex Access Trunks	11.64%	13.11%	6.09%	2.23%
Analog Centrex Extensions	-23.33%	62.60%	63.64%	0.44%

BellSouth - Kentucky access line growth appears reasonable. The trends in access lines, by technology, are more reflective of what is occurring throughout the telecommunications environment than of any trends specific to Kentucky. The Central Office switches and analog access line growth is reflective of the demands of the underlying basic public switched network (as mentioned in the access line competition discussion in other chapter). ISDN line growth (both Basic Rate ISDN and Primary rate ISDN) has moderated as a result of competition and the availability of competing service offerings. For example, ADSL lines sold by BellSouth to ISPs are competing against ISDN for high-speed data connections. In another example, PBX and Centrex compete directly, as well as receiving competition from Intranet IP. The exact effect of cannibalization is difficult to differentiate from loses to competitors. Changes are only measurable if the customer switches services within BellSouth.

Focused Review of the Price Regulation Plan
BellSouth Telecommunications, Inc. - Kentucky

Exhibit IV-15[58]
Number of Access Lines

	Year-End/Period End				
	1995	1996	1997	1998	Apr-99
# of Central Office Switches	183	183	183	183	183
ISDN 16kb/Sec. D channels (/4)	601	1,542	2,736	3,856	4,456
Main Digital Access Lines 64 kb/s or Equivalent	475	1,167	1,997	2,824	3,123
Main Analog Access Lines 4 khz or Equivalent	991,636	1,026,149	1,054,131	1,089,972	1,114,390
Digital DS-1 Access Lines To PBX's & Centrex	70,111	77,793	77,848	71,272	72,208
Analog PBX and Centrex Access Trunks	29,132	32,523	36,787	39,027	39,897
Analog Centrex Extensions	11,429	8,763	14,249	23,317	23,420

Capital Investment Growth

BellSouth Telecommunications capital investment in Kentucky has remained around 5% of total BellSouth Telecommunications capital investment for the last several years, as shown in *Exhibit IV-16*.[59] This was reiterated through the interview process by the CFO, Senior Director Regulatory Accounting, and State President – Kentucky.[60] Even though total dollars expended may vary up and down for BellSouth Telecommunications in total, BellSouth Telecommunications - Kentucky's piece of that has remained very steady for the last eight years. Since 1994, BellSouth Telecommunications - Kentucky expenditures as a percent of total BellSouth Telecommunications expenditures has not varied more than 2/10ths of a percent (varies between 5.2% - 5.4%). In other words, in the years of PRP regulation, Kentucky's percent of total BST Capital Expenditures is more stable then it has been in recent years. *Exhibit IV-17* focuses on Kentucky's percent of total BST Capital Expenditures. Previous to 1994, expenditures increased and decreased year-to-year to a much greater extent. Since 1995, however, the trend has been increasing capital expenditures with 1995 over 1994 being the slightest percent increase (0.20%) in capital expenditures year-to-year, and 1996 over 1995 being the largest (10.90%).[61]

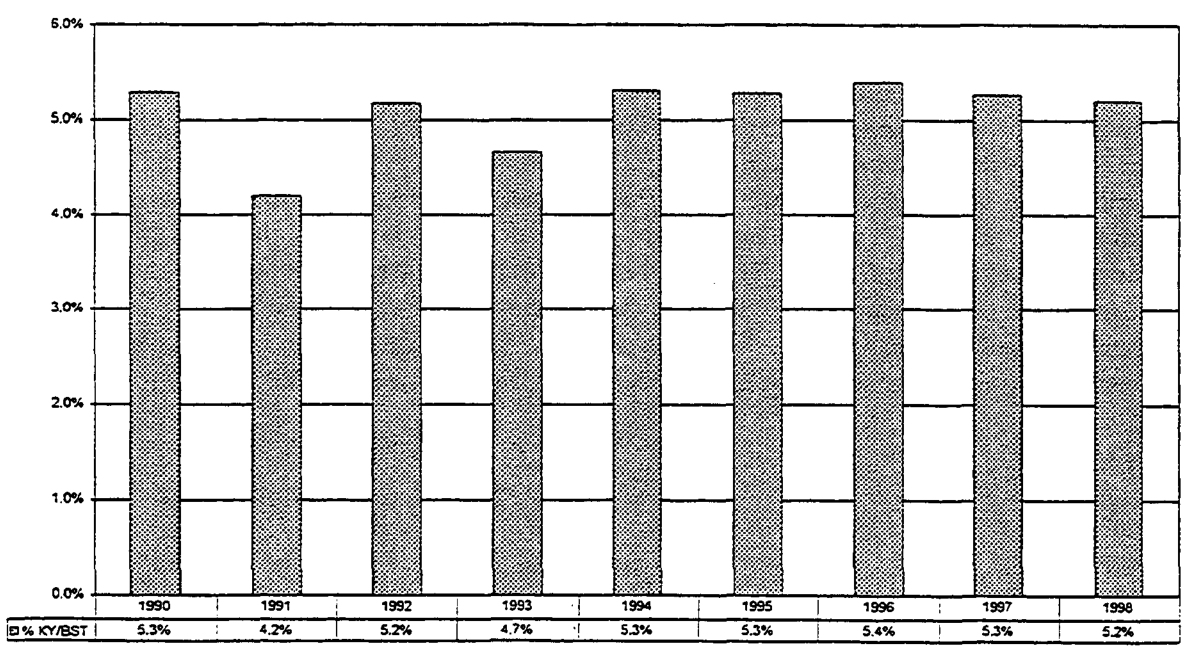
Focused Review of the Price Regulation Plan
BellSouth Telecommunications, Inc. - Kentucky

Exhibit IV-16[62]
Capital Expenditures
($ in 000's)

	1990	1991	1992	1993	1994	1995	1996	1997	1998
Kentucky $	130,920	98,620	123,710	113,970	128,130	128,340	142,360	152,230	153,530
Total BST $	2,477,090	2,350,810	2,392,580	2,444,010	2,415,340	2,429,820	2,640,340	2,890,040	2,954,690
% KY/BST		4.2%	5.2%	4.7%	5.3%	5.3%	5.4%	5.3%	5.2%
KY Inc./Dec. Yr. to Yr.		(32,300)	25,090	(9,740)	14,160	210	14,020	9,870	1,300
% Age Inc./Dec Yr. to Yr.		-24.7%	25.4%	-7.9%	12.4%	0.2%	10.9%	6.9%	0.9%

Focused Review of the Price Regulation Plan
BellSouth Telecommunications, Inc. - Kentucky

Exhibit IV-17[63]
Percent of Total BellSouth Telecommunications Capital Expenditures in Kentucky



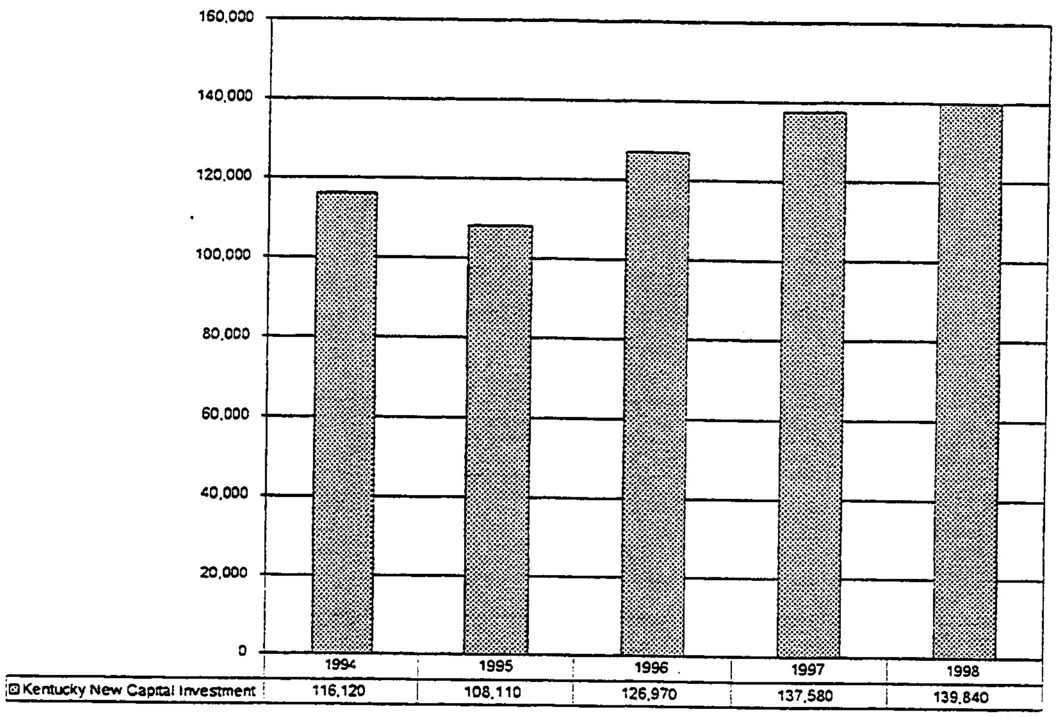
BellSouth Kentucky's new investment is estimated by reducing total BellSouth Telecommunications - Kentucky total capital investment by replacement capital, as shown in *Exhibit IV-18*. Kentucky's new investment decreased from 1994 to 1995 by approximately $8 million or 6.9%. This corresponds to the small increase during the same time period in total Kentucky capital expenditures (0.20%, in *Exhibit IV-17*). Investment expenditures increased for the next several years. 1996 over 1995 increased almost $19 million (17.45%), 1997 over 1996 increased almost $11 million (8.36%), and 1998 new investment expenditures increased just over $2 million (1.64%). Kentucky's new capital investment levels are depicted in *Exhibit IV-19* from 1994-1998.[64]

Focused Review of the Price Regulation Plan
BellSouth Telecommunications, Inc. - Kentucky

Exhibit IV-18[65]
BellSouth Kentucky New Investment
($ in 000's)

	1994	1995	1996	1997	1998
Kentucky Capital Investment	128,130	128,340	142,360	152,230	153,530
Replacement Capital	12,010	20,230	15,390	14,650	13,690
Kentucky New Capital Investment	116,120	108,110	126,970	137,580	139,840
Inc/(Dec.) in new Investment		(8,010)	18,860	10,610	2,260
% Inc./(Dec.) in new Investment		-6.90%	17.45%	8.36%	1.64%

Exhibit IV-19[67]
Kentucky New Capital Investment ($ in 000's)



Access lines and new investment for Kentucky is trending up 1995 through 1998, as shown in the table in *Exhibit IV-20*. From 1997 to 1998, new investment to access lines decreased resulting from a lower increase in new investment (1.64%) and a moderate increase in access lines (6.66%). From 1995 to 1998, new investment to access lines increased from $93.05 to $102.75, an increase of 10.42 % over four years.[68]

Focused Review of the Price Regulation Plan
BellSouth Telecommunications, Inc. - Kentucky

Exhibit IV-20[69]
New Investment as a Percent of Access Lines

	1995	1996	1997	1998
New Investment – estimated ($000's)	108,110	126,970	137,580	139,840
% change		17.45%	8.36%	1.64%
Access Lines in Service (Switched & Special)	1,161,875	1,255,189	1,275,934	1,360,956
% change		8.03%	1.65%	6.66%
New Investment per Access Lines ($)	$93.05	$101.16	$107.83	$102.75
% change		8.71%	6.59%	-4.71%

IV-F4 Capital Investment has not decreased as a percent of revenues after the PRP was approved.

Capital Investment as a percent of revenues is relatively flat between 1995 and 1998, fluctuating between 23% and 27% for the years after the PRP, as shown in *Exhibit IV-21.*

Focused Review of the Price Regulation Plan
BellSouth Telecommunications, Inc. - Kentucky

Exhibit IV-21[70]
Capital Investment as a Percent of Revenues
($ in 000's)

	1995	1996	1997	1998
Capital Investment	128,340	142,360	152,230	153,530
Revenues	546,421	551,280	557,772	580,023
Ratio	23.49%	25.82%	27.29%	26.47%

IV-F5 There is no comparison between the PRP and increased or decreased capital expenditures in BellSouth Telecommunications - Kentucky.

Reviewing the previous analysis and charts, capital investment does not seem to be negatively effected by the PRP. *Exhibits IV-14* through *IV-21* show steady increases in access lines, capital investment, and new capital investment. *Exhibit IV-21* shows relatively little change in capital investment as a percent of revenues. These areas have not been affected with the introduction or continuation of PRP regulation. Vantage Consulting Inc. found no evidence of any systematic decreases in capital investment as a result of the PRP. Access lines are up 17% from 1995. Capital investment in Kentucky, as a percent of BellSouth

Telecommunications capital investment, has been very steady since 1995, with variances of only 2/10ths of a percent. Both total Capital investment and new Capital investment in Kentucky have increased from 1995.[71]

BellSouth Telecommunications has stated that they propose "to invest sufficient network dollars over the next several years to provide for the necessary infrastructure to accommodate continuing excellent customer service and future technological communications innovation." They continue "The marketplace and customer's demands for services dictate how capital should be deployed, not the regulatory plan under which South Central Bell operates." This sentiment was restated throughout the interview process with financial personnel at BellSouth headquarters.[72]

The BellSouth CFO notes that all BellSouth states are price regulated. If a state was regulated using Rate of Return (ROR), this would possibly effect BellSouth's current decision-making process, which is regulatory plan neutral. As it is, the Regulatory Price Plans in each state are similar enough that this factor is not considered for company-wide policy and decision making.[73]

Capital Investment Decision Process

IV-F6 The capital investment decision process has not changed relative to the PRP.

The BellSouth CFO describes the capital investment planning process as a load driven model, used to determine the total capital investment pool for BellSouth Telecommunications. That capital pool is then divided between states with inputs from the COU (Customer Operations Unit).[74] The inputs to the automated capital planning process were reviewed, noting no reference to the pricing factors contained within the PRP or the PRP at all. Specifically, the capital planning process divides expenditures into two categories: "Load" and "Plan". Load capital is dictated by customer demand for new access lines. Plan capital is driven by customer demand for new communications services and applications and by the need for improvements in the network infrastructure.[75]

As previously stated, according to the CFO, all BellSouth states have price regulation plans. Therefore, capital investment decisions do not need to take a regulatory plan into account in order to allocate investment dollars. As all states have similar regulatory plans, there is no differentiation on which to allocate monies.[76]

(Also, see capital investment expenditure analyses in *Exhibits IV-18* and *IV-19* above, noting that expenditures are not fluctuating with adoption of the PRP.)

B. OPERATIONAL PERFORMANCE

This section will evaluate operation management policies and practices, as well as any changes resulting from price cap regulation. Of particular interest is whether a Kentucky price cap regulation or other factors is placing Kentucky at a disadvantage in terms of capital and technology. We will also examine pricing trends. An inherent and underlying basis for any operating or pricing decision is the direction BellSouth is going overall. Vantage discusses this direction as a lead-in.

BELLSOUTH FOCUS AND DIRECTION

The most significant change in the philosophy of BellSouth management deals with market focus. It is impossible to talk with any BellSouth manager or executive without coming away with the clear understanding that data is the overwhelming driver of BellSouth's telecommunications future. Indeed, it is the driver of the entire telecommunications industry, not just BellSouth and not just within Kentucky.

The importance of this fundamental shift in BellSouth revenue and focus cannot be overemphasized. The shift reflects a fundamental change not only in BellSouth operations, but in the industry as a whole.

OPERATIONS

All regional phone companies now operate in modes, which are sometimes oblivious to state boundaries. This is for efficiencies in team sizes, and in some cases, to congregate technical talent and/or facilities. This is organizationally efficient, but it can also be confusing to those unfamiliar with the organization. In the following section, we describe which operation centers provide service to Kentucky customers.

CONSUMER

Operator Service and Directory Assistance

BellSouth has eight Directory Assistance (DA) call centers. Three of these call centers take calls from Kentucky and Tennessee, four take calls from anywhere in the U.S. and one, in Owensboro Kentucky, takes calls originating outside Kentucky. (The Owensboro call center will eventually take calls from all parts of the U.S.) The locations, staffing, and areas served by the call centers are shown below in *Exhibit IV-22*.

Focused Review of the Price Regulation Plan
BellSouth Telecommunications, Inc. - Kentucky

Exhibit IV-22
Directory Assistance Centers

Location	Employees Handling Calls	States Served
Memphis, TN	210	TN/KY
Dickson, TN	114	TN/KY
Nashville, TN	191	TN/KY
Jackson, MS	141	All U.S.
Paducah, KY	102	All U.S.
Greenville, MS	61	All U.S.
Shreveport, LA	53	All U.S.

The Memphis, Dickson and Nashville centers answer 411 calls from Kentucky customers. The Jackson, Paducah, Greenville, and Shreveport offices answer 1+411 calls from all areas including Kentucky.

The Nashville and Jackson centers are 24-hour, 7-day per week operations. The other centers operate 7 days per week with various hourly schedules. BellSouth DA Call centers provide a good illustration, not only of modern call center "teams", but also provide a glimpse into the opportunities afforded communities by the modern telecommunications network. More specifically, call centers are large "virtual" teams, in which the location of the people answering the phones becomes just one of many variables in location decisions. Smaller communities with an adequate telecommunications infrastructure can not only compete for call center locations with larger communities, but are often more attractive.

Operator Services

BellSouth has three operator services centers, as shown in *Exhibit IV-23* below:

Focused Review of the Price Regulation Plan
BellSouth Telecommunications, Inc. - Kentucky

Exhibit IV-23
Operator Services Locations

Location	Employees Handling Calls	States Served
Jackson, MS	100	AL/LA/MS/TN/KY
Huntsville, AL	46	AL/LA/MS/TN/KY
Knoxville, TN	66	AL/LA/MS/TN/KY

Both the Jackson, Mississippi and Knoxville, Tennessee centers are 24-hour/7-day per week operations. Huntsville operates from 7:00 a.m.-11:00 p.m. 7 days per week.

Sales Centers

Sales centers handle many of the functions that used to be referred to as the Business Office. (BellSouth operates Service centers, that handle other functions of the former Business Office). The sales functions for Kentucky consumers are handled totally with the Kentucky/Tennessee organization, as opposed to region-wide teams, which can be seen below in *Exhibit IV-24*.

Focused Review of the Price Regulation Plan
BellSouth Telecommunications, Inc. - Kentucky

Exhibit IV-24
Sales Centers for Kentucky Consumer Customers

Location	Employees Handling Calls	States Served
Louisville, KY	91	Kentucky/Tennessee
Columbia, TN	36	Kentucky/Tennessee
Chattanooga, TN	30	Kentucky/Tennessee
Jackson, TN	57	Kentucky/Tennessee
Nashville, TN	90	Kentucky/Tennessee

All of the consumer sales offices operate from 6 a.m. until midnight. Calls are not differentiated between centers by state or other feature.

Service Centers

Service Centers taking Kentucky customer calls are operated on a Kentucky/Tennessee team basis in that calls from any BellSouth customer in either state may be answered in any of the call centers. This is shown in *Exhibit IV-25,* below. All of the call centers operate from 6 a.m.-Midnight, Monday through Saturday.

Focused Review of the Price Regulation Plan
BellSouth Telecommunications, Inc. - Kentucky

Exhibit IV-25
Service Centers for Kentucky Consumer Customers

Location	Employees Handling Calls	States Served
Louisville, KY	93	Kentucky/Tennessee
Paducah, KY	101	Kentucky/Tennessee
Chattanooga, TN	108	Kentucky/Tennessee
Memphis, TN	103	Kentucky/Tennessee
Nashville, TN	196	Kentucky/Tennessee

Repair

Repair calls for Kentucky customers are taken during normal and extended business hours by a call center in Louisville with a staffing of 129. This center takes calls for Monday-Sunday from 7 a.m. until Midnight. A call center in Shreveport, LA takes overflow calls from the Louisville center and also from a repair call center in Birmingham.

Collections

BellSouth has three collections centers, which serve Kentucky customers. These centers and their staffing are as follows, as shown in *Exhibit IV-26,* below.

Focused Review of the Price Regulation Plan
BellSouth Telecommunications, Inc. - Kentucky

Exhibit IV-26
Collections Centers

Location	Staffing	States Served
Louisville	38	Kentucky/Tennessee
Memphis	15	Kentucky/Tennessee
Nashville	12- Inbound 35- Outbound	Kentucky/Tennessee

The collections offices operate Monday through Saturday 6 a.m.-Midnight. (Early and late hours are for inbound only.) The outbound function is for direct proactive collection efforts. Inbound is for billing inquiry, treatment, and return of collection calls.

ISSC/BellSouth Solutions

The new Integrated Sales and Service Center (ISSC), which is meant to sell and service integrated, bundled BellSouth products and services is located in Jacksonville, Florida. Current hours of operations are 9 a.m.-12 p.m., Monday through Friday. There are only four reps actually taking calls as of the end of August 1999. There are another 121 employees at the center undergoing training.

Alternate Channel Support Center-Regional

This center provides support for questions sent by e-mail. The center is located in New Orleans and operates Monday-Friday and every other Saturday from 8 a.m.-6 p.m. The center has seven reps and one Assistant Manager.

Paging Support Group-Regional

The Paging Support Group is located in Rome, Georgia. The center is staffed with 35 reps and hours of operation are 7 a.m.-6 p.m. and every other Saturday from 6 a.m.-Midnight.

Small Business Operations

There are three primary functions supporting small business operations (on a standalone basis). These are:

- Sales and Service
- Collections
- Repair.

The locations, staffing, hours, and service area of the centers providing these functions are shown in *Exhibit IV-27* below.

Focused Review of the Price Regulation Plan
BellSouth Telecommunications, Inc. - Kentucky

Exhibit IV-27[77]
Kentucky Small Business Support Centers

Functions	Locations	Staffing Levels (Total)	Hours	Areas Served
Small Business Sales and Service	Louisville, KY Knoxville, TN Memphis, TN	108	8:00-6:00 p.m. M-F	KY, TN
Small Business Collection Center	Huntsville, AL	94	8:00-5:00 p.m. M-F	AL, FL, KY, LA, MS, TN
Small Business Repair Centers	Louisville, KY Birmingham, AL Columbia, SC Sunrise, FL	225	24 hours 7 days/week	All BellSouth states.

BellSouth Business (BB) Centers

BellSouth Business focuses on larger business customers who are in need of special services and support. BellSouth Business operates with more centralized support centers. *Exhibit IV-28*, below, summarizes the primary centers.

Exhibit IV-28
BellSouth Business Centers

Department	Location	Hours of Operation*
Premise/Major Account Center**	Louisville, KY	8:30-5:00 EST
Mid-Market Tiers 1 & 2	Nashville, TN	8:00-4:30 CST
Mid-Market Tier 3	Birmingham, AL	8:00-5:30 CST
Vendor Service Center	Knoxville, TN	8:30-5:00 CST
TN/KY Business Repair	Nashville, TN	8:00-5:00 p.m. (Calls not answered in 2 seconds overflow to one of 27 positions in 3 BRCs.) After hours, calls also roll to these BRCs.
BSAC***	Each Customer has an 800 number	Atlanta

* Monday-Friday unless noted.
** Includes support to the Kentucky Information Highway.
*** Supports NetSource Customers, 3 IXCs and three MACs.

The Account-Executives-Mid Market are supported by the Nashville Center (see above Mid-Market Center). The Account Executives-Premise are located in Louisville (one is also located in Danville).

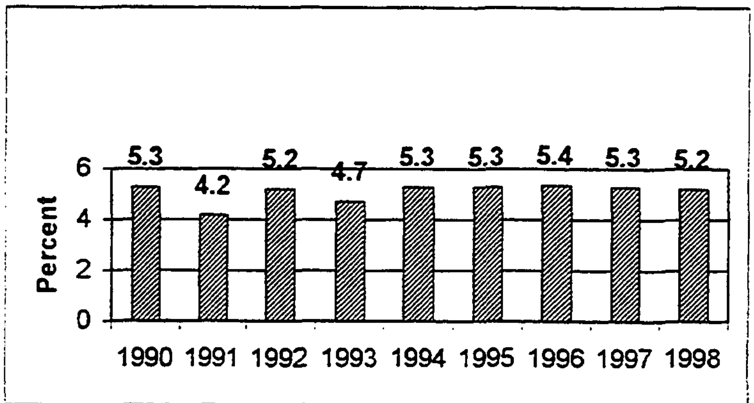
Capital Construction

One area of critical concern in our review was the impact that the Kentucky PRP may have had on capital expenditures within BellSouth. One inevitable outcome of competition is that dollars must flow to those areas with the highest potential return. The return includes the normal business opportunities, but regulation also influences return and capital deployment. Vantage undertook to determine if the PRP had any definable negative impact on capital deployment in the state. (This is reviewed in more detail in *Section IV.C.*)

Over the nine-year period 1990-1999, the percentage of BellSouth capital invested in Kentucky remained consistently around 5%, as shown below in *Exhibit IV-29.*[78]

Focused Review of the Price Regulation Plan
BellSouth Telecommunications, Inc. - Kentucky

Exhibit IV-29[79]
Kentucky Percent of BellSouth Capital



While it may seem odd that the percent of capital has remained fairly constant during a time of rapid technological change, the factors underlying the numbers are logical. First, the number is a percentage of total BellSouth capital. The Kentucky percentage has remained fairly constant, which can be viewed as an indicator that the PRP has not driven capital away from Kentucky on a relative basis. Kentucky has approximately 5% of BellSouth access lines and it gets approximately 5% of capital investment. The second factor is the extent to which the PSTN still dominates spending and resources. For all of the press (and real actions) associated with new technology and with a packet switched network, there is still a huge investment in the existing public switched network that must be maintained. The existing PSTN also provided the pipeline for many of the new products and services that have been deployed. For example, Internet traffic still travels over basic voice grade lines, or in some cases ADSL lines for residential users. This points to both an advantage and a disadvantage to BellSouth and other CLECs on a going-forward basis. The advantage is that BellSouth does indeed have ownership of the critical and very expensive "last mile" of facilities over the PSTN. The disadvantage is that BellSouth must now, and in the future, continue to fund maintenance, upgrades, and new construction on these facilities, even as the facilities are being used by competitors. More importantly, this maintenance and upkeep must be done while BellSouth funds investment in packet-switching technology. Packet switched technology is necessary for data services which are expected to make up the preponderance of future growth in telecommunications. It is the technology and architecture of the future.

The actual amount of capital has risen over this same period from $130.92 million in 1990 to $153.5 million in 1998.

All BellSouth states operate under price cap regulation plans. For this reason, it is exceedingly difficult, if not impossible, to make comparisons between BellSouth states, in an effort to identify differences attributable to the PRP. Based upon numerous interviews, Vantage did conclude that had Kentucky not entered into a PRP, BST-KY would most certainly have been at a disadvantage in terms of discretionary capital allocation from the corporate level. Again, the actual amount of the capital difference cannot be determined because the issue is moot. However, Vantage can state with a high degree of certainty that the PRP did not in any way reduce capital coming into the state for maintenance and repair.

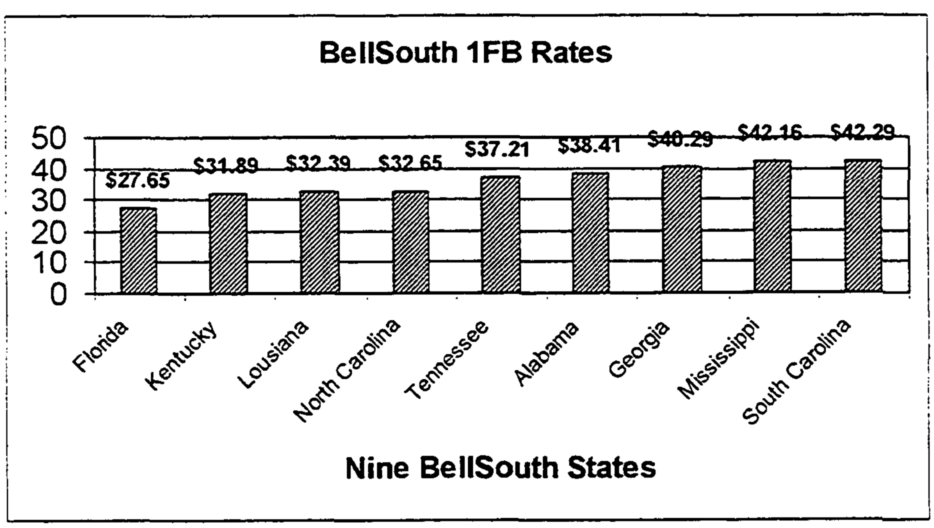
PRICING OF SERVICES

Regulated Services

Prices for single line business service in Kentucky is the second lowest in the BellSouth system at $31.89. *Exhibit IV-30*, below, shows the distribution of rates across the BellSouth service territory.[80] As shown, the rates range from a low of $27.65 in Florida to a high of $42.29 in South Carolina.

Focused Review of the Price Regulation Plan
BellSouth Telecommunications, Inc. - Kentucky

Exhibit IV-30[81]
BellSouth 1FB Rates



The rates shown are averages. There is a significant difference between the lowest and highest rates in the nine-state service territory, as shown below in *Exhibit IV-31*.

Focused Review of the Price Regulation Plan
BellSouth Telecommunications, Inc. - Kentucky

Exhibit IV-31[82]
Difference Between Highest and Lowest 1FB Rates within each State

	AL	KY	LA	NC	FL	SC	TN	MS	GA
Difference	2.65	3.80	4.32	7.08	9.30	10.20	12.65	14.04	24.50

Rates for a single line residential customer in Kentucky are the fifth lowest in the nine-state BellSouth service territory, as shown below in *Exhibit IV-32.*

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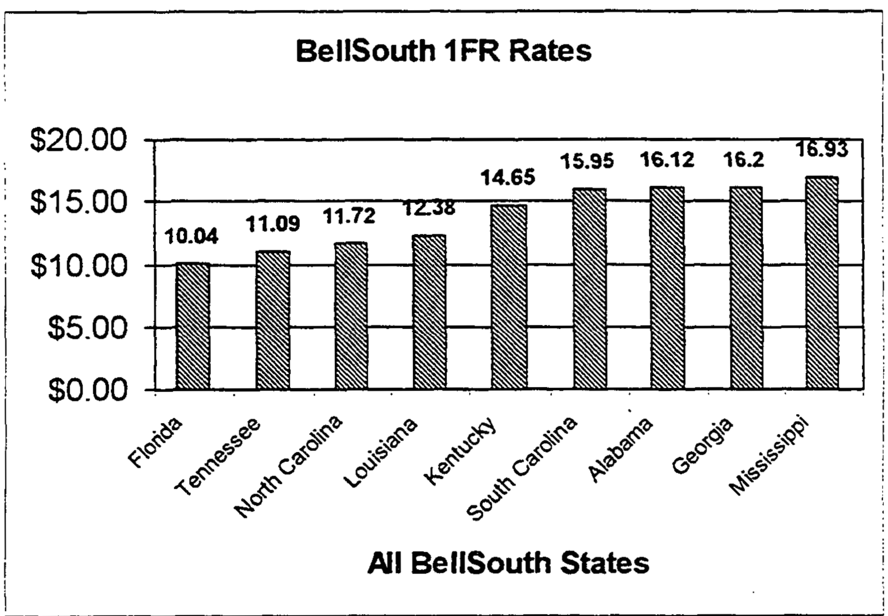
BellSouth Telecommunications, Inc. - Kentucky

Exhibit IV-32[83]
BellSouth 1FR Rates



In looking at 1FR rates for comparative purposes, it is important to recognize that there can be considerable variation in the rates within the states. The following, *Exhibit IV-33,* shows the difference between the highest and lowest 1FR rate in each BellSouth State.

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BellSouth Telecommunications, Inc. - Kentucky

Exhibit IV-33[84]
Difference Between Highest and Lowest 1FR Rates within each State

	AL	FL	GA	KY	LA	MS	NC	SC	TN
Difference	1.7	3.35	4.95	5.38	1.67	4.22	2.57	2.7	4.60

CLEC Costs and Margins

One measure of the incentive for competitive market entry is the available "margin" in the marketplace. While the numbers for competitors are proprietary, a surrogate number can be calculated by taking the CLEC cost and comparing that to the BST revenue. For purposes of the surrogate, CLEC costs include loop, port, usage, SG&A, and 20% gross margin. The BST rate used includes the 1FB charge hunting, access charges and the subscriber line charge. This is shown in *Exhibit IV-34*, below.

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BellSouth Telecommunications, Inc. - Kentucky

Exhibit IV-34
BST Revenue and CLEC Costs

State	BST	CLEC	Difference
Alabama	62.43	35.23	$ 27.20
Florida	53.27	47.74	$ 5.53
Georgia	87.34	30.90	$ 21.67
Kentucky	52.18	36.60	$ 15.58
Louisiana	58.17	35.68	$ 22.49
Mississippi	83.65	39.70	$ 43.95
North Carolina	69.35	36.46	$ 32.89
South Carolina	71.27	41.90	$ 29.37
Tennessee	87.65	33.84	$ 53.81

C. SERVICE QUALITY

DESCRIPTION

In this task, Vantage will review BST's compliance with both Commission service related regulations and BST's own internal service goals (by exchange or groups of exchanges).

BellSouth is required to report a number of service metrics as part of the PRP. For the most part, these are the same type of measures used by regulators in other states. These measures are:

1) Percent of requests for regular service fulfilled within five (5) working days unless applicant specifically requests a later date.

2) Percent of requests for regrades within thirty (30) days unless applicant specifically requests a later date.

3) Percent of telephone calls receiving dial tone within three (3) seconds, including busy season-busy hour.

4) Percent of telephone calls experiencing blockage due to an equipment or all trunks busy condition within the local dialing area. (Including busy season-busy hour.)

5) Percent of telephone calls offered to toll connecting or interexchange trunks encountering an all trucks busy signal.

6) Average speed of answer for operator assisted calls and calls requiring operator number identification.

7) Average Speed of answering time for calls to repair service.

8) Percent out-of-service troubles cleared within 24-hours unless the customer requests at a later date.

9) Average rate of customer trouble reports per 100 access lines.

BellSouth performance under each of these standards is discussed in the Findings sections. To summarize the results, BellSouth performance has not declined under the PRP, as measured by these standards.

IV-F7 BellSouth service has not declined under the PRP.

One of the primary concerns under non-traditional regulation is that service quality may decline. The thinking is that with no guarantee of a return on investment, companies will not have the incentive to invest in the necessary plant and equipment. There is no evidence that this has occurred with BellSouth in Kentucky. In addition to the traditional measures of service, there are more subjective indications that BellSouth has retained a high level of service. The 1999 J.D. Power and Associates survey of service satisfaction ranked BellSouth at the top of telephone providers for the fourth straight year. *Exhibit IV-35*, below shows the results of this survey.

Focused Review of the Price Regulation Plan
BellSouth Telecommunications, Inc. - Kentucky

Exhibit IV-35
J.D. Power and Associates Service Satisfaction Survey

Company	Score
BellSouth	**115**
SNET	**115**
Cincinnati Bell	110
PacBell	105
Bell Atlantic	104
Industry Average	**100**
ALLTEL	98
Frontier	96
Ameritech	94
GTE	94
SBC	94
US West	92
Sprint	91
Citizens	87

As shown, BellSouth (and SNET) were not only the leaders in service quality satisfaction, but were far ahead of the pack. The survey was based on 12,185 households nationwide, and for the first time included cable companies offering local telephone service. We also point out that Kentucky is fortunate to have two of the top three companies providing local service to the customers of the state.

Vantage can state definitively that the service has not declined based on solid evidence. We can offer up our ideas to the Commission as to why this is the case. BellSouth gets it. Vantage is fortunate to have worked not only in telecommunications but also gas and electric industries where de-regulation is ongoing. Even in the gas and electric industries where competition has been introduced, there are companies whose management and employees simply do not grasp the enormous implications of competition. BellSouth obviously does. Almost all interviews (if not all) conducted with BellSouth employees involved some statement of awareness and concern about competition. Although there is no way to quantify the results of this focus, there is no question that BellSouth management and employees understand the importance of customer satisfaction and accept that customers will have a choice in the future.

IV-F8 Certain of the service measures required to be reported under the PRP are arcane and should be removed or modified.

Many of the customer service measures used in Kentucky (and other states) were developed for a technological era that no longer exists. It was an era of mechanical switching, unsophisticated call centers, 2-party lines, and POTS. Obviously, the technical and competitive situation has changed dramatically. The following addresses the individual measures now required under the PRP, which is addressed in a separate filing. The exception is the out-of-service cleared within 24-hours, which is addressed in a separate finding. For each of these service standards, Vantage has made a recommendation, as shown below in *Exhibit IV-36* to keep, modify, or eliminate the metric.

Focused Review of the Price Regulation Plan
BellSouth Telecommunications, Inc. - Kentucky

Exhibit IV-36
Service Measure Changes

Service Measure	**Percent of requests for regular service fulfilled within five (5) working days unless applicant specifically requests a later date.**
Standard	90%.
Vantage Evaluation	BellSouth has not missed this measure since December, 1990. BellSouth levels have been between 94% and 99%.
Value going forward	High. While BellSouth has consistently met this standard, it continues to have value. The change in the telecommunications environment has not altered the need for customers to receive new service in a timely fashion.

Service Measure	**Percent of requests for re-grades within thirty (30) days unless applicant specifically requests a later date.**
Standard	90%.
Vantage Evaluation	BellSouth has improved markedly in the measure. The standard has been missed four times since 1994 and after having been missed 36 times during 1990-1993.
Value going forward	Minimal. There are no longer any applicants for a re-grade in Kentucky for which the measure should apply. Party line service was obsolete on July 10, 1993. The only re-grades remaining are actually initiated by BellSouth to eliminate the 77 remaining BellSouth party lines.

Service Measure	**Percent of telephone calls receiving dial tone within three (3) seconds. (Including busy season-busy hour.)**

Standard	95%.
Vantage Evaluation	BellSouth has not missed this objective even once since 1990. The lowest monthly performance over that period was 99.5%.
Value going forward	None. This measure is a carry-over from the days of step and cross bar switching and no longer has any relevance.

Service Measure	**Percent of telephone calls experiencing blockage due to an equipment or all trunks busy condition within the local dialing area. (Including busy season-busy hour.)**
Standard	No more than 5%.
Vantage Evaluation	BellSouth has met this standard every month since 1990. Only one month exceeded 0.7% over that period and in that month the measure was only 1.3%.
Value going forward	None. Improvements in plant and the greatly increased trunk capacity provided by fiber has virtually eliminated this problem even with the enormous increase in Internet traffic.

Service Measure	**Percent of telephone calls offered to toll connecting or interexchange trunks encountering an all trucks busy signal.**
Standard	No more than 3%.
Vantage Evaluation	BellSouth has not missed this objective since the beginning of 1990. BellSouth has exceeded 2% on only two occasions since that time, June 1993 (2.6%) and December 1993 (2.55%).
Value going forward	None. The standard has been exceeded every month for nearly ten years. In addition, the interexchange carriers will immediately take BellSouth to task if this measure is not being met to their satisfaction.

Service Measure	**Average speed of answer for operator assisted calls and calls requiring operator number identification.**
Standard	Not greater than 8 seconds.

Vantage Evaluation	BellSouth has not missed this standard since the beginning of 1990. BellSouth only exceeded 7 seconds on 7 occasions during this period. BellSouth argues that Operator Services are now competitive and should not be regulated on this service measure.
Value going forward	Minimal. This measure and its application have several problems. One as noted by BellSouth, operator services are competitive. Not only does this draw into question the appropriateness of measuring BellSouth, but in the interest of promoting a level playing field, all competitors would be required to submit to the same regulation. However, this is neither desirable nor in keeping with the movement away from regulation. Second, Kentucky and other states require that this measure be reported on a monthly basis. Yet, call center volumes and the resulting answer times vary widely even in a somewhat predictable environment like Operator Services. This means the picture given by the measure is not particularly revealing. Lastly, there is little, if any, evidence that 8 seconds is significant to the customer any more than 7 seconds or 10 seconds or some other reasonable number.

Service Measure	**Average Speed of answering time for calls to repair service.**
Standard	20 seconds or less.
Vantage Evaluation	The methodology for reporting this measure was changed in 1998. This change was with Commission approval. BellSouth has not exceeded 2.6 seconds since this time.
Value going forward	High. The modified measure is still relatively new and additional time is required for BellSouth to demonstrate that they will consistently outperform this standard. If BellSouth does continue to outperform the standard, they should petition the Commission for elimination of the standard or at least reporting modifications. This measure should also be retained for this time due to the importance of the trouble repair process to the customer and the Commission.

Service Measure	**Percent out-of-service troubles cleared within 24-hours unless the customer requests at a later date.**
Standard	85%.
Vantage Evaluation	See *Finding IV-F-9.*

Value going forward	

Service Measure	**Average rate of customer trouble reports per 100 access lines.**
Standard	8 or less.
Vantage Evaluation	BellSouth has not missed this standard since 1990. The measure has only exceeded four on three occasions during this period.
Value going forward	None. This measure is also a hold over from an older technology era. The modern phone network could not even function with plant and facilities of such a poor nature to allow 8 trouble reports per 100 access lines.

IV-F9 Out of Service cleared within 24-hours may be producing inefficiencies in work completion, while adding little to customer satisfaction.

Vantage separated this service standard for report purposes because the issues surrounding the measure are different than those previously discussed. Time Out of Service remains an important measure. Arguably, it is even more important, today, given the additional disruption that may be caused by the loss of not only voice, but also data, fax, and security links.

BellSouth has argued that the service standard measuring Out of Service cleared within 24-hours is producing inefficiencies in work scheduling. The argument is that work orders, which would logically be completed by an I&R technician, are often bypassed in order to maintain the service standard of completions within 24-hours. For example, trouble reports called in at the end of a workday (a common situation with working families) must be scheduled the next work day in order to meet the 24-hour standard. BellSouth has further argued that the incremental time required to repair an out of service trouble report does not materially effect customer satisfaction.

BellSouth has rarely missed this service objective. *Exhibit IV-37*, below, shows the number of months that the Company has missed this standard since 1990.

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Exhibit IV-37[85]
Out of Service Standard

Number of Months the existing standard has been missed	
Year	**Number of times missed**
1990	0
1991	0
1992	0
1993	2
1994	4
1995	2
1996	2
1997	4
1998	3
1999 YTD	1

Vantage does not believe that BellSouth wants this measure altered in order to make a difficult objective merely go away. Changing this standard to 36 hours would alleviate much of BellSouth's concerns over work management.

IV-F10 Service standards for "wholesale" services are handled through interconnection and other party-to-party agreements.

Wholesale service standards are negotiated between the parties, primarily though interconnection agreements. Disputes are handled through operating groups. Although the players and technologies have changed, the method of operation has been in place for years. RBOCs have been working with IXCs and CAPs for a number of years and resolving service standards issues among themselves. Anecdotally, none of the CLECs contacted by Vantage was willing to make any comments regarding the PRP or service standards.[86]

Beyond the interconnection agreements, approval of Section 271 of TA96 also looms in the background in terms of service standards. More specifically, the OSS section which may include service standards at a wholesale level and standards for the customers of the CLEC being resold services. It cannot be said with certainty how the CLECs will respond, in terms of service standard requirements, following 271 approval. However, Vantage team members' experience in arbitration cases suggests that CLECs will request service levels equal to what the ILEC gives itself. As we have described elsewhere in the report, BellSouth has organized its network group, such that it can provide nondiscriminatory services to customers both internal and external.

RECOMMENDATIONS

IV-R1 <u>The Out of Service repair service standard should be changed from 24 to 36 hours.</u> *(Refer to Finding IV-F8.)*

Vantage concludes that BellSouth should be given the opportunity to prove performance and customer satisfaction under a 36-hour service standard. Out of Service cleared within 36 hours brings the measure in line with BellSouth internal metrics. The 24-hour repair service response time is standard and has been the standard in many states for years. However, there is no evidence that Vantage is aware of that supports 24-hours as being an optimal time period for service repair from either a customer or work management standpoint.

In making this recommendation, Vantage presumes that BellSouth will continue to uphold its civic duty and give those customers who rely on phone service for critical tasks the highest possible priority for service restoration, regardless of the service standard imposed by the Commission. We also recommend that the reporting requirement for any exchange that has missed the standard for more than two months remain in effect. This should now apply to the 36-hour standard.

IV-R2 <u>Service standards should be revised to include only those measures providing valuable data in today's environment.</u> *(Refer to Finding IV-F7.)*

The following table, *Exhibit IV-38,* shows the recommendations for each of the individual service standards currently applied under the PRP.

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BellSouth Telecommunications, Inc. - Kentucky

Exhibit IV-38
Recommended Service Standards

Standard	Action
Percent of requests for regular service fulfilled within five (5) working days unless applicant specifically requests a later date.	Retain as is.
Percent of requests for regrades within thirty (30) days unless applicant specifically requests a later date.	Eliminate
Percent of telephone calls receiving dial tone within three (3) seconds. (Including busy season-busy hour.)	Eliminate
Percent of telephone calls experiencing blockage due to an equipment or all trunks busy condition within the local dialing area. (Including busy season-busy hour.)	Eliminate
Percent of telephone calls offered to toll connecting or interexchange trunks encountering an all trucks busy signal.	Eliminate
Average speed of answer for operator assisted calls and calls requiring operator number identification.	Eliminate
Average speed of answering time for calls to repair service.	Retain
Average rate of customer trouble reports per 100 access lines.	Eliminate

There are certain underlying themes and assumptions that Vantage used in making these recommendations. These are arguably as important as the individual service measure recommendations.

1) Deregulation must also mean less regulation. This may seem almost ridiculously simple, but the reality is that deregulation is taking place in a more macro environment, while most of the RBOC service regulation takes place at state levels using finite measures. One does not necessarily follow the other without planned actions.

2) In every measure that Vantage reviewed, BellSouth has continued to operate as a good corporate citizen, i.e., service quality has not declined, capital investment has kept pace with historical levels, and customer satisfaction remains high.

3) A primary goal going forward must be to maintain a level competitive playing field among all competitors. Since it is neither practical nor desirable to add regulation to the CLECS and cable, wireless, and Internet providers, which will all be competing in the marketplace, a level playing field should mean minimal

regulation of the one regulated competitor, BellSouth. In some cases, like ISPs, additional regulation is not possible, due to federal preemption.

4) In the new environment, we see the role of the Commission transitioning from one of regulating to one of using regulation to protect certain customers, while freeing up the market to competition. This will not be an easy task, but it is one that must be undertaken.

5) BellSouth has recently added almost 150 craft workers, which will logically lead to improved service or at least the ability to maintain service levels in the face of growth.

IV-R3 The Commission should be prepared to revisit the remaining service standards after the industry has "resettled." *(Refer to Finding III-F7.)*

As discussed elsewhere in this report, there are forthcoming actions which have enormous implications for the industry. These are Section 271 approval, de-averaging, access rate reform, and Universal Service. These changes are in addition to the phenomenal technological changes that have and continue to take place. The Commission must be prepared to react to these changes.

One change that may be necessary is for the Commission to revisit the service standards after the above actions have been settled. Suggestions for possible changes, at that time, include further elimination of reporting standards for market segments that have competition or a move toward and exception basis reporting on certain standards. Unfortunately, market and technological uncertainty make it impossible to spell out a defined framework for subsequent reviews.

D. STRATEGIC PLANNING

This section gives a brief overview of the strategic planning process used by BellSouth and then, more importantly, talks about the direction and focus of strategic planning and how it has changed to meet the demands of today's marketplace.

CONCEPTUAL FRAMEWORK

IV-F11 Strategic planning at BellSouth uses a formalized process that drives from higher level goals and objectives down to individual plans and actions in delineated steps.

Conceptually, the strategic planning process moves from low levels of detail with relatively infrequent changes to frequently changed high detail plans. Although the process itself is formalized, there is flexibility throughout to allow for opinions and dissension. Using BellSouth terms, this can be illustrated as follows.

Aspirations	**Less Detail**
Corporate Strategy/Business Unit Strategy	↓
Organization	↓
Group Plans and Priorities	↓
Individual Plans and Priorities	**More Detail**

The aspirations are company goals and objectives. These eventually work down to the individual plans and actions, which define what people will actually do.

IV-F12 The timing of the strategic planning process follows an appropriate schedule.

Vantage reviewed the timing of BellSouth Communications strategic planning process. Since the actual dates and steps are considered confidential, they are not included in the report. Any party needing access to the specifics of the timing can access this information through Information Request #149.

As would be expected, the responsibilities for development and implementation of the plans differs by organizational level. From the headquarters to the state, the roles move from general to specific and from plans to implementation. The following chart shows the major roles of the different organization levels, as shown below in *Exhibit IV-39*.

Focused Review of the Price Regulation Plan
BellSouth Telecommunications, Inc. - Kentucky

Exhibit IV-39
Major Roles in Market Driven Planning

Headquarters Staff	Communicate strategy and plans. Provide support to Kentucky - Business Units.
Kentucky Team	Provide input to Business Unit Plans. Develop Operating Agreement. Create a clear picture of how employees are expected to contribute to goals. Manage performance tradeoffs to achieve outcomes.
State President	Certify the state plan: Operating Agreements Rational Approach to competition Kentucky infrastructure plans Employee satisfaction action plans. Chair the customer operations team. Monitor accomplishments and resolve jeopardies.

The BellSouth strategic planning process is not a "bottoms up" process, which is sometimes held up as the standard for utilities. The state organizations are primarily responsible for carrying out the specifics of the strategic plans.

IV-F13 BellSouth strategic planning has adapted to the new telecommunications environment.

The BellSouth strategic planning process is well prepared to face the phenomenal changes taking place. BellSouth goes to great efforts to seek out those who are its critics and those who can provide alternative visions and opinions. BellSouth has also recruited personnel from outside the telecommunications industry to try and achieve greater market focus and to infuse new thinking. The dangers to BellSouth come from the market and technology change, not from any inadequacies in the strategic planning process.

V. ASSESSMENT OF PRP STRUCTURE

A. TOTAL FACTOR PRODUCTIVITY

BACKGROUND

The KPSC has approved a Price-Regulation Plan (PRP) for BST-KY, which is a performance-based rate plan. The PRP provides the Company with some levels of price flexibility for those products and services transitioning into competitive markets. Prices are capped by a formula that includes cost escalation rates as well as a total factor productivity index as an offset to inflation. This report addresses the effectiveness of the Total Factor Productivity Index in the PRP and presents alternative methodologies that might be more appropriate as telecommunication markets become more competitive.

The regulation of those industries considered natural monopolies or public utilities, e.g., telephone, electric, gas and water, has undergone significant change during the last twenty years. For nearly a century, the rates charged by public utilities were based upon historical costs plus the opportunity to earn a fair return on investment. This return was derived by multiplying the allowed rate of return times the depreciated rate base. Rates could not be changed without the approval of that utility's regulatory authority. Typically, the rate application process would take between six months and two years, depending upon individual state's rules and regulations. This time period has often been called – regulatory lag. Regulatory lag historically served as a potent productivity incentive, as any increases in expenses occurring during the regulatory lag period was borne by the utility and its investors.

During the 1970's, however, the OPEC embargo led the United States into a period of rapidly rising energy prices and overall hyperinflation. Faced with the prospect that costs could escalate at rates up to ten times greater than potential productivity gains, a number of utilities faced financial ruin unless significant changes were made in the regulatory process. In response, regulatory commissions liberalized the rate process by either permitting forecasted rate years and/or instituting automatic rate adjustment mechanisms to recover costs considered outside of management's control.

With the advent of these changes in the rate process, commissions instituted other mechanisms to offset the lost productivity incentives associated with regulatory lag. First, utilities were required to consider potential productivity gains in their derivation of a forecasted test year. While labor productivity was the most common adjustment, total factor productivity (TFP) was also employed. Ultimately, the use of TFP was disregarded over concerns that the TFP measure failed to:

- Accurately measure the productivity of a specific company;
- Accurately forecast productivity gains based on historical trends;
- Properly measure capital versus labor productivity; and

- Properly differentiate scale economies from management initiatives.

Supplementing the imputation of expected productivity gains as an offset to inflation, commissions also instituted a management audit process where commission staff and contracted management consultants would periodically review the performance of a utility. The outcome of such audits could include specific directives, e.g., change or improve a specific process, or compute a specific rate adjustment based on the cost of any acts identified as imprudent. Commissions have imposed "prudence" adjustments for poor system reliability, cost overruns (typically nuclear power plants) and mismanagement.

Notwithstanding these changes in the regulation of the public utilities, costs continued to rise at a pace above the economy at large. The restructuring of the telecommunications industry, followed by natural gas and currently electricity, has witnessed a further shift from strict regulation to greater reliance on competition and other market forces. For those markets, not fully transitioned to true competition, utilities have sought greater pricing flexibility. Performance based rates have provided these utilities with the ability to alter prices with some constraints and to achieve higher returns should the company's performance outpace its own respective industry. Telecommunications companies who provide local access are allowed to raise rates for those products and services that fall in the quasi-competitive environment at the rate of inflation offset by the projected rate of productivity. Typically, the escalation rate is based on the regional economy, while the productivity measure is either for the specific company or for the total telecommunications industry.

Total Factor Productivity

Total Factor Productivity or TFP is an economic term defined as the ratio of percentage change in unit of output to the percentage change in unit of input. As the GNP or Gross National Product is an index of economic growth in the United States as measured by the relative change in good and services produced, the TFP is used by economists to measure the relative level of productivity for specific industry groups. Since the Great Depression, the federal government has consistently practiced a Keynsian approach to control the economy by employing a combination of fiscal and monetary policy. The key barometers of growth are economic expansion and productivity. Unfettered economic expansion can lead to inflation unless productivity gains can offset the impact of rising prices and wage rates.

The FCC, in response to the Telecommunications Act of 1996, promulgated a proceeding to review and modify its price cap plan for local exchange carriers in preparation for further deregulation and introduction of competition "to further the new pro-competitive, deregulatory paradigm." In its Order 97 - 159, the FCC claimed that the "new price cap reflects a more reliable careful analysis of the rate of growth of incumbent LEC total factor productivity (TFP) and the rate of change of LEC input prices."

Conceptually, there are four ways that a firm can improve its productivity.[87] In the short run, a firm can, in effect, learn to "do without." Downsizing and right sizing are two examples of how firms can reduce input costs while maintaining the same level of output.

For LECs, workforce reductions have been a key to their efforts to achieve productivity gains.

Over the long run, a second form of productivity can be increased via technological advancement, the substitution of capital versus labor (e.g. automation) and improved operational practices.

While reducing the cost and quantity of inputs can improve productivity, the level of output can have similar effects. A third level of productivity can be achieved simply by adding new customers or increasing sales. Typically, telecommunication companies are capital intensive and maintain a significant level of surplus capacity. For example, because the system is designed to meet peak demand conditions, off peak periods offer significant opportunity to expand sales for very little marginal cost.

Finally, output based productivity gains can be achieved over the long run via economies of scale associated with the growth of the overall network and of scope given the capital intensive nature of the industry. Either through expanded services or acquisition, the larger the company, in terms of customers and sales, the less expensive it can be to add even more products and services.

The historical tracking of Total Factor Productivity measures the relative change in the ratio of inputs to outputs. As a result, over time, the TFP index measures all four types of productivity improvements outlined above.

In general, the TFP index provides a general measure of a firm or industry's relative level of productivity as compared to other industries, or to the same industry over time. While historical trends do provide a basis to assess opportunities for future productivity gains, it by all means is not a determinant. For example, a firm with a high ratio of fixed to variable costs and significant excess production capacity, most of the short-term productivity gains will be derived from short-term sales growth, which may be a more reliable predictor. However, for industries challenged with the need to implement rapidly improving technology simultaneous with the introduction of new competitors, the long term input productivity gains can be offset by the short- and long-term loss of sales.

Finally, the TFP index measures the total productivity of a firm. Differentiating the productivity of either a given product line or primary input like labor, can be very difficult, if not misleading. Clearly, a firm which produces a single product line has a better chance of tracking total labor and capital productivity. Even firms with multiple product lines can achieve the same assuming the amount of common plant and other common input expenses are minimal. However, multi-product and multi regional companies with significant shared or common facilities and costs will be challenged to derive an appropriate allocation scheme in its efforts to measure partial productivity.

Given the above discussion, the use of the TFP index raises several concerns, which can be summarized as follows:

- The TFP index was never intended to be a predictor of future productivity.

- TFP measures the total industry or a firm's overall productivity. It does not differentiate input versus output driven productivity gains or short-term versus long-term productivity gains.
- Multi-regional and multi-product or service firms with significant common facilities cannot accurately disaggregate productivity by region or service level.

IMPEDIMENTS TO MARKET COMPETITION AND FULL ACCESS

V-F1 A TFP index set too high can hinder achievement of some of the desired objectives.

BST-KY has raised several concerns they believe result from a TFP index set too high. First, they argue that a high TFP index reduces their potential revenues and as a result reduces the amount of available capital resources to expand their system into less profitable areas, namely, rural Kentucky. Secondly, BST-KY argues that the reduced revenues also limits their ability to upgrade their system in a means that provides more efficient access for potential competitors who wish to use their network. Finally, BST-KY argues that their retail prices in some instances are below cost, and as a result, their wholesale prices, set for competitors, can be greater than BST-KY's own retail rates. In summary, BST-KY argues that the KPSC's very goal to enhance competition is stymied by a TFP index set too high.

BST-KY's arguments make sense only if the company cannot achieve the productivity gains projected by the TFP index. BST-KY argues that the rapid gains in TFP achieved in prior years was driven by downsizing and that future gains will be minimal as the company again needs to increase its internal resources. Furthermore, future capital investments into new systems and operations, while introducing greater efficiency, must be shared with its competitors who have access to BST-KY's facilities. In this regard, BST-KY also points out that a significant portion of its productivity gains are derived from increased sales which foster the greater utilization of existing plant. However, with the transition to a competitive market, BST-KY will likely loose market share, which will offset near term output-driven productivity gains.

BST-KY provides substantial argument and support for a performance based rate that is not weighted down by an excessive TFP based performance target.

ALTERNATIVES TO TOTAL FACTOR PRODUCTIVITY

V-F2 There are alternatives to the Total Factor Productivity index which foster the types of competitive incentives the KPSC had sought in its Price Regulation Plan.

The Total Factor Productivity index offers several advantages, but as discussed above, none of which foster the types of competitive incentives the KPSC had sought in its Price Regulation Plan. Theoretically, the TPF index would serve as an added incentive for BST-KY's management to either improve performance or face the consequences of lower returns. Unfortunately, even if the forecasted value of the TFP were correct, such a broad based incentive provided no specific direction as to how such savings should be achieved. Any public policy initiative would be tempered against management's primary incentive, that is, to serve and retain its customer base and to achieve a fair return. In fact, as also discussed above, a targeted TFP that was set too high, might discourage the very objectives the KPSC sought by diverting BST-KY's management away from achieving true productivity gains via technological and process enhancements, but instead focusing on sales growth and retention strategies which would also achieve the TFP target.

Management by Objectives

Until all of BST-KY's products and services are open to full competition, the KPSC will need to regulate the prices set for the non-competitive basket. On balance, the prices should be cost based, yet flexible enough to simultaneously provide BST-KY with the opportunity to respond in a timely manner to the development of greater competition, and to earn an adequate enough return to continue to invest in system upgrades and expansions which offer greater access and further opens the market to competition. As Vantage discusses at length elsewhere, there are also very significant external factors that will influence pricing, such as USF and de-averaging. While the TFP index affords a generalized performance target to achieve, it does not necessarily provide the KPSC with the same level public policy influence it had with traditional cost-based rate regulation. As noted above, the simple TFP target can be achieved by BST-KY via means that are most advantageous to BST-KY, which may not necessarily accomplish the very objectives sought by the KPSC in the first place.

While it is not the role of regulatory commissions to micro-manage the utilities that it regulates, influencing public policy is an important tenet of this quasi-legislative process. Historically, Commissions have long influenced the direction of electric, gas, and telephone companies by issuing public policy statements, holding generic proceedings on special issues and directing specific outcomes as part of a rate award. These and other tactics are synonymous with the management process called "Management by Objectives." While the Commission leaves the actual implementation up to the utility management, clear objectives are enumerated by the Commission as a component of a rate application or other regulatory proceeding. As a result, the regulated utility has specific and clearly defined objectives that must be achieved as part of the rate settlement process. Notwithstanding, this approach to regulation has its limitations. Mandates requiring electric utilities to purchase electricity from independent power producers, at above market costs, resulted in significant price increases and in surplus capacity in the Northeast, now a major component of stranded costs. As a result, the objectives should be clear and flow from the stated public policy objective, and yet, not be so specific as to foster inefficient and distorted management practices.

With a performance based rate mechanism, the KPSC could substitute the productivity target set by the TFP index, by identifying several key objectives it seeks to address as part of the transition process toward competitive markets. Such objectives might address specific issues in:

- Quality of Service
- Economic Development
- Rural Access to Telecommunication Services
- Rate of Competitive Market Development

- Investment in Technologies

The company, not encumbered with a specific productivity number to achieve, would have the added resources to address these objectives.

OTHER PERFORMANCE-BASED INCENTIVE REGULATORY PLANS

The concept of objective-based performance targets is not a new or an unproven concept. On June 16, 1995, the New York Public Service Commission issued its Order Approving Performance Regulatory Plan for New York Telephone (Case 92-C-0665).[88]

> *"The Plan revises the regulatory framework for NYNEX in view of the dynamic changes taking place in the telecommunications industry and the emergence of competition. It provides market-based incentives for investment by substantially deregulating the company's earnings and providing pricing flexibility for new competitive services for a period of five to seven years. It establishes comprehensive incentives for improved service quality during the transition, and it imposes commitments to freeze basic service rates, reduce toll and carrier access rates, limit rate increases for other existing services, and undertake various competitive enhancements and infrastructure improvements."*

While the New York Plan frees the company from TFP type targets and shared earnings formulas, the NYPSC established specific objectives to be achieved accompanied by associated incentives and penalties. The Commission also established a periodic review schedule during this transition period. For example, following the first year of the plan, the Commission found that NYNEX failed to achieve several objectives and was required to refund consumers the penalties established in the plan. In more recent years, Bell Atlantic has met those targets and thus has not been required to refund money back to customers.

On June 28, 1999, a number of interested parties including BST-KY, AT&T, GTE and Sprint have offered the FCC "a proposal to reform interstate access charges and interstate universal service in the context of a continued commitment to universal service."[89] This proposal outlines a number of "Key Objectives" that the parties believe are in the best interest of consumers. While the proposal identifies a number of steps needed to accomplish these objectives relative to the use of the TFP or X-factor, the parties agreed that

- X-factor reductions would be targeted to local switching and switched transport rates;
- The X-factor should continue to be 6.5% until local switching and switched transport rates reach $0.55 per access minute for the Bells and GTE, and $0.65 for other price cap LECs. Together, with phasing out the Carrier Common Line Charge had this plan started July 1, 1999, switched access charges would have been cut by more than half within 3 years; and
- The X-factor should equal inflation once local switching and switched transport rates reach $0.55 per access minute for Bells and GTE, or $0.65 per access minute for other price cap LECs.

In essence, this settlement offers a transition away from the TFP adjustment in support of other, more defined public policy objectives, namely:

- Improve choices and value for customers;
- Keep Americans connected with universal service at affordable rates;
- Be Internet/Digital friendly;
- Be Competition-friendly (i.e. encourage efficient investment in real choices for all Americans); and
- Improve telephone subscription among low-income Americans.

While these objectives were offered to the FCC by the joint local and long distance telephone companies, and yet to be approved, it does offer another example of regulatory management by objectives.

Finally, the Kentucky PSC has embraced this approach in its Order associated with the petition for rehearing of Cincinnati Bell Telephone Company (CBT), Case No. 98-292. CBT sought an alternative regulation plan that excluded a productivity target "derived through an earnings sharing mechanism." While the Commission, at first felt that there was a need for a productivity offset, after reconsideration, deleted the earnings sharing mechanism because it "dilutes the incentives to reduce costs, expand output and invest in new infrastructure and new technology, distorts pricing decisions for all the Company's regulated services, irrespective of service costs, current prices and competitive market conditions; maintains theoretical incentives to misallocate costs and subsidize competitive services; and continues to impose regulatory costs and inefficiencies."[90]

RECOMMENDATIONS

V-R1 The KPSC should eliminate the TFP index. *(Refer to Findings V-F1 and V-F2.)*

After careful evaluation of all the relevant factors, Vantage recommends that the KPSC should eliminate the TFP index for BST-KY. Instead, it should allow rates for services in the non-competitive category to be capped by inflation. Should the KPSC decide that a transition period is appropriate for a movement away from the current 4% TFP index, it should consider directing BST-KY to make investments in achieving certain policy objectives. The KPSC should identify the specific policy objectives that BST-KY will need to accomplish and BST-KY will be responsible for determining, upon KPSC review and approval, the methodology and expense that will be charged against this fund.

Vantage does caution, however, against applying a traditional regulatory approach in this manner by determining a level of funds and requiring BellSouth to apply them to specific infrastructure. This would not, in fact, eliminate the productivity factor as recommended, but rather would reduce revenue flowing to BellSouth using a different term or mechanism. This is not the intended result. Future regulation will need to concern itself with the rates for those customers with no competitive choice, but not with revenue overall. Otherwise, BellSouth would be the only competitor with revenue restrictions.

Vantage suggests a cooperative approach between the Commission, state government, and BellSouth whereby the parties work together to determine telecommunications goals and visions and then identify specific projects and infrastructure goals to meet those goals. Vantage consciously refrained from suggesting specific infrastructure improvements. This is for the parties involved to decide. Some suggestions on areas of infrastructure include:

- Expanded local calling access to BellSouth Internet service. (BellSouth has no control over where and how ISPs elect to serve).
- Improved infrastructure and perhaps special pricing in economically depressed areas of Kentucky to encourage call center development and resulting jobs.
- Continued expansion of the KIH.

BST-KY is currently required to complete a productivity study as part of their compliance with the PRP. Vantage would encourage the KPSC, BST-KY, and other key parties to attempt to reach an accord on an alternative to this study. We reiterate the statements above, that productivity studies are largely retrospective in nature and are not particularly applicable in an industry that is undergoing significant technological and structural changes.

V-R2 Change the non-competitive service category pricing formula to allow for price increases at inflation. *(Refer to Finding V-F2.)*

It is difficult to fully discuss this recommendation at this point as subsequent analysis and recommendations in this *Report* impact upon this recommendation.

However, as a starting point, this recommendation will allow BS-KY to raise the overall non-competitive service category rates to an index based upon the GDP-PI. The elimination of the productivity factor will eliminate the potential for forced service category rate reductions, as has been the case in each of BST-KY's required annual filings.

The mirroring of intrastate access rates with interstate access rates should be maintained. The competitive category should maintain its pricing rules--no limit on price changes and a price floor of LRIC.

B. SERVICE CATEGORIES

The PRP established three service categories into which BST-KY's retail services were classified: [91]

- Non-competitive – services, products and options which are commonly included in basic local exchange service packages, or for which there is no competitive substitute.
- Interconnection – interconnection and access services commonly purchased by other telecommunications providers.
- Competitive – services that are not classified as non-competitive or interconnection.

The PRP defined procedures by which BST-KY could seek to re-classify a service between categories.

V-F3 BST-KY has not petitioned the KPSC to re-classify a single service since the PRP was implemented.

To move a service from the non-competitive category to the competitive category requires either a demonstration that competition exists for the service or that the complimentary nature of a service has changed.[92]. BST-KY does believe that it may seek some service reclassifications to the competitive category.[93]

V-F4 There is currently no basis for re-defining the three service category classifications.

No party has petitioned the KPSC to modify the service category classifications. Vantage has not identified nor been made aware of any evidence suggesting that the three service classification categories need to be modified. For example, to define a new service category that captures services "about to become competitive", positioned as a transition between the non-competitive and competitive service categories would only add an extra layer of complexity to deal with definitions of "competitive" and "about to become competitive." Likewise, to simply move *Residential 1FR* service into a new category of "frozen rates" does not upgrade the PRP regulations as this service revenue is excluded from the pricing mechanisms of the non-competitive service category.

Vantage has not identified any rationale supporting a decision to disaggregate the non-competitive service category into multiple service categories in which each category would have a unique pricing mechanism.

V-R3 BST-KY should review the services contained in the non-competitive service category and, based upon the KPSC standards, submit a petition to the KPSC for their re-classification to the competitive category. *(Refer to Findings V-F3 and V-F4.)*

A review of the services in the non-competitive service category reveals several that would appear to warrant re-classification. These would include, at a minimum, services associated with operator assistance, directory and white pages. It was not within the scope of Vantage's assignment to perform a comprehensive study of each non-competitive service and apply the KPSC's standards for re-classification.

C. SERVICE CATEGORY PRICING FORMULAS

The PRP defines pricing formulas for each service category. Several regulations were defined to provide BST-KY with pricing flexibility beyond the service category formulas. First, BST-KY was allowed to file tariffs which priced services below LRIC to meet the equally low price of a competitor. Second, Contract Service Arrangements (CSAs) are offered by BST-KY where there is a reasonable potential for uneconomic bypass of the Company's services.[94] The revenue generated by CSAs is considered "competitive" by the

KPSC and, is therefore, excluded from the non-competitive service category pricing formulas.[95]

V-F5 The pricing formula for the non-competitive service category requires modification.

As fully discussed in *Section A of this Chapter*, Vantage has recommended the elimination of the productivity factor from the pricing formula. As such, the pricing formula for the non-competitive service category requires modification. A second component in the pricing formula is the GDP-PI. The current PRP threshold level of 8% was not fully supported in the KPSC Order in Case No. 94-121.

V-F6 BST-KY has not filed any tariffs or entered into any CSAs which have requested prices below LRIC.

As stated, BST-KY has not availed itself of this PRP pricing flexibility option. Vantage concurs with BST-KY in that this option, though not utilized to-date, should remain in the prospective PRP.[96]

V-F7 BST-KY has appropriately utilized CSAs.

BST-KY's use of CSAs has been limited in number and revenue impact. The number of contracts entered into by year and the amount of revenue are shown in *Exhibit V-1,* below. Some of the yearly contract totals reflect renewal contracts as well as BST-KY's portion of a regional BellSouth contract. The CSA revenue by year, while growing, has been immaterial in relation to BST-KY's total revenue.

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Exhibit V-1
Contract Service Arrangement Levels

	1994	1995	1996	1997	1998
Number of CSAs[97]*	N/A	81	91	129	118
Value of CSAs[98]	$193,001	$824,258	$1,840,675	$5,821,906	$9,021,838

* Includes special service arrangements (contracts for services not offered in BellSouth's tariffs).

Some parties have raised a concern that CSAs are anti-competitive. Vantage understands their argument to focus on a provision in some jurisdictions that either CSAs are not subject to resale or that the contracts have such huge termination fees, that essentially the customer is locked in for the duration of the contract. First, we note that the KPSC has approved each CSA BST-KY has submitted, as required, for approval. Second, the conditions described above are not applicable to BST-KY CSAs. All of their CSAs are subject to resale and should a CLEC purchase a CSA to offer the contract services to the current customer, BST-KY does not receive any termination fees from the customer. However, should the CLEC subsequently cancel the CSA with BST-KY prior to its termination, the CLEC will incur termination fees.

PRESUMPTIVE VALIDITY

One of the issues that arose in our discussions with BST-KY was the issue of "Presumptive Validity". Under this concept, a tariff change proposed by BST-KY would be assumed to be valid until the KPSC ruled otherwise. The basis of the concern is that under the current rules, if an intervenor objects on any grounds to the proposed changes, implementation is delayed until the KPSC issues an order. This can take months to occur, during which time BST-KY is restrained from implementing the change. Examples of delays that have occurred are the $.25 Call Plan and the LATAwide Area Plus service filings.

V-F8 Seven of the nine BST States have wording in their PRPs or statues that address presumptive validity.

A review of applicable PRPs across all BBT States and statutes provided references to types of activity that is treated as presumptive validity. All but Tennessee and Kentucky have language that addresses the issue. *(See Exhibit V-2, below.)*

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Exhibit V-2[99]
References to Presumptive Validity

State	Section
Alabama	13.06
Florida	(6)(a), 364.163 (2), (5), and (8)
Georgia	V
Louisiana	5.b.
Mississippi	A36.1.4.D.1
North Carolina	IV.A.1
South Carolina	3.D.

V-R4 Change the PRP regulations to allow for a reasonable level of presumptive validity. *(Refer to Finding V-F8.)*

The seven states identified, above, all use different wording to address the issue. Vantage believes that there are adequate avenues available for the KPSC or intervenors to raise questions and delay the introduction of proposed tariffs without hindering BST-KY's ability to act and react in a competitive environment.

The Georgia Interim Tariff requirement point V, in Docket No. 5833-U, states:

> *"V. Any tariff filing will be presumed to be valid and shall become effective, unless suspended, revised or denied by the GPSC, 30 days after the filing."*

D. EVALUATION OF PRP OBJECTIVES

The PRP originally established five objectives:

- Ensure Basic Service.
- Maintain High Quality Service.
- Meet Customers Needs and Enhance Technology.
- Incentives for Technology Investments.
- Flexibility for Pricing, Depreciation, and Changing Market Place.

Since these objectives were crucial as a framework for Vantage's review, we have articulated our understanding of what each of these objectives represents.

ENSURE BASIC SERVICE

State and Federal telephone legislation, since its inception, has had as a primary focus the provision of basic phone service. Moreover, this has also meant the provision of this service at an affordable rate. Complicating the issue is the fact that an "affordable" or "reasonable" rate is difficult to quantify. In order to ensure that rates were affordable in low density (primarily rural areas) service territories, various subsidy mechanisms were utilized in establishing rates, which served to artificially reduce rates for residential customers and even more so for rural residential customers.

While it is important to recognize the broad and far reaching issues of Universal Service and rate de-averaging, Vantage took the specific PRP goal of ensuring basic service to mean that no provision of the PRP would directly or inadvertently disencent BST-KY from maintaining basic plain old telephone service (POTS).

The PRP has been successful in this regard. Combined with continuous improvements in technology, basic service is not only available, but available at high quality. BST-KY has fewer than 100 party lines, and old measures of service quality such as dial tone within 3 seconds have been exceeded for so long and by so great an amount, that they are no longer relevant.

MAINTAIN HIGH QUALITY SERVICE

A concern under any plan which no longer allows a utility guaranteed recovery of capital costs plus a return, is that the necessary dollars will not be invested to maintain plant and equipment. This would, of course, result ultimately in reduced service quality. There are also concerns as a result of TA96 (enacted after the PRP), which brings into question how much new investment an incumbent may recover. These are serious concerns and ones that will continue to be issues into the foreseeable future.

As we describe in *Chapter 4*, BST-KY service quality has remained high. Further, customer satisfaction with BST-KY is the highest of any local exchange carrier as measured in the J. D. Power Survey.

MEET CUSTOMERS NEEDS AND ENHANCE TECHNOLOGY

This is perhaps the most difficult of the PRP objectives to articulate and certainly to quantify. This is primarily the result of both customer needs and technology increasing at a phenomenal rate. Competition has pretty much assured that business customers can find the technology to fit their needs and a provider will be there to provision the service. For the residential customer the answer is not so clear. To read the trade journals, residential customers are clamoring for high speed Internet access. Yet the reality is that only approximately 20 percent of the U.S. population has any access to the Internet. The constraint here is not phone lines, but customer equipment (computers and modems) and a desire to be on the Internet. The reality is that relatively few customers are actually demanding enhanced facilities, and more importantly, willing to pay. The Vantage yardstick here was not whether all customers wishing high-speed Internet access had it available, but whether BST-KY had made reasonable efforts to provide enhanced technology where the demand and payback were reasonable. The answer is yes, by any reasonable measure.

For example, BellSouth has rolled out ATM as part of the KIH, they also offer ADSL to ISPs who then sell the service to their Internet customers. BellSouth is also a "participant" in packet switched technology whereby CLECs collocate frame relay and ATM switching equipment in BellSouth offices. While these technologies are being provided by a second party in this instance, the benefit still flows to the Kentucky customer. BellSouth also has bundled service offerings to the extent allowed by combining customer calling features and area wide plans that can be customized by the customer. While not a " new technology" this is an example of additional telecommunications benefits flowing to customers.

E. ONGOING PRP OBJECTIVES

This section discusses Vantage's views on the continuation of the five original PRP objectives and the requirement for any additional prospective PRP objectives.

V-F9 The original PRP objectives should be maintained. However, additional objectives are required to facilitate the introduction of competition in Kentucky.

The PRP's original five objectives remain valid on a prospective basis. However, the Telecommunications Act of 1996 and the subsequent FCC Interconnection Order have altered the telecommunications industry more than was envisioned at the time the PRP was introduced. The key component relates to the concept of UNEs and their pricing, based on TELRIC methodology costs plus overhead cost contribution to CLECs.

The main intent of the Telecommunications Act of 1996 was the introduction of competition in the local exchange market. The FCC's Interconnection Order provided the framework upon which UNEs would be offered by ILECs, at a price equal to the associated TELRIC cost plus common cost contribution. The impact of the UNE pricing decision was to put in play the relationship of ILEC retail rates and UNE prices. Clearly, if UNE prices (recurring plus non-recurring) exceed comparable retail rates, competition may not be immediately forthcoming. Likewise, where UNE prices fall below retail rates, the introduction of uneconomic competition may occur.

The PRP should not be viewed as a vehicle for the introduction of competition in all markets in Kentucky. More pointedly, the PRP - in whatever structure - will not be the catalyst to effect residential local service competition. There are many other factors involved, such as the RBOCs attempt to gain Section 271 approval and the subsequent ability to offer long distance service within their regional territory. However, the PRP should not, either through its structure or regulations, create an impediment to the introduction of competition.

A primary factor in encouraging economic competition in Kentucky is a realization that implicit/explicit subsidies within BST-KY's retail rates need to be minimized, if not totally eliminated. Vantage believes that the KPSC, through its various rulings over the past several years, shares this position. Vantage also believes that the KPSC is very concerned with the impact upon residential rates, as they have been the beneficiary of various subsidy supports. A flash-cut of subsidy elimination is not appropriate as the impact upon residential customers could be dramatic. However, gradual movement towards the underlying objective is warranted.

BST-KY's transition to being able to effectively compete in a more competitive marketplace has been facilitated by the regulations of the PRP. The PRP service baskets and corresponding pricing schemes have provided BST-KY some flexibility in addressing subsidy elimination. For example, business rates have come down dramatically. Likewise, intrastate access rates, through the PRP mirroring provision with interstate access rates, have also seen decreases.

However, the price movements have been slow. IXCs complain about "excessive" access rates, including NTSRR. BST-KY has serious concerns regarding residential rates set below incremental cost, as exhibited by their rate restructuring proposal.[100] The KPSC has implicitly agreed with the need for additional flexibility by approving two BST-KY petitions to deviate from the PRP provisions by applying non-competitive service basket mandated price decreases to the interconnection service category, in particular, NTSRR.

The objectives of the prospective PRP need to be set out in an Order to reflect the relationship between BST-KY retail rates and incremental cost and the impact of the Telecommunications Act of 1996.

V-R5 The KPSC should maintain the five current objectives of the PRP. However, two new objectives should be added. *(Refer to Finding V-F9.)*

These two objective statements are:

- Permit all BST-KY retail rates to move towards incremental cost or market price.
- Ensure that the potential introduction of competition to all markets in Kentucky is not hindered by the PRP.

The first objective essentially reiterates a prior recommendation from this chapter -- that the current PRP provision on freezing residential rates be removed. The process by which residential rates would be modified is more fully discussed in *Chapter VII*. However, it is sufficient to state here that this objective does not permit significant increases to residential rates. In point of fact, the BST-KY proposal would have limited the immediate increase to residential rates to 10% or less and then frozen those new rates for two years. An additional provision was that the KPSC would then have allowed for another review of the BST-KY retail rate structure.

This first new objective also has an impact upon business rates, toll rates, vertical services, and access charges. The benefit from this PRP objective is a KPSC realization that the entire BST-KY retail rate structure and its inherent subsidies need to be acted upon sooner rather than later.

The second proposed new objective simply assures all current and potential competitors within Kentucky that the PRP will not place them in an unfair competitive position with respect to BST-KY. It also reflects a view that no regulatory action, by itself, can force or guarantee that competitors will come into Kentucky and offer a full package of services to all customers, residential and business, regardless as their location, urban or rural.

Vantage believes that the inclusion of these two new objectives strengthens the prospective PRP and allows for additional flexibility by BST-KY to re-adjust its retail rates. Vantage believes this action is warranted as its review of BST-KY performance under the PRP revealed no inappropriate behavior, and as such, they have earned additional pricing freedoms.

VI. STAKEHOLDER IMPACT FROM PRP

In conducting this audit, Vantage felt it was important to understand the impact the PRP had on various stakeholders. The reasons for implementing the PRP were varied and different stakeholders either argued for their positions or were silent and underrepresented. The following provides a brief summary of our view of how each stakeholder was affected and what impact we believe the continuance of the PRP is likely to have.

A. CUSTOMERS

In assessing the impact of the PRP on customers, it is necessary to look at the two primary groups separately. In doing so, one can better understand the interaction of competitive alternatives, cross-subsidization, customer density, and other factors.

RESIDENTIAL

RETROSPECTIVE IMPACT

VI-F1 Residential customers have realized slightly declining rates that are below incremental cost, with continued satisfactory service.

Over the last four years, the PRP has provided rates that were capped and subject to reductions due to the impact of the productivity factor. While the reductions were minimal, one should take into consideration the fact that residential rates are subsidized by business rates, and therefore, are a very good deal. The subsidization of residential rates varies between urban and rural, with the rural rates receiving the highest subsidies.

This subsidization of residential rates has a negative impact as well. The advent of competition in the residential area is not likely to make any significant gains until either subsidies are removed or the costs of competitive technologies drop so low that the entry into residential markets is profitable.

FUTURE IMPACT

VI-F2 A continuation of the PRP, with the recommendations included in this report, should continue to provide residential customers with below cost rates, although the gap should be allowed to narrow.

The KPSC needs to make some hard decisions regarding its objectives for residential customers. Continued subsidies will inhibit competition. The result is that customers will have artificially low rates in the short-term while losing competitive alternatives that may offer additional services at market rates.

In our recommendations, Vantage suggests that subsidies be reduced in concert with the advent of competitive alternatives. At that point, the market will both set the price and determine the services residential customers want.

BUSINESS

RETROSPECTIVE IMPACT

VI-F3 Business customers, particularly in Louisville, have benefited significantly from the PRP as competitive alternatives became available at discounted rates.

The statistics, provided earlier in this report, clearly show that large-to-medium business customers have had competitive alternatives available at lower prices. There is no question that these customers are benefiting the most from both the design of the PRP and competitive alternatives.

FUTURE IMPACT

VI-F4 Business customers should continue to benefit from both the PRP and the influx of competitive technologies.

With the recommendations Vantage proposes, business customers would provide lower subsidies to other classes of customers while continuing to be targeted by new competitors. As with the deregulation of other industries, large customers with complex needs are the first to benefit from a competitive environment. The greater short-term benefit to business customers versus residential customers should be considered on a macro level. The impact of improved productivity resulting from lower rates and a broader range of services has a direct positive impact for everyone in Kentucky. As businesses are more profitable, the job market expands and all residents get an indirect benefit.

B. BELLSOUTH CORPORATION

RETROSPECTIVE IMPACT

VI-F5 BST-KY, as well as its parent company-BellSouth, has benefited significantly from the PRP, with improved productivity, increased focus on service, revised depreciation rates, and pricing flexibility.

Despite arguments that the productivity factor was too high and that some of the service standards were counter-productive, BST-KY has gained enormously from the PRP. These gains were two-fold. First, the PRP incented BST-KY to streamline its work force, more appropriately allocating resources in a fast changing industry. While we cannot be certain, we would speculate that under traditional cost regulation, BST-KY would not have been as aggressive in striving for improved productivity.

Secondly, earnings have increased dramatically despite the rate reductions imposed by the PRP pricing formula. The reasons for these increases have been discussed earlier and need to be kept in a historical perspective.

FUTURE IMPACT

VI-F6 In the future, the PRP should permit BST-KY to make the difficult and risky transition to a more competitive industry while continuing to improve its rate structure and facilitate competition.

Over the next few years, the telecommunications industry will continue its transformation. It is our belief that a properly designed PRP, with flexibility for changes, will facilitate this transition. BST-KY faces great risk in the transition and will be forced to undergo major changes in their business and invest in new technology. Their success is not assured. However, to the degree that the PRP provides them the opportunity to compete on a level playing field as competitors enter their markets, they have an excellent chance of effectively responding.

C. BELLSOUTH EMPLOYEES

RETROSPECTIVE IMPACT

VI-F7 During the first three years of the PRP, the BellSouth workforce was reduced significantly.

As was illustrated in *Exhibit IV-9* there was a reduction in staffing at BellSouth during the first two years, and the average salary went down significantly, reflecting the reduction in higher paid management employees. While these reductions were done through attrition and retirement packages, the reductions were naturally of concern to all employees. During the last year, additional workload has resulted in an increase in staffing.

To the credit of BellSouth, it appears that the reorganizations and realignment of duties have resulted in continued levels of good reliability.

FUTURE IMPACT

VI-F8 The future for BellSouth employees is tied largely to the success of the overall company business plan and its intent to achieve the transition to competition.

While in the past, employees could have justifiably argued that the PRP caused a reduction in the workforce, today, one could argue that it will help to stabilize and perhaps increase the same workforce. The reasons are twofold. First, the reliability requirements of the PRP force management to maintain an adequate, and as we have seen, growing workforce. As long as these reliability standards are well-defined, there should be a direct correlation between the increase in services and customers and the number of employees. The second reason why we may see an increase in workforce is the need by BellSouth to move into new markets. Data and network technologies will open a broad range of new opportunities for BellSouth employees, although one should caution that there may be a change in skill sets required by employees in the future.

D. CLECS

RETROSPECTIVE IMPACT

VI-F9 The PRP has permitted some inroads in competition by CLECS, although it is not clear as to whether the PRP was the driving factor in their entry into the Louisville business market.

To date, there has been a concerted effort by CLECs to go after many business customers in the urban areas of BST-KY. However, while there are a large number of CLECs registered to do business in Kentucky, the percentage actually selling services is small.

FUTURE IMPACT

VI-F10 Should subsidies for residential rates be reduced, there is some likelihood that the activity of CLECs will increase.

As has been stated a number of times in this report, the subsidies inherent in BST-KY's retail rates limit residential competition at this time.

E. IXC/CLECS

RETROSPECTIVE IMPACT

VI-F11 There has been almost no local competitive activity on the part of IXC/CLECs.

This is largely due to the ongoing battles over FCC 271 issues regarding RBOCs being allowed to provide long distance service and the apparent unwillingness of long distance carriers to enter local competition.

FUTURE IMPACT

VI-F12 The entrance of IXC/CLECs into local markets is more dependent on national issues and their competitive strategies than on the design of the PRP.

The strategies and actions of large, long distance carriers will be based on factors outside the purview of the KPSC. The battle for telecommunications supremacy is taking place on a national and worldwide stage. No state regulatory commission will sway when an international company decides to compete in any telecommunications market. The best the KPSC can hope to accomplish is structuring a level playing field through its regulations that encourages competitive entry.

F. STATE REGULATORS

RETROSPECTIVE IMPACT

VI-F13 <u>The regulatory load for state regulators has been minimized during the first four years of the PRP.</u>

One of the objectives of the PRP was to minimize regulatory oversight and burden for both the Company and the KPSC. This objective has been met. Except for the review of the annual reports and rulings on a small number of exception requests, there have been limited requirements in the areas that the PRP encompasses.

The above statement does not suggest that the KPSC has not had to face major telecommunications issues during this period. In fact, there have been and still are a number of major issues that need to be resolved before true competition can be expected.

FUTURE IMPACT

VI-F14 <u>While the continuation of the PRP will require minimal regulatory interaction, the other related regulatory issues that must be resolved will create a continuing burden for the KPSC in the short-term.</u>

Except for the proceedings related to this review, the PRP requires very little regulatory oversight. Vantage suggests that the KPSC set for itself the objective of achieving deregulation of the telecommunications industry. However, there are a number of related regulatory issues that require resolution prior to that objective being satisfied. These are discussed, in detail, in *Chapter VII*.

G. STATE GOVERNMENT AND ECONOMIC DEVELOPMENT GROUPS

RETROSPECTIVE IMPACT

VI-F15 <u>To date, the PRP has had little direct impact or interaction with political or economic development interests.</u>

The PRP, as currently designed, is not intended to meet the objectives of State Government and Economic Development Groups. However, during discussions with State Government and Economic Development representatives, we learned that there was great interest in how BST-KY could help with statewide issues.

FUTURE IMPACT

VI-F16 <u>The recommendations Vantage makes in *Chapter VII* address the opportunity to benefit the customers and citizens of Kentucky by directing some of the benefits to economic development activities.</u>

As stated in *Chapter VII*, Vantage proposes using the PRP as a means of generating benefits for customers through an improved economic development focus.

CHAPTER 7
PLATFORM TOWARDS
DEREGULATION

VII. PLATFORM TOWARDS DEREGULATION

Vantage has proposed in *Chapter V* significant recommendations to the PRPs prospective objectives and regulations. In sync with this recommended PRP, Vantage has also recommended in *Chapter VI* that the KPSC state for itself an objective of moving from the PRP regulatory mode to a fully deregulated telecommunications environment. In this section, a platform of activities to be undertaken by the BST-KY and the KPSC to achieve that objective is discussed.

VII-F1 <u>The Kentucky state-wide wholesale UNE price structure in conjunction with BST-KY's subsidy laden retail rate structure inhibits the successful transition to a deregulated telecommunications marketplace.</u>

The KPSC itself, in Administrative Case No. 360, stated "under traditional regulatory rules and prior to the 1996 Act, specific implicit urban to rural and business to residential subsidies were established through traditional rate cases."[101] The establishment of UNE rates, based upon TELRIC methods, following the FCC's Interconnection Order has exacerbated the need for retail rate subsidies to be eliminated.

The key issue is an examination of retail versus UNE rates and the impact upon potential CLEC competition. Consider the business case example that BST-KY responded to in Docket No. 97-074. The example considered three business lines (RG 5), one vertical feature, Touch-Tone and hunting.[102] Based upon current BST-KY retail rates and UNE prices, the total retail cost for a customer, including SLC, is $153.95. The UNE-recurring cost to a CLEC for the same package, including a derived local usage value, is $84.19.[103] This amounts to a 45% discount for the CLEC. Obviously, the CLEC will offer a price for this package above its UNE cost such that the effective potential disparity between BST-KY's retail price and the CLEC's retail price, based on UNE cost and contribution, will be less than 45%, but still at a level for the CLEC to significantly under-price BST-KY.

If such a disparity exists, why isn't there more aggressive CLEC entry into the Kentucky business markets? One answer is found in the UNE non-recurring charges a CLEC incurs. For the business example above, a CLEC would be billed nearly $327in UNE non-recurring charges for procuring the package.[104] If customer churn is assumed at 18 months, then the CLEC would be adding essentially $18 to their monthly UNE costs. After adding in CLEC marketing costs, the initial disparity between BST-KY's retail rate and the recurring UNE costs shrinks considerably.

What lessons does this example provide? First, CLECs may be attracted to offering services at a niche level to business customers since the BST-KY retail rates include some amount of subsidy under which a CLEC may gain a price advantage. Second, UNE non-recurring charges act as a potential deterrent to competition. Third, a state-wide UNE cost continues to send inappropriate signals as it contains an implicit subsidy between urban and rural rates. It also begs the question that if BellSouth rates are truly "too high", then why do competitors not build a competing network as was originally envisioned in TA96?

The corresponding situation exists between BST-KY's retail residential rates and UNE costs. BST-KY's Residential 1fr rates, which have been frozen since implementation of the PRP, range from $12.17 (RG1) up to $17.55 (RG5).[105]. With just the recurring UNE cost of the loop, NID, and port equaling $22.61, it's not difficult to understand the lack of residential competition, when non-recurring UNE costs, CLEC marketing costs and contribution are factored into the price equation. This situation is ripe for several actions to be undertaken by the KPSC. First the KPSC should be focused on rate re-balancing to begin the elimination of implicit subsidies.

The KPSC has recognized the impact such an action will have. It has stated in Administrative Case No. 360, that "the KPSC realizes that eliminating part or all of the implicit subsidy embedded in urban business rates and urban residential rates will affect those customers most likely to see local competition in the near future."[106]

The current statewide UNE costs will require some form of de-averaging to move them more in alignment with actual BST-KY retail rate group rates. Furthermore, the FCC requires de-averaging of UNEs. Currently, a state-wide UNE may inhibit the introduction of competition, as this "average" cost does not reflect a true TELRIC cost in a particular grouping of wire centers, for example. The KPSC appears to be in agreement with this principle of UNE de-averaging. It has stated that "at the very least, UNE cost estimates should be recalculated on a geographically de-averaged basis."[107]

Second, the issue of UNE non-recurring charges also needs to be addressed. These non-recurring charges represent a significant initial cost investment by CLECs to initiate service for new customers. One particular point relates to the CLECs purchase of the UNE platform for an existing customer. The KPSC, in its ruling on BST-KY's SGAT filing, ruled that "while BellSouth may charge a reasonable, non-recurring, cost based "glue charge" for its expertise in having combined the UNEs, the KPSC finds that neither BellSouth nor any other ILEC shall indulge in the wasteful habit of physically separating UNEs for no other apparent reason than to disrupt migration of a customer to the services of another carrier."[108] At this time, BST-KY has not re-filed an SGAT with the non-recurring "glue charge."

Third, another subsidy element is the Non-Traffic Sensitive Revenue Requirement (NTSRR). With the KPSC's recent approval of BST-KY's petition to deviate from the provisions of the PRP by applying required non-competitive service category reductions to the interconnection service category[109], the NTSRR is now approximately $22.3 million, of which the IXCs pays $14.1 million and the balance of $8.2 million is implicit in BST-KY's intraLATA toll rates.[110] The KPSC has signaled its intent with respect to NTSRR, wherein Administrative Case No. 360, it stated "elimination of NTS is a priority and will be considered along with the elimination of other implicit subsidies."[111]

VII-R1 The BST-KY should work with the KPSC to undertake several proceedings with the aim of eliminating implicit/explicit subsidies from BST-KY's retail rates, establishing de-averaged recurring UNEs, and modifying non-recurring UNEs. *(Refer to Finding VII-F1.)*

This recommendation is adjunct to the recommendations made to a prospective PRPs objectives and regulations provided in *Chapter V* (e.g., pricing at inflation for the non-competitive service basket). This recommendation is the most critical as it addresses pricing issues related to the non-competitive and interconnection service categories. The initial component of this recommendation proposes limited residential rate re-balancing, with a new freeze on the revised rates, and BST-KY's proposal related to intrastate access charges. Vantage believes these initiatives are critical to properly re-shaping BST-KY's retail rates and the elimination of subsidies.

The KPSC has indicated its concern over adjusting residential rates prior to addressing the intertwined issues associated with universal service.[112] However, the lack of movement at the FCC regarding this issue and the apparent intent to move universal service funding from a revenue benchmark to a cost benchmark provides the KPSC with opportunity to move forward and address critical issues. Recognizing that the FCC has not yet finalized its cost proxy model, and based upon the Joint Board's recommended range of 115 to 150% above the national average for determining federal support, BST-KY, itself, is unsure of what amount, if any, it will obtain.[113]

The time is, therefore, ripe for the KPSC to aggressively move forward in a systematic manner and address issues related to implicit/explicit subsidies in BST-KY's retail rates and begin to lay the foundation supporting the introduction of economic competition for all customers.

This recommendation calls for the KPSC to initiate the following hearings:

- Re-balance BST-KY's residential and NTSRR rates.
- De-average BST-KY's recurring UNE costs.
- Re-examine BST-KY's non-recurring UNE costs, especially the required platform UNE charge and the commended "glue charge".

RATE REBALANCING

VII-F2 <u>BST-KY had reached a settlement with various parties regarding Rate Rebalancing.</u>

BST-KY had reached a settlement with various parties: AT&T, MCI, Sprint, the Attorney General, and Metro Human Needs Alliance in its application to restructure rates in Case No. 97-074.[114] As part of that proposed settlement, the parties had agreed to a $2.93 per month increase to residential rates in all rate groups, various NTSRR reductions, and adjustments to business touch-tone rates. The settlement was rejected by the KPSC on the basis that subsidy issues would be decided in its Administrative Case No. 360.

VII-R2 <u>Vantage recommends that the issues of rate re-balancing be reassessed by BST-KY and the KPSC and, that together with other involved parties, an effort be made to move forward with a limited rate re-balancing.</u> *(Refer to Finding VII-F2.)*

In discussions between BST-KY and Vantage, BST-KY has proposed a "hypothetical" alternative. Under this scenario, residential rates would be adjusted by rate group, with no rate group incurring an increase greater than 10%: RG1 would increase $1.22, RG2 would increase $1.30, RG3 would increase $1.37, RG4 would increase $1.43, and RG5 would increase $0.95. Additionally, some vertical services would see increases, as well as measured plans and area calling plans. The total annual revenue impact is $14.1 million. The offset would reduce the IXC portion of the NTSRR to zero.[115]

BST-KY has also stated that these revised residential rates would remain frozen for two additional years. Additionally, the non-competitive service basket price increase would be limited to 5% per year, as opposed to the current 10% cap. In conjunction with this, BST-KY would commit to reducing intrastate access charges to $.0055 (originating/terminating, less NTSRR) by the July 2002 Annual Filing.[116]

Vantage believes this overall plan has merit and should be considered. The proposed residential rate increases are significantly less than that agreed to by the parties in the previous settlement The proposal begins to narrow the subsidies inherent in residential rates and eliminates an explicit access subsidy. Under this proposal (or some variation), the KPSC is positioned to act upon any USF recommendations forthcoming by the FCC. In conjunction with the increase in residential rates, the Kentucky low-income portion of the state USF, more commonly known as Lifeline, should be reviewed with potential customer credits being linked to actual retail residential rates.

RECURRING UNE COST DE-AVERAGING

This action is simply a continuation of the KPSC's rulings on UNE costs in various BST-KY arbitrations In point-of-fact, the KPSC has already recognized the need for UNE de-averaging; refer to the KPSC's Order in Administrative Case No. 360, dated May 22, 1998, in particular, the discussion associated with *Footnote #52*. UNE de-averaging must occur in order to eliminate any artificial barriers hindering CLECs ability to compete with BST-KY. A statewide average creates a "subsidy" between urban and rural areas which is contrary to the KPSC's stated objectives of eliminating subsidies. The de-averaging should be on a wire center basis and as closely tied to the composition of BST-KY's current rate groups as possible.

NON-RECURRING UNE COSTS

The KPSC should require BST-KY to present a cost study supporting the development of both a platform UNE non-recurring charge and the "glue charge. The platform non-recurring charge is based upon the Supreme Court's ruling which recognized that the FCC had the authority to define UNEs. Subsequently, the FCC did define the platform (loop and port) as a UNE. Apparently, no CLEC has requested the purchase of the platform from BST-KY as they have not yet submitted a TELRIC cost study supporting their proposed non-recurring charges. The concept of a "glue charge" for BST-KY's "expertise" while not explicitly discussed in various FCC orders none-the-less may remain a viable charge to be authorized by the KPSC.

As has been indicated above, non-recurring UNE costs represent a potential impediment to CLECs competing for BST-KY customers. The current UNE non-recurring charge of $86.08 for the 1st UNE loop and NID and $37.55 for the UNE port would be significantly less if bundled into platform UNE non-recurring charges.

The benefit of this recommendation is movement towards elimination of some subsidy elements in BST-KY's retail rates and the establishment of appropriate recurring and non-recurring UNE costs to encourage more competitive entry into telecommunications markets throughout Kentucky.

VIII. APPENDIX

A. GLOSSARY OF TERMS

Access Charge	A charge by a telephone company to a long distance (interexchange) company for availability and use if its telephone facilities for origination and termination of long distance (interexchange) calls.
Accelerated Depreciation	A change in depreciation accounting that reduces the number of years over which a depreciable asset will be amortized.
Access Line	The facilities between a telephone company central office and a customer that are required to provide access to the local and toll switched network.
Accounting Separations	FCC Rules that are supposed to separate the costs of providing regulated and unregulated services through the use of Cost Allocation Manuals (CAMs).
Alternate Access Vendor (AAV)	A firm providing transport of calls from customers to long distance carrier points of presence (POPs), or between a given customer's multiple locations, typically using a fiber ring. Also referred to as Competitive Access Providers (CAPs).
Alternative Operator Services (AOS)	Alternative operator services are operator services provided by companies other than the traditional telephone companies. Usually an AOS provider will contract to provide all the operator services from telephones located on private premises, such as a hospital or hotel, or from private pay phones.
American Telephone and Telegraph (AT&T) 1982 Consent Decree	(also called Modification of Final Judgment, or MFJ): A judicial settlement ending the Federal Government's 1974 antitrust suit against AT&T, BellLabs, and Western Electric. Among the provisions were (1) the divestiture of the local exchange service and access functions of the 22 Bell operating companies; and (2) the modification of the 1956 AT&T Consent Decree so that post-divestiture AT&T could enter into unregulated markets. The divestiture took place on January 1, 1984.

Antitrust Consent Decree	An agreement between the U.S. Department of Justice and a defendant settling an antitrust case prior to a court ruling. The government's 1974 monopolization case against AT&T was settled by a consent decree approved by Judge Greene in 1982. The consent decree proposed by the DOJ separated the monopoly local exchange from competitive lines of business: long distance, information services, and equipment manufacturing. Also see "Modification of Final Judgment" and "Divestiture."
Basic Local Exchange Service	The portion of local exchange service comprised of an access line and dial tone provided to the premises of residential or single-line business customers for the transmission of two-way interactive switched voice grade communication for usage within the local calling area that is billed at one flat rate.
Bellcore (Bell Communications Research, Inc.)	The research and development consortium jointly owned and funded by the seven Regional Bell Operating Companies.
BellSouth	One of seven Regional Bell Operating Companies, it is the parent of the Southern Bell and South Central Bell telephone companies. BellSouth's Southern Bell and South Central Bell subsidiaries serve the states of Alabama, Florida, Georgia, Kentucky, Louisiana, Mississippi, North Carolina, South Carolina and Tennessee.
Broadband	The amount of bandwidth generally needed for video and high speed data transmission. Broadband services can be carrier in analog or digital format. A cable TV system employs broadband transmission. These technologies are capable of carrying a great deal of information in a short amount of time, but are more expensive to use than voice grade technologies like telephone which require less bandwidth.
Broadband ISDN	A network standard for voice, data, and video in the same network. The network is fiber based with rates of 150 MB/S and 600 MB/S, initially.
Bundled Rates	Rates in which the various rate elements which comprise the service are consolidated.

Bypass	Technological alternatives to local telephone company facilities that generally fall into two categories, service bypass and facilities bypass. Service bypass refers to the use of local exchange company dedicated access facilities as an alternative to switched access facilities. Facilities bypass refers to the use of non-telephone company provided services (i.e., fiber, short-haul microwave, and direct satellite to rooftop antennae.)
Carrier's Carrier	A provider of telecommunications services to other carriers who then provide services to customers. Does not offer service directly to the public.
Carrier of Last Resort	In today's environment, an incumbent local exchange company that is obligated to provide basic local exchange service in all of its local calling areas in response to reasonable requests for service.
Cellular Mobile Radio Service	A radio telecommunication service provided using a cellular radio system. This service falls under the category of Commercial Mobile Radio Services (CMRS).
Carterfone Decision	An FCC decision striking down tariff restrictions that had prohibited attachment or connection to the public telephone system of any equipment or device not supplied by the telephone.
Cellular Radio System	An automated, high-capacity system of one or more multi-channel base stations designed to provide radio telecommunication services in the 800 MHz band to mobile stations over a wide area in a spectrally efficient manner. Cellular systems employ techniques such as automatic power control and automatic hand-off between base stations of communications in progress to enable channels to be reused at relatively short distances. Cellular systems may also employ digital techniques such as voice encoding and decoding, data compression, error correction, and time or code division multiple access in order to increase system capacity. Radio frequencies, technical and operational requirements are set forth in *Part 22* of the FCC's Rules.

Collocation (Expanded Interconnection)	When a user of telephone company services places transmission equipment in the same building that houses the telephone company's switches. The Telco is responsible for all maintenance and repair of the equipment under an equipment lease agreement. The collocator does not have access to his own equipment under virtual collocation.
Common Costs	Costs incurred for the benefit of an enterprise as a whole, but not for the benefit of an individual service or group of services. They are not impacted appreciably by changes in the quantity of any particular service, or group of services. If they are common to all services, they are also known as overhead costs.
Competitive Access Provider (CAP)	See "Alternate Access Vendors (AAVs)."
Cross Subsidization	The use of revenues generated by one service to support below-cost pricing of another service. The concern is that a regulated service may subsidize an unregulated service. This activity disadvantages competitors in the business market being subsidized. But, historically basic residential flat rate service has been subsidized by the services that are now competitive. The accepted test of cross-subsidization is if the price of a service is greater than its long run incremental costs then it is not being subsidized.
Customer Access Line Charge (CALC)	See "Subscriber line charge."
Customer Premises Equipment (CPE)	All telecommunications terminal equipment located on the customer premises, such as PBXs, data equipment and telephone sets.
Depreciation	Accounting allowance made for the decrease in property or equipment value through wear, deterioration, or obsolescence.

Depreciation Reserve	A balance sheet account which reflects the portion of the costs of depreciable public utility assets that have been recovered from ratepayers as an expense. In theory, the cost of the depreciable asset should be fully recovered by the time the asset is retired from service. If the actual schedule of recovery is such that some costs will remain unrecovered when a depreciable asset is due for retirement, a depreciation reserve deficiency is said to exist.
Deregulate	To remove a service from the jurisdiction of, and oversight or regulation by, a public service commission.
Detariffing	Removal of the requirement that a service be offered under a tariff filed with the regulatory agency. Regulatory agencies use detariffing as one tool for freeing regulated companies from price controls in competitive markets.
Divestiture	The court agreement implemented on January 1, 1984 that caused AT&T to divest itself of its Bell Operating Companies. The divestiture agreement settled a 1974 federal antitrust case against AT&T, and was signed in January 1982, while the antitrust case was being tried before Judge Harold Greene in U.S. District Court The Court approved the agreement with modifications later in the year.
800 Service	A long distance telephone service wherein the caller places a call using the "800" prefix as the area code and the party being called pays for the call.
Enhanced Services	Defined by the FCC in Computer Inquiry II as services offered over transmission facilities which employ computer processing applications that act on the format, content, code, protocol or similar aspects of the subscribers information; provide the subscriber additional, different or restructured information; or involve subscriber interaction with stored information.
Equal Access	Provision of local exchange access service in equal kind and quality to all long distance companies. Allows for customers to have their local telephone company automatically deliver long distance calls to the carrier of their choice.

Exchange	A geographical area served by one or more central offices, within which the telephone company provides local telephone service.
Federal Communications Commission (FCC)	A board of five commissioners appointed by the President under the Communications Act of 1934, having the power to regulate interstate and foreign communication originating in the United States.
Fiber Optics	Technology based on thin filaments of glass that use light instead of electricity to transmit data, images and sound and provide vastly greater capacity for transmission than previous technologies.
Fiber Ring	A fiber transmission path within a given area. Service reliability is enhanced because any two points on the ring can be reached from either direction.
Fully Distributed Costing	A costing methodology which assigns a percentage of all common costs, including overhead, to individual services.
Gross Domestic Product-Price Index (GDP-PI)	The gross domestic product fixed weight price index calculated by the U.S. Department of Commerce.
Incremental (Marginal) Costing	The forward looking costs which will be advanced by expanding production of a service or deferred by reducing the level of production of a service. The incremental costs of a service do not include any joint or common costs.
Independent Telephone Company	A telephone company which is not affiliated with AT&T or the Bell Operating Companies, but is the designated established carrier for the provision of telecommunications common carrier service in a specific geographic area.
Inside Wiring	The telephone wires within a customer's home or place of business that are on the customer's side of the point of intersection between the telephone company's communications facilities and the customer's facilities.
Interconnection Service	The service of providing access to a local exchange company's facilities for the purpose of enabling another telecommunications company to originate or terminate telecommunications service.

Interexchange Carrier (IXC)	A carrier authorized by the FCC to provide interstate long distance communications services between LATAs; a carrier authorized by a state public service commission to provide long distance communications services.
InterLATA	Telecommunications services originating in one local access and transport area (LATA) and terminating in another LATA or outside of a LATA.
Internet	An internationally connected system of university, government and commercial networks providing a variety of data interchange services.
IntraLATA	Telecommunications services originating and terminating within the same local access and transport area (LATA).
Joint Cost Rules	Rules promulgated in FCC Docket No. CC 86-111, which are intended to prevent cross-subsidization of diversified business by insuring proper allocation of costs between regulated and non-regulated operations of telephone companies. These rules describe a range of cost methods which the FCC considers acceptable in principle. The *Tier I* local telephone companies must submit their own specific CAMs for FCC approval.
Jurisdictional Separations	The process by which telephone property costs, revenues, expenses, taxes and reserves are assigned between interstate operations, subject to the jurisdiction of the FCC, and intrastate operations, subject to the jurisdiction of the several state regulatory bodies.
LATA (local access and transport area)	One of almost 200 local telephone exchange areas established as a result of the AT&T divestiture. The Bell Operating Companies are not allowed to provide services between or among LATAs.
Local Area Network (LAN)	A data transmission network connecting a number of communications devices (e.g., computers, printers, servers) within a single building, campus of buildings or geographic area.

Local Calling Area	The geographic area encompassing one or more local exchanges as described in existing commission orders or in maps, tariffs, and rate schedules reviewed and approved by a commission.
Local Exchange Company	A telecommunications company holding a certificate of public convenience and necessity to provide local exchange services.
Local Exchange Services	Services offered for the transmission and utilization of two-way interactive communications and associated usage within the local calling area.
Local Loop	That part of a communications circuit between the subscriber's premises and the equipment in the central office.
Local Switched Interconnection Service	That part of switched interconnection service provided for the purpose of originating or terminating a call which originates and terminates within the local calling area.
MFJ (Modification of Final Judgment)	The Divestiture agreement between the Justice Department and AT&T that forced AT&T to get out of the local exchange business and give up its local phone companies. It required the divested companies to provide equal access to long distance (interexchange) carriers. See also "Antitrust Consent Decree" and "Divestiture."
Microwave System	Generally, a digital or analog transmission system employing the use of radio frequencies above 890 Mhz.
Non Traffic Sensitive Revenue Requirement (Recovery) [NTSRR(R)]	The mechanism used in Kentucky to recover the common line revenue requirement from intrastate access.
North American Numbering Plan (NANP)	The dialing plan for the U.S., Canada, Caribbean and northern Mexico that allow locations on local telephone networks to be uniquely identified by a 10-digit telephone number.
ONA (Open Network Architecture)	Overall design of a communication carrier's basic network, permitting all network users (including all enhanced service providers) to connect equally to the basic network capabilities.

Personal Communications Services (PCS)	Radio communications that encompass mobile and ancillary fixed communication that provide services to individuals and businesses and can be integrated with a variety of competing networks. Most of these services will be provided using radio frequencies in or near the 2 Ghz frequency band. These services generally fall under the category of Commercial Mobile Radio Services (CMRS) and are governed by *Part 24* of the FCC's Rules.
Point of Presence (POP)	The geographic location where a long distance (interexchange) carrier's facilities interconnect those of the local exchange carrier.
Portability	The technical capacity that permits a customer to retain the same local number at the same customer location regardless of the provider of local exchange service.
Price Regulation	The regulation of a company's prices versus the regulation of a company's earnings. Changes in prices are constrained through various mechanisms such as price ceilings, price floors, inflation based formulas, etc.
Private Branch Exchange (PBX)	A telephone switch installed on the user's premises, that permits a user to receive incoming calls, to dial other telephones on the premises, to access a tie line leading to another PBX or to access an outside line to the public switched telephone network. Many PBXs also offer call-control and call-accounting features.
Private Line	A non-switched telephone service used by high-volume or special-needs customers which offers a line between specific points solely for the customer's private use. See also "leased circuit."
Productivity Factor	The element of a price regulation or price cap formula that captures the difference between telecommunications industry productivity and economy wide productivity.
Public Switched Network	A switching system providing switching and transmission facilities to many customers; any common carrier network providing circuit switching between public users. The term generally applies to the public telephone network.

Rate of Return Regulation	A method of regulation that specifies that maximum rate of return -- a ratio of net profit to total invested capital -- a telephone company is authorized to earn. Appropriate only in an environment with little or no competition. Generally involves social contracts between a company and the state that have historically created artificial pricing policies.
Regional Bell Operating Company (RBOC)	One of seven regional holding companies created by the AT&T divestiture to take over ownership of the Bell Operating Companies within their region. They are: Ameritech, Bell Atlantic, BellSouth, NYNEX, Pacific Telesis, Southwestern Bell and US WEST.
Resale Carrier	A carrier that does not own transmission facilities, but obtains communications services from another carrier for resale to the public for profit.
Special Access	Non-switched exchange access service provided by local telephone companies. Used to make direct connections between a long distance provider's point of presence and an end user customer.
SONET	Stands for "synchronous optical network," a high speed fiber optic transmission technology that can carry services such as broad cast quality video, electronic data interchange (EDI), long distance medical imaging, multimedia education, and movies on demand.
Subscriber Line Charge	A charge paid by the telephone subscriber for the ability to access an IXC for the purpose of originating and terminating interstate calls and to defray a portion of the expense of providing the subscriber's access lines. The charge is a fixed monthly fee determined by the FCC, assessed by the telephone company on each line of a subscriber.
Switched Access	That part of switched interconnection service provided for the purpose of originating or terminating a toll service.

Switched Interconnection Service	That part of interconnection service which utilizes the local exchange company's switching facilities to provide line or trunkside access or both to the local exchange company's end office or tandem switches for the purpose of originating and terminating the telecommunications services of other telecommunications companies.
Tandem Office	A major Telco switching center for the switched telephone network, which interconnects two or more central offices that cannot be directly connected; a major switching center linking several end offices and/or IXC points of presence especially in high-density areas.
Tariff	The schedule or other writing filed with a commission that describes the rates, terms, and conditions of certain telecommunications services provided by the telecommunications company.
Telco	Telephone company.
Telecommunications Company	Any person, firm, partnership, corporation, association, or municipal, county or local governmental entity offering telecommunications services for hire or compensation.
Telecommunications Services	The services offered to customers for the transmission and utilization of two-way interactive communications and associated usage.
Telephony	Voice telecommunications.
Toll Service	The transmission of two-way interactive switched communications between local calling areas.
Total Factor Productivity (TFP)	A specific study methodology for defining industry inputs and outputs.
Transport	Facility between the telephone company and the IXC's point of presence and/or end user premises.

Unbundled Access	[Section 251(C)(3), Telecommunications Act of 1934] The duty to provide, to any requesting telecommunications carrier for the provision of a telecommunications service, nondiscriminatory access to network elements on an unbundled basis at any technically feasible point on rates, terms, and conditions that are just, reasonable, and nondiscriminatory in accordance with the terms and conditions of the agreement and the requirements of this section and *Section 252*. An incumbent local exchange carrier shall provide such unbundled network elements in a manner that allows requesting carriers to combine such elements in order to provide such telecommunications service.
Unbundled Rates	Rates in which the various rate elements that comprise the service are separately stated.
Uniform System of Accounts	A FCC prescribed accounting system encompassing both balance sheet and income statement accounts, used to review the operations of telecommunications common carriers under its jurisdiction.
Universal Service	The provision of widely available, reasonable, affordable basic local exchange services for all customers. Generally considered to encompass a basic set of services to provide access to the local network.
Universal Service Fund (USF)	The fund established to explicitly support universal service and by extension the processes involved in identification, collection, and disbursal of such funds.

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[1]/ IR #133. Note - CLECs approved in multiple states would be counted more than once.
[2]/ IR #133 - Exhibit Source.
[3]/ IR #133.
[4]/ IR #133.
[5]/ IR #133.
[6]/ IR #133.
[7]/ *"The Next Generation of Service Provider"* Presented by Anurag Lal Vice President, Data and Internet Product Management e.spire Communications, Inc.
[8]/ *Local phone competition increasing*. USA Today, September 2, 1999. Referencing FCC data.
[9]/ Hyperion data obtained from www.hyperion.net.
[10]/ www.icgcomm.com/telecom 8/28/99.
[11]/ www.icgcomm.com/telecom 8/28/99.
[12]/ www2.espire.net as of August 11, 1999.
[13]/ IR # 131, Book 1 of 2, page 6 of 18.
[14]/ www2.espire.net/products/integrated.
[15]/ *Reaching for some Lofty Goals*, Colorado Springs Gazette Telegraph Article. Interview with George Koons, GM King's Deer Telephone.
[16]/ King's Deer terminology for fiber in the loop.
[17]/ Roy Furchgott-Roth, "*Cutting the Phone Cord,*" New York Times, September 17, 1998.
[18]/ Point.com/deafual.asp 8/16/99.
[19]/ Cnnfn.com/hotstories/deals/9806/24/att/.
[20]/ www.cabledatacomnews.com and www.home.net/news/pr_990825_01.html 8/28/1999.
[21]/ www.home.net/source/thetruth.html 9/5/99.
[22]/ www.directv.com/press/pressdel/0,1112,198,00.html.
[23]/ IR #221.
[24]/ IR #221.
[25]/ IR #196.
[26]/ IR #225.
[27]/ IR # 221.
[28]/ www.qwest.com/press/story.asp8id=143 Customers are to receive unlimited internet access and 250 minutes of long distance service for a flat rate of $24.95 per month. Additional interstate minutes are $.10 per minute.
[29]/ Through EarthLink.
[30]/ IR #121.
[31]/ IR #121.
[32]/ IR #121.
[33]/ IR #121.
[34]/ IR #'s 121 and 215.
[35]/ Lohman 8/4/99 & 8/5/99.
[36]/ IR #'s 121 and 185.
[37]/ IR #121.
[38]/ IR #'s 121 and 185.
[39]/ IR #121.
[40]/ IR #121.
[41]/ IR #'s 121 and 185.
[42]/ IR #'s 121 and 185.
[43]/ IR #121.
[44]/ IR #121.

45/ IR #121.
46/ IR #121.
47/ IR #'s 121 and 185.
48/ IR #121.
49/ Interview Cunningham.
50/ IR #121.
51/ IR #121.
52/ Interview Cunningham.
53/ Interview Cunningham.
54/ IR #121.
55/ IR #121.
56/ IR #121.
57/ IR #'s 121, 192, 185.
58/ IR #'s 121, 192, 185.
59/ IR #135.
60/ Interview Harris.
61/ IR #135.
62/ IR #135.
63/ IR #135.
64/ IR #194.
65/ IR #194.
66/ IR #194.
67/ IR #194.
68/ IR #'s 121 and 194.
69/ IR #'s 121, 185, and 194.
70/ IR #'s 121 and 194.
71/ IR #'s 185, 121 (page 10 & 34) and IR #194.
72/ IR #161.
73/ Interview Harris.
74/ Interview Harris.
75/ IR #189.
76/ Interview Harris.
77/ IR #238.
78/ IR #135.
79/ IR #154.
80/ IR #154.
81/ IR #154.
82/ IR #154.
83/ IR #154.
84/ IR #154.
85/ IR #237.
86/ These include Hyperion, ICG and e.spire. AT&T and MCI did make comments, but these comments addressed primarily access issues.
87/ Reference: *"Price Cap Productivity Factors Can Make or Break Telecom Infrastructure Investments"*, by Larry F. Darby, Communications & Finance, Vol. 2, No. 5 (March 17, 1995). Mr. Darby was the former FCC Chief Economist and Chief of the FCC's Common Carrier Bureau.
88/ Now an operating company of Bell Atlantic.
89/ June 28, 1999 letter from John T. Nakahara representing the telecommunications companies to Ms. Magalie Roman Salas, Secretary, Federal Communications Commission.
90/ KPSC's Order relative to CBT's Petition for Rehearing.

91/ BellSouth-KY General Subscriber Services Tariff.
92/ IR #157.
93/ IR #157.
94/ IR #183.
95/ IR #173, Commission Order in BellSouth-KY, MCI Arbitration.
96/ IR #113.
97/ IR #122.
98/ IR #204.
99/ IR #187.
100/ IR #146.
101/ IR #156, Order in Administrative Case No. 360, dated May 22, 1998.
102/ IR #116, Direct Testimony of Fred Gerwing, Exhibit FLG-1.
103/ IR #175.
104/ IR #175.
105/ IR #179.
106/ IR #156, Order in Administrative Case No. 360, dated May 22, 1998.
107/ IR #156, Order in Administrative Case No. 360, dated May 22, 1998, footnote 52.
108/ IR #168, Order in Case No. 98-348, dated August 21, 1998.
109/ IR #231.
110/ IR #235.
111/ IR #156, Order in Administrative Case No. 360, dated May 22, 1998.
112/ IR #146, KPSC's Order Case No. 97-074, dated January 21, 1998.
113/ IR #164.
114/ IR #146.
115/ IR #236.
116/ Vantage, BellSouth-KY Draft Report Review Meeting; September 2, 1999.

REQUEST: BellSouth's equity returns have been high over the past few years. The Audit Report discusses the total factor productivity ("TFP") index as being "backward-looking" and states that BellSouth achieved its productivity gains in part by decreasing its workforce.

b. If BellSouth's earnings remain high, is this a sign that BellSouth is continuing to experience productivity gains in excess of the inflation rate?

RESPONSE: Other things remaining equal, productivity gains in excess of the inflation rate have a positive effect on earnings.

BellSouth's success under price regulation is also attributable to the appropriate responses we have made to the opportunities afforded under the plan. BellSouth's initiatives include:

- Changes in depreciation that accelerated reductions in net investment,
- Introduction of innovative expanded calling plans,
- Introduction of incentive programs in consumer sales organizations,
- Deployment of new technologies like ATM, ADSL, and Frame Relay,
- Initiation of marketing strategies for specific industries, and
- Provision of numerous customer promotions for various services.

Regulatory accounting results are affected by separations rules and have been inflated by the superior past productivity gains that likely will not persist under increasingly competitive conditions (refer to 1 a above). For example, BellSouth has accelerated depreciation charges to more appropriate levels without any offsetting rate increases. Under the former ROR regime, higher depreciation expense would have raised revenue requirements. However, the increased depreciation expense also reduces the investment base, which acts to boost reported returns. The higher returns are exaggerated in later years when the depreciation decreases once the appropriate depreciation reserve levels are reached. BellSouth has

RESPONSE: (Cont.)

provided significant customer benefits from rate reductions while its superior expense efficiency has boosted its profitability.

In the future, competition will govern prices more efficiently than regulation, and good earnings are not assured. Alternative service choices are rapidly increasing. CLECs, AT&T, MCI Worldcom, and others are targeting the most attractive and profitable customers and services, pressuring prices to move downward.

REQUEST: BellSouth's equity returns have been high over the past few years. The Audit Report discusses the total factor productivity ("TFP") index as being "backward-looking" and states that BellSouth achieved its productivity gains in part by decreasing its workforce.

c. BellSouth is currently restructuring its labor force in certain categories. Does this counteract some of the productivity losses sustained from hiring additional labor in other categories? Explain.

RESPONSE: BellSouth has achieved superior labor productivity improvements relative to its industry peers via a combination of force reductions, staff reorganizations and outsourcing. In general, BellSouth has been increasing customer contact and service staff while streamlining general support staff. This process is reflected most recently in the February, 2000 corporate reorganization announcement that approximately 2,100 support staff positions will be reduced over the subsequent 18 months. This reduction is only 14% of the size of BellSouth's program of 15,000 reductions over the 1995-1997 period.

On balance, in recent periods BellSouth has been operating at one of the most efficient employment levels in the industry. Table 1 of "Response of BellSouth Telecommunications to the Audit Report", Dec. 17, 1999, indicates that BellSouth improved its labor efficiency (based on employees per ten thousand access lines) by 44% from 1992 through 1998. The other RBOCs as a group improved 31% over the same period.

However, BellSouth has already harvested the majority of the labor efficiency opportunities in moving to its current superior labor efficiency position. In other words, the "low hanging fruit" is in and the immediate future will likely experience diminishing marginal opportunities for dramatic amounts of new labor efficiencies.

REQUEST: BellSouth's equity returns have been high over the past few years. The Audit Report discusses the total factor productivity ("TFP") index as being "backward-looking" and states that BellSouth achieved its productivity gains in part by decreasing its workforce.

d. Provide BellSouth's projections for the next 2 calendar years for intrastate regulated revenues, regulated expenses, and taxes by major Part 32 accounts.

RESPONSE: BellSouth does not produce budgets/projections of intrastate regulated revenues, expenses and taxes as requested. BellSouth's budgets/projections of revenue and expenses are prepared on a product and operating business unit specific basis and rolled up to a Company level. This process often crosses state boundaries and as a result, BellSouth no longer produces official state budgets or projections.

However, in order to be responsive, BellSouth has attempted to produce a projection of 2000 Kentucky intrastate revenues, expenses, and taxes at the Part 32 summary account level. This projection (see attached proprietary document) indicates a slowing growth in net operating income compared to previous years' primarily as a result of the impact of accelerating competitive pressures and a stabilizing/increasing workforce. As discussed in the response to Item No. 1a, BellSouth has completed its major force reduction programs and the workforce not only has stabilized recently but it is expected to increase.

Due to uncertainty surrounding the level of future competitive losses and the impact of technology changes, as well as a lack of state specific details available internally for years beyond 2000, BellSouth was not able to prepare a projection for 2001. However, revenue growth rates are expected to decline while expense growth rates are expected to remain about the same in 2001 primarily as a result of increasing competitive pressures.

BellSouth Telecommunications, Inc.
Kentucky Intrastate Operations
Projection of 2000 Revenue, Expenses, and Taxes
000s

	2000 Projection
Operating Revenues	
Local Service Revenue	[redacted]
Network Access Revenue	[redacted]
Long Distance Revenue	[redacted]
Miscellaneous Revenue	[redacted]
Uncollectible Revenue	[redacted]
Total Operating Revenue	[redacted]
Operating Expenses	
Plant Specific Operations	[redacted]
Plant Nonspecific Operations	[redacted]
Depreciation & Amortization	[redacted]
Customer Operations	[redacted]
Corporate Operations	[redacted]
Other Operating Expenses	[redacted]
Operating Taxes	[redacted]
Total Operating Expense	[redacted]
Net Operating Income	[redacted]

REQUEST: BellSouth's equity returns have been high over the past few years. The Audit Report discusses the total factor productivity ("TFP") index as being "backward-looking" and states that BellSouth achieved its productivity gains in part by decreasing its workforce.

e. Explain the current status of the Federal Communication Commission's ("FCC") deliberations regarding the productivity factor applicable to price cap companies.

RESPONSE: The FCC's decision on the Price Cap "X" factor, CC Docket No. 94-1, is pending. This proceeding is to respond to the US Court of Appeals for the District of Columbia Circuit remand of the Commission's May, 1997 Order which set the interstate "X" factor at 6.5%. The Commission completed its Comment and Reply Comment rounds on December 30, 1999 and Jan. 14, 2000 respectively in its Further Notice of Proposed Rulemaking, released Nov. 15, 1999.

On March 8, 2000 the Coalition for Affordable Local and Long Distance Service ("CALLS") filed a revised CALLS proposal with the FCC in response to comments received on the original proposal. The revised proposal has now been set for comment. Under the revised CALLS proposal, all price cap rate reductions that occur as a result of the application of the existing 6.5% X-Factor, except for those reductions applicable to special access, are targeted to reduce interstate switched access charges until the average per minute rate reaches $0.0055 per end. Once the per minute target rate is achieved, then the X-Factor becomes equal to inflation. Rates for special access services are reduced by the application of an X-Factor of 3.0% in 2000, and an X-Factor of 6.5% in 2001, 2002, and 2003. (NOTE: The X-Factor will not be applicable to special access services when relief is granted by the FCC under Phase I or Phase II pricing flexibility.) Thereafter, the X-Factor will equal inflation for special access services, as well. See item 14 below for additional information on the CALLS proposal.

REQUEST: Provide a complete price out of the services currently in each market basket.

RESPONSE: The complete priceout of services currently in each market basket was furnished with the annual filing on July 1, 1999. The priceout required to support an annual filing in July 2000 would not normally be available until early June. The Kentucky priceout is one of several that are required across the region and rescheduling would be difficult due to the receipt of various inputs and the scheduling of personnel and resources on a regional basis. If the Commission approves the Company's TRP, there would be no need for a 2000 priceout.

REQUEST: Provide a complete price out of the services as proposed in each renamed and restructured market basket.

RESPONSE: The revised plan requires no price computation formulas, therefore, no priceouts are required. In addition, producing a priceout for the industrial category would be considerably complex, given that a priceout for Unbundled Network Elements would be required for each CLEC operating under different rates. In addition, UNE price changes could not result from the priceout information, as UNE prices only change as new interconnection agreements are forged, or new cost studies are submitted.

REQUEST: Would BellSouth advocate that all incumbent local exchange carriers ("ILECs") in Kentucky eliminate their respective non-traffic sensitive revenue requirement ("NTSRR") in the same manner as it is advocating for itself? Explain.

RESPONSE: BellSouth is not advocating that other local exchange exchange carriers should eliminate their non traffic sensitive revenue requirement (NTSRR) portion of access. The Commission could, however, determine that it is an appropriate action for GTE and Cincinnati Bell in order to complete its Universal Service Fund ("USF") deliberations in Administrative Case 360. Each company's pricing structure and USF effect are different, and the Commission will have to determine the validity of each solution on its own merits.

BellSouth's TRP comprehensively includes the impact of the USF and the resulting elimination of BellSouth's NTSRR through a rebalance of rates. BellSouth believes that this meets the priorities set out by the Commission in its USF Administrative Case 360 proceeding, as well as the federal access targets being set by the FCC.

REQUEST: If the Commission eliminates NTSRR, how will the coming changes in the structure of access charges at the federal level be handled in Kentucky? Explain in detail.

RESPONSE: BellSouth proposes to eliminate its NTSRR and to reach the effective rate in the CALLS proposal over time. Currently, a revised CALLS proposal is being considered by the FCC and a formal pleading cycle has been established. However the effective per minute target rate remains $0.011 for both ends of switched access, or $0.0055 per end. The CALLS proposal only applies to price cap LECs and is optional for non signatories. CALLS requires increases in the federal SLC as switched access rates are lowered. BellSouth is capturing these effects through rate rebalancing. BellSouth is a CALLS signatory, is confident of the ultimate approval of the CALLS proposal and therefore, is willing to eliminate its NTSRR as part of its comprehensive rate rebalance plan.

Access reform for other LECs in the Commonwealth may, or may not, be consistent with what is proposed in CALLS. Therefore, rather than eliminating NTSRR for all LECs, the Commission might consider zero rating the present NTSRR. Then, if interstate access reform increases interstate Subscriber Line Charges as switched rates are reduced, those LECs can capture the SLC increases in NTSRR rather than create a separate intrastate SLC or increase the intrastate USF line item. If NTSRR is eliminated, one of these options, or rate rebalancing, is available as a means to recover the reduced switched access revenues.

REQUEST: Provide the cost studies supporting proposed UNE non-recurring charges, as well as all workpapers and explanations.

RESPONSE: BellSouth's TELRIC Calculator produces recurring and non recurring costs for UNEs. The non recurring portions of the studies are difficult to extract from the total study. Pages for the South Carolina non recurring loop cost are attached as an example. The remainder of the study is voluminous and portions of the study are proprietary. A CD ROM of the entire study is being provided to the Commission. (CD ROM enclosed). Please see the enclosed petition for confidential treatment of sensitive competitive information provided on the CD ROM.

Nonrecurring Cost Summary

South Carolina
A.1.1 - 2-Wire Analog Voice Grade Loop - Service Level 1

6/29/98

Nonrecurring Cost

	First			Additional		
	Direct Cost	Shared Cost	TELRIC	Direct Cost	Shared Cost	TELRIC
Nonrecurring Cost Development Sheet Col H	$50.4200	$16.3570	$66.7770	$31.5120	$10.2460	$41.7580
Total Cost	$50.4200	$16.3570	$66.7770	$31.5120	$10.2460	$41.7580
Gross Receipts Tax Factor			X 1.0066			X 1.0066
Cost (including Gross Receipts Tax)			$67.2177			$42.0336
Common Cost Factor			X 1.0479			X 1.0479
Nonrecurring Economic Cost			**$70.4375**			**$44.0471**

Nonrecurring Cost Development

South Carolina
A.1.1 - 2-Wire Analog Voice Grade Loop - Service Level

6/29/98

			A		B		C	D=AxC		E=BxC		F	G=ExF		H=D+G	
			Installation Worktimes		Disconnect Worktimes		Direct Labor Rate	Install Cost		Disconnect Cost		Disconnect Discount Factor	Discounted Disconnect Cost		Direct Cost	
Function	JFC/ Payband	JFC/Payband Description	First	Additional	First	Additional		First	Additional	First	Additional		First	Additional	First	Additional
SERVICE ORDER	2300	Customer Point Of Contact - ICSC	0.0125	0.0125	0.0125	0.0125	$42.09	$0.5261	$0.5261	$0.5261	$0.5261	0.9073	$0.4773	$0.4773	$1.0035	$1.0035
SERVICE ORDER	4WXX	Work Management Center (WMC)	0.2500	0.0000	0.2500	0.0000	$33.95	$8.4875	$0.0000	$8.4875	$0.0000	0.9073	$7.7005	$0.0000	$16.1880	$0.0000
SERVICE ORDER	471X	Acc Cust Advocate Cntr (ACAC)	0.0550	0.0550	0.0000	0.0000	$38.26	$2.1039	$2.1039	$0.0000	$0.0000	0.9073	$0.0000	$0.0000	$2.1039	$2.1039
ENGINEERING	400X	Address & Facility Inventory (AFIG)	0.2000	0.2000	0.0000	0.0000	$33.15	$6.6300	$6.6300	$0.0000	$0.0000	0.9073	$0.0000	$0.0000	$6.6300	$6.6300
ENGINEERING	32XX	Outside Plant Eng (FG30)	0.1000	0.1000	0.0000	0.0000	$50.84	$5.0840	$5.0840	$0.0000	$0.0000	0.9073	$0.0000	$0.0000	$5.0840	$5.0840
CONNECT & TEST	431X	CO Install & Mtce Field - Ckt & Fac	0.0583	0.0583	0.0333	0.0333	$42.17	$2.4599	$2.4599	$1.4057	$1.4057	0.9073	$1.2753	$1.2753	$3.7352	$3.7352
CONNECT & TEST	410X	Install & Mtce - Pots	0.3175	0.3175	0.0000	0.0000	$40.80	$12.9554	$12.9554	$0.0000	$0.0000	0.9073	$0.0000	$0.0000	$12.9554	$12.9554
TRAVEL	410X	Install & Mtce - Pots	0.0667	0.0000	0.0000	0.0000	$40.80	$2.7200	$0.0000	$0.0000	$0.0000	0.9073	$0.0000	$0.0000	$2.7200	$0.0000
														Total	$50.4200	$31.5120

			Installation Worktimes		Disconnect Worktimes		TELRIC Labor Rate	Install Cost		Disconnect Cost		Disconnect Discount Factor	Discounted Disconnect Cost		TELRIC	
Function	JFC/ Payband	JFC/Payband Description	First	Additional	First	Additional		First	Additional	First	Additional		First	Additional	First	Additional
SERVICE ORDER	2300	Customer Point Of Contact - ICSC	0.0125	0.0125	0.0125	0.0125	$54.09	$0.6761	$0.6761	$0.6761	$0.6761	0.9073	$0.6134	$0.6134	$1.2896	$1.2896
SERVICE ORDER	4WXX	Work Management Center (WMC)	0.2500	0.0000	0.2500	0.0000	$44.81	$11.2025	$0.0000	$11.2025	$0.0000	0.9073	$10.1638	$0.0000	$21.3663	$0.0000
SERVICE ORDER	471X	Acc Cust Advocate Cntr (ACAC)	0.0550	0.0550	0.0000	0.0000	$50.31	$2.7665	$2.7665	$0.0000	$0.0000	0.9073	$0.0000	$0.0000	$2.7665	$2.7665
ENGINEERING	400X	Address & Facility Inventory (AFIG)	0.2000	0.2000	0.0000	0.0000	$45.02	$9.0040	$9.0040	$0.0000	$0.0000	0.9073	$0.0000	$0.0000	$9.0040	$9.0040
ENGINEERING	32XX	Outside Plant Eng (FG30)	0.1000	0.1000	0.0000	0.0000	$68.52	$6.8520	$6.8520	$0.0000	$0.0000	0.9073	$0.0000	$0.0000	$6.8520	$6.8520
CONNECT & TEST	431X	CO Install & Mtce Field - Ckt & Fac	0.0583	0.0583	0.0333	0.0333	$50.22	$2.9295	$2.9295	$1.6740	$1.6740	0.9073	$1.5188	$1.5188	$4.4483	$4.4483
CONNECT & TEST	410X	Install & Mtce - Pots	0.3175	0.3175	0.0000	0.0000	$54.79	$17.3977	$17.3977	$0.0000	$0.0000	0.9073	$0.0000	$0.0000	$17.3977	$17.3977
TRAVEL	410X	Install & Mtce - Pots	0.0667	0.0000	0.0000	0.0000	$54.79	$3.6527	$0.0000	$0.0000	$0.0000	0.9073	$0.0000	$0.0000	$3.6527	$0.0000
														Total	$66.7770	$41.7580

Nonrecurring Cost Summary

South Carolina
B.1.1 - Exchange Ports - 2-Wire Analog Line Port (Res., Bus.)

6/29/98

Nonrecurring Cost

	First			Additional		
	Direct Cost	Shared Cost	TELRIC	Direct Cost	Shared Cost	TELRIC
Nonrecurring Cost Development Sheet Col H	$18.7053	$4.9742	$23.6795	$18.7053	$4.9742	$23.6795
Total Cost	$18.7053	$4.9742	$23.6795	$18.7053	$4.9742	$23.6795
Gross Receipts Tax Factor			X 1.0066			X 1.0066
Cost (including Gross Receipts Tax)			$23.8358			$23.8358
Common Cost Factor			X 1.0479			X 1.0479
Nonrecurring Economic Cost			**$24.9775**			**$24.9775**

Nonrecurring Cost Development

South Carolina
B.1.1 - Exchange Ports - 2-Wire Analog Line Port (Res., Bus.)

6/29/98

			A		B		C	D=AxC		E=BxC		F	G=ExF		H=D+G	
			Installation Worktimes		Disconnect Worktimes		Direct Labor Rate	Install Cost		Disconnect Cost		Disconnect Discount Factor	Discounted Disconnect Cost		Direct Cost	
Function	JFC/ Payband	JFC/Payband Description	First	Additional	First	Additional		First	Additional	First	Additional		First	Additional	First	Additional
Service Order	2300	Customer Point Of Contact - ICSC	0.0125	0.0125	0.0125	0.0125	$42.09	$0.5261	$0.5261	$0.5261	$0.5261	0.9073	$0.4773	$0.4773	$1.0035	$1.0035
Connect & Test	2730	Network Services Clerical	0.0104	0.0104	0.0104	0.0104	$32.76	$0.3407	$0.3407	$0.3407	$0.3407	0.9073	$0.3091	$0.3091	$0.6498	$0.6498
Connect & Test	4N1X	Recent Chng Line Trans (RCMAG)	0.0250	0.0250	0.0125	0.0125	$37.34	$0.9335	$0.9335	$0.4668	$0.4668	0.9073	$0.4235	$0.4235	$1.3570	$1.3570
Connect & Test	431X	CO Install & Mtce Field - Ckt & Fac	0.1000	0.1000	0.0500	0.0500	$42.17	$4.2170	$4.2170	$2.1085	$2.1085	0.9073	$1.9130	$1.9130	$6.1300	$6.1300
Connect & Test	4AXX	Acc Cust Advocate Cntr (ACAC)	0.2500	0.2500	0.0000	0.0000	$38.26	$9.5650	$9.5650	$0.0000	$0.0000	0.9073	$0.0000	$0.0000	$9.5650	$9.5650
														Total	$18.7053	$18.7053

			Installation Worktimes		Disconnect Worktimes		TELRIC Labor Rate	Install Cost		Disconnect Cost		Disconnect Discount Factor	Discounted Disconnect Cost		TELRIC	
Function	JFC/ Payband	JFC/Payband Description	First	Additional	First	Additional		First	Additional	First	Additional		First	Additional	First	Additional
Service Order	2300	Customer Point Of Contact - ICSC	0.0125	0.0125	0.0125	0.0125	$54.09	$0.6761	$0.6761	$0.6761	$0.6761	0.9073	$0.6134	$0.6134	$1.2896	$1.2896
Connect & Test	2730	Network Services Clerical	0.0104	0.0104	0.0104	0.0104	$45.18	$0.4699	$0.4699	$0.4699	$0.4699	0.9073	$0.4263	$0.4263	$0.8962	$0.8962
Connect & Test	4N1X	Recent Chng Line Trans (RCMAG)	0.0250	0.0250	0.0125	0.0125	$44.47	$1.1118	$1.1118	$0.5559	$0.5559	0.9073	$0.5043	$0.5043	$1.6161	$1.6161
Connect & Test	431X	CO Install & Mtce Field - Ckt & Fac	0.1000	0.1000	0.0500	0.0500	$50.22	$5.0220	$5.0220	$2.5110	$2.5110	0.9073	$2.2782	$2.2782	$7.3002	$7.3002
Connect & Test	4AXX	Acc Cust Advocate Cntr (ACAC)	0.2500	0.2500	0.0000	0.0000	$50.31	$12.5775	$12.5775	$0.0000	$0.0000	0.9073	$0.0000	$0.0000	$12.5775	$12.5775
														Total	$23.6795	$23.6795

REQUEST: a. Provide the UNE price lists by state for all UNEs, including non-recurring charges, resulting from arbitration proceedings in any BellSouth state.

b. Regarding these other state arbitration proceedings, are there any UNE rates for which a BellSouth cost model was not used? If so, which UNE rates and what cost model were used?

RESPONSE: a. Attached are the approved UNE rates for each of the nine BellSouth states, except Tennessee, with an indication as to the docket(s) in which the rates were approved. Tennessee has not yet issued an order setting rates in its generic UNE cost docket. The schedules include additional UNE rates approved in arbitration cases subsequent to issuance of permanent rates.

b. In general, the UNE rates shown are based on BellSouth cost studies. Where applicable, such rates include Commission ordered adjustments for such items as cost of money, utilization factors, etc. Some rates were determined by Commission orders which are the result of a combination of different cost studies and methodologies.

BellSouth Telecommunications, Inc.
KPSC Case No. 99-434
Staff's First Set of Data Requests
Item No. 7
Attachments Pages 1-28

STATE RATE DECISIONS (AL - FL - GA)

Cost Ref. #	Rate Element	ALABAMA			FLORIDA			GEORGIA		
	Status	Rates set in 8/25/98 Order in Docket No. 26029. Order dated 10/13/98 corrected several disconnection prices.			Rates were adopted during arbitrations in December, 1996 or subsequently in 4/29/98 Order; Add'l rates per Docket 990149-TP (10/14/99) and Docket 990750-TP (3/15/00)			Rates set in 12/16/97 Order in Docket No. 7061-U; Add'l rates per Docket 10418-U (12/28/99) and Docket 10692-U (2/1/00)		
		Recurring	Non-Recurring Electronic	Non-Recurring Manual	Recurring	Non-Recurring Electronic	Non-Recurring Manual	Recurring	Non-Recurring Electronic	Non-Recurring Manual
A.0	**Unbundled Local Loop**									
A.1	*2-Wire Analog Voice Grade Loop*									
	2-wire analog voice grade loop *(Florida set rate prior to SL1/SL2 distinction. Rate applies to any 2-wire analog voice grade loop)*				17.00	140.00 42.00				
A.1.1	2-wire analog voice grade loop - service level 1	19.04	59.03 43.14	86.40 56.11	17.12	31.79 28.87		16.51	42.54 31.33	61.48 39.75
	Disconnect Charges		15.21 3.22	32.98 3.22						
A.1.2	2-wire analog voice grade loop - service level 2	22.43	145.46 108.40	172.83 121.37	20.52	38.02 35.18		19.57	104.17 78.10	123.11 86.52
	Disconnect Charges		40.31 26.01	58.08 26.01						
A.1.3	2-wire analog voice grade loop - service level 1 - manual order coordination		51.29 51.29	51.29 51.29					36.46 36.46	36.46 36.46
	Disconnect Charges		12.89 12.89	12.89 12.89						
A.1.4	2-wire analog voice grade loop - service level 1 - order coordination for specified conversion time		45.99	45.99					34.22	34.22
A.1.5	2-wire analog voice grade loop - service level 2 - order coordination for specified conversion time		45.99	45.99		23.24			34.22	34.22
A.2	*Sub-Loop 2-Wire Analog*									
A.2.1	Loop feeder per 2-wire analog voice grade loop							8.58	206.44 170.05	225.38 178.47
	Disconnect Charges									
A.2.2	Loop distribution per 2-wire analog voice grade loop (incl. NID)				8.57	78.29 58.33		9.12	207.01 171.32	225.95 179.74
	Disconnect Charges									
	Loop distribution - per 4-wire analog voice grade loop (incl. NID)				11.29	112.07 92.11				

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Revised 03/21/00

STATE RATE DEC[illegible]NS (AL - FL - GA)

Cost Ref. #	Rate Element	ALABAMA Recurring	ALABAMA Non-Recurring Electronic	ALABAMA Non-Recurring Manual	FLORIDA Recurring	FLORIDA Non-Recurring Electronic	FLORIDA Non-Recurring Manual	GEORGIA Recurring	GEORGIA Non-Recurring Electronic	GEORGIA Non-Recurring Manual
	Status	Rates set in 8/25/98 Order in Docket No. 26029. Order dated 10/13/98 corrected several disconnection prices.			Rates were adopted during arbitrations in December, 1996 or subsequently in 4/29/98 Order; Add'l rates per Docket 990149-TP (10/14/99) and Docket 990750-TP (3/15/00)			Rates set in 12/16/97 Order in Docket No. 7061-U; Add'l rates per Docket 10418-U (12/28/99) and Docket 10692-U (2/1/00)		
	Disconnect Charges									
A.2.3	Loop concentration - Channelization system (outside CO)							313.11	651.23 284.99	670.17 293.41
	Disconnect Charges									
A.2.4	Loop concentration - Remote terminal cabinet (outside CO)							ICB		
A.2.5	Loop concentration - Working plug-in 2-wire voice grade (outside CO)							.8836	9.41 9.38	9.41 9.38
	Disconnect Charges									
A.2.6	NID per 2-wire analog voice grade loop	1.18	1.44 1.44	28.81 14.41	1.08	70.32 54.35		1.10	2.10 2.10	21.04 10.52
	Disconnect Charges		1.44 1.44	19.21 1.44						
	NID to NID cross connect (FL only)					6.15 6.15				
A.2.8	Sub-loop feeder order coordination for specified conversion time								34.22	34.22
	Disconnect Charges									
A.2.9	Sub-loop distribution order coordination for specified conversion time								34.22	34.22
A.3	*Loop Channelization and CO Interface (inside CO)*									
A.3.1	Loop channelization system - digital loop carrier	309.38	428.42 105.16	455.79 118.13	480.00	350.00 90.00		281.76	308.13 76.33	327.07 84.75
	Disconnect Charges		5.96	23.73						
A.3.2	CO channel interface - 2 wire voice grade	1.00	26.53 26.35	26.53 26.35	1.50	5.75 5.50		.9016	20.87 20.74	20.87 20.74
	Disconnect Charges		10.98 10.90	10.98 10.90						
A.4	*4-Wire Analog Voice Grade Loop*									
A.4.1	4-wire analog voice grade loop	30.00	293.70 241.76	321.07 254.73	30.00	141.00 43.00		25.86	206.95 170.57	225.89 178.99

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Revised 03/21/00

STATE RATE DECISIONS (AL - FL - GA)

Cost Ref. #	Rate Element	ALABAMA Recurring	ALABAMA Non-Recurring Electronic	ALABAMA Non-Recurring Manual	FLORIDA Recurring	FLORIDA Non-Recurring Electronic	FLORIDA Non-Recurring Manual	GEORGIA Recurring	GEORGIA Non-Recurring Electronic	GEORGIA Non-Recurring Manual
	Status	Rates set in 8/25/98 Order in Docket No. 26029. Order dated 10/13/98 corrected several disconnection prices.			Rates were adopted during arbitrations in December, 1996 or subsequently in 4/29/98 Order; Add'l rates per Docket 990149-TP (10/14/99) and Docket 990750-TP (3/15/00)			Rates set in 12/16/97 Order in Docket No. 7061-U; Add'l rates per Docket 10418-U (12/28/99) and Docket 10692-U (2/1/00)		
	Disconnect Charges		108.96 57.01	126.73 57.01						
A.4.2	NID per 4-wire analog voice grade loop	1.30	1.44 1.44	28.81 14.41	1.08	70.32 54.35		1.21	2.10 2.10	21.04 10.52
	Disconnect Charges		1.44 1.44	19.21 1.44						
A.4.3	4-wire analog voice grade loop - order coordination for specified conversion time		45.99	45.99					34.22	34.22
A.5	*2-Wire ISDN Digital Grade Loop*									
A.5.1	2-wire ISDN digital grade loop	29.03	331.85 255.87	359.22 268.84	40.00	306.00 283.00		25.43	233.38 180.35	252.32 188.77
	Disconnect Charges		108.95 57.01	126.72 57.01						
A.5.2/ A.2.6	NID per 2-wire ISDN Digital Grade Loop	1.18	1.44 1.44	28.81 14.41	1.08	70.32 54.35		1.10	2.10 2.10	21.04 10.52
	Disconnect Charges		1.44 1.44	19.21 1.44						
A.5.3	2-wire ISDN digital grade loop - order coordination for specified conversion time		45.99	45.99					34.22	34.22
A.6	*2-Wire Asymmetrical Digital Subscriber Line (ADSL) Loop*									
A.6.1	2-wire asymmetrical digital subscriber line (ADSL) loop	15.11	514.21 464.58	541.58 477.55	15.81	113.85 99.61		13.05	359.73 325.15	378.67 333.57
	Disconnect Charges		106.65 56.98	124.42 56.98						
A.6.2/ A.2.6	NID per 2-wire asymmetrical digital subscriber line (ADSL) loop	1.18	1.44 1.44	28.81 14.41	1.08	70.32 54.35		1.10	2.10 2.10	21.04 10.52
	Disconnect Charges		1.44 1.44	19.21 1.44						

Under non-recurring charges where there are two entries, first entry is for the first unit installed, second entry is for additional units installed.

Revised 03/21/00

STATE RATE DEC[illegible]NS (AL - FL - GA)

Cost Ref. #	Rate Element	ALABAMA Recurring	ALABAMA Non-Recurring Electronic	ALABAMA Non-Recurring Manual	FLORIDA Recurring	FLORIDA Non-Recurring Electronic	FLORIDA Non-Recurring Manual	GEORGIA Recurring	GEORGIA Non-Recurring Electronic	GEORGIA Non-Recurring Manual
	Status	Rates set in 8/25/98 Order in Docket No. 26029. Order dated 10/13/98 corrected several disconnection prices.			Rates were adopted during arbitrations in December, 1996 or subsequently in 4/29/98 Order; Add'l rates per Docket 990149-TP (10/14/99) and Docket 990750-TP (3/15/00)			Rates set in 12/16/97 Order in Docket No. 7061-U; Add'l rates per Docket 10418-U (12/28/99) and Docket 10692-U (2/1/00)		
A.6.3	2-wire ADSL loop - order coordination for specified conversion time		45.99	45.99					34.22	34.22
A.7	*2-Wire High Bit Rate Digital Subscriber Line (HDSL) Loop*									
A.7.1	2-wire high bit rate digital subscriber line (HDSL) loop	11.76	514.21 464.58	541.58 477.55	12.12	113.85 99.61		9.15	359.73 325.15	378.67 333.57
	Disconnect Charges		106.65 56.98	124.42 56.98						
A.7.2/ A.2.6	NID per 2-wire high bit rate digital subscriber line (HDSL) loop	1.18	1.44 1.44	28.81 14.41	1.08	70.32 54.35		1.10	2.10 2.10	21.04 10.52
	Disconnect Charges		1.44 1.44	19.21 1.44						
A.7.3	2-wire HDSL loop - order coordination for specified conversion time		45.99	45.99					34.22	34.22
A.8	*4-Wire High Bit Rate Digital Subscriber Line (HDSL) Loop*									
A.8.1	4-wire high bit rate digital subscriber line (HDSL) loop	14.39	541.13 491.50	568.50 504.47	18.24	116.91 101.71		12.07	378.86 344.28	397.80 352.70
	Disconnect Charges		106.65 56.98	124.42 56.98						
A.8.2/ A.4.2	NID per 4-wire high bit rate digital subscriber line (HDSL) loop	1.30	1.44 1.44	28.81 14.41	1.08	70.32 54.35		1.21	2.10 2.10	21.04 10.52
	Disconnect Charges		1.44 1.44	19.21 1.44						
A.8.3	4-wire HDSL loop - order coordination for specified conversion time		45.99	45.99						
A.9	*4-Wire DS1 Digital Loop*									
A.9.1	4-wire DS1 digital loop	64.65	610.13 380.26	637.50 393.23	80.00	540.00 465.00		64.52	429.98 268.18	448.92 276.60
	Disconnect Charges		134.77 55.97	152.54 55.97						

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Revised 03/21/00

STATE RATE DECISIONS (AL - FL - GA)

Cost Ref. #	Rate Element	ALABAMA Recurring	ALABAMA Non-Recurring Electronic	ALABAMA Non-Recurring Manual	FLORIDA Recurring	FLORIDA Non-Recurring Electronic	FLORIDA Non-Recurring Manual	GEORGIA Recurring	GEORGIA Non-Recurring Electronic	GEORGIA Non-Recurring Manual
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A.9.3	Order Coordination For Specified Conversion Time		49.18	49.18					34.52	34.52
A.10	*4-Wire 56 or 64 KBPS Digital Grade Loop*									
A.10.1	4-wire 56 or 64 Kbps digital grade loop	34.15	498.05 343.70	525.42 356.67				29.92	348.55 241.20	367.49 249.62
	Disconnect Charges		129.62 64.25	147.39 64.25						
A.10.2	NID per 4-wire 56 or 64 Kbps digital grade loop	1.30	1.44 1.44	28.81 14.41				1.21	2.10 2.10	21.04 10.52
	Disconnect Charges		1.44 1.44	19.21 1.44						
A.10.3	4-wire 56 or 64 Kbps digital grade loop - order coordination for specified conversion time		45.99	45.99					34.22	34.22
A.15.	**Unbundled Network Terminating Wire (NTW)**									
A.15.1	Unbundled NTW				.6011			1.37	To be negotiated	To be negotiated
A.15.2	NTW Site Visit – Survey per MDU/MTU Complex					120.10				
A.15.3	NTW Site Visit – Setup, per terminal					39.43	36.42			
A.15.4	NTW Access Terminal Provisioning including first 25 pair panel, per terminal					101.09	100.25			
A.15.5	NTW Existing Access Terminal Provisioning, second 25 pair panel, per terminal					29.75	28.90			
A.15.6	NTW Pair Provisioning, per pair					4.48	3.64			
A.15.7	NTW Service Visit, Per Request, per MDU/MTU Complex					21.18				

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STATE RATE DEC[illegible]NS (AL - FL - GA)

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B.0	**Unbundled Local Exchange Ports and Features**									
B.1	*Exchange Ports*									
B.1.1	Exchange ports - 2-wire analog line port, residence/business	2.07	21.93 21.93	49.30 34.90	2.00	38.00 15.00		1.85	17.16 17.16	36.10 25.58
	Disconnect Charges		5.21 5.21	22.98 6.65						
B.1.2	Exchange ports - 4-wire analog voice grade port				9.14	5.86 5.86		8.47	17.16 17.16	36.10 25.58
	Disconnect Charges									
B.1.3	Exchange ports - 2-wire analog DID trunk port							11.35	61.91 61.91	80.85 70.33
	Disconnect Charges									
B.1.4	Exchange ports - 4-wire DID trunk port							120.80	89.44 52.46	108.38 60.88
	Disconnect Charges									
B.1.5	Exchange ports - 2-wire ISDN digital line side port	16.42	63.24 63.24	119.43 119.43	13.00	88.00 66.00		13.47	47.37 47.37	87.35 87.35
	Disconnect Charges		5.69 5.69	18.66 18.66						
B.1.6	Exchange ports - 4-wire ISDN DS1 digital trunk port	186.02	244.85 244.85	299.60 299.60	125.00	112.00 91.00		163.16	186.80 186.80	224.68 224.68
	Disconnect Charges		51.19 51.19	62.72 62.72						
B.1.7	Exchange ports - 2-wire analog line port, PBX	2.07	21.93 21.93	49.30 34.90	2.00	38.00 15.00		1.85	17.16 17.16	36.10 25.58
	Disconnect Charges		5.21 5.21	22.98 5.69						
B.1.8	Exchange ports - 4-wire analog coin port	2.34	21.93 21.93	47.86 34.90	10.00	38.00 15.00		2.05	17.16 17.16	36.10 25.58
	Disconnect Charges		5.21 5.21	21.54 5.69						

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STATE RATE DECISIONS (AL - FL - GA)

Cost Ref. #	Rate Element	ALABAMA			FLORIDA			GEORGIA		
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		Recurring	Non-Recurring Electronic	Non-Recurring Manual	Recurring	Non-Recurring Electronic	Non-Recurring Manual	Recurring	Non-Recurring Electronic	Non-Recurring Manual
B.2	*Features*									
B.2.1	Three-Way Calling	1.12	1.03	1.03						
B.2.2	Customer Changeable Speed Calling	.08	1.03	1.03						
B.2.3	Call Waiting	.03	1.03	1.03						
B.2.4	Remote Activation of Call Forwarding	.18	1.03	1.03						
B.2.5	Cancel Call Waiting	.01	1.03	1.03						
B.2.6	Automatic Callback	.29	1.03	1.03						
B.2.7	Automatic Recall	.28	1.03	1.03						
B.2.8	Calling Number Delivery	.22	1.03	1.03						
B.2.9	Calling Number Delivery Blocking	1.17	1.03	1.03						
B.2.10	Customer Originated Trace	.14	1.03	1.03						
B.2.11	Selective Call Rejection	.13	1.03	1.03						
B.2.12	Selective Call Forwarding	.05	1.03	1.03						
B.2.13	Selective Call Acceptance	.29	1.03	1.03						
B.2.15	Multiline Hunt Service (Rotary) Service per line, (in addition to port)	.11	1.03	1.03						
B.2.16	Call Forwarding Variable	.05	1.03	1.03						
B.2.17	Call Forwarding Busy Line	.03	1.03	1.03						
B.2.18	Call Forwarding Don't Answer All Calls	.03	1.03	1.03						
B.2.19	Remote Call Forwarding	1.36	1.03	1.03						
B.2.20	Call Transfer	.12	1.03	1.03						
B.2.21	Call Hold	.03	1.03	1.03						
B.2.22	Toll Restricted Service	.04	1.03	1.03						
B.2.23	Message Waiting Indicator - Stutter Dial Tone	.03	1.03	1.03						
B.2.24	Anonymous Call Rejection	.93	1.03	1.03						
B.2.25	Shared Call Appearances of a DN	.41	1.03	1.03						
B.2.26	Multiple Call Appearances	.09	1.03	1.03						
B.2.27	ISDN Bridged Call Exclusion	.00	1.03	1.03						
B.2.28	Call by Call Access	28.29	28.94	28.94						
B.2.29	Privacy Release	.01	1.03	1.03						
B.2.30	Multi Appearance Directory Number Calls	.10	1.03	1.03						

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Revised 03/21/00

STATE RATE DEC[illegible]NS (AL - FL - GA)

Cost Ref. #	Rate Element	ALABAMA			FLORIDA			GEORGIA		
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		Recurring	Non-Recurring Electronic	Non-Recurring Manual	Recurring	Non-Recurring Electronic	Non-Recurring Manual	Recurring	Non-Recurring Electronic	Non-Recurring Manual
B.2.31	Make Set Busy	.01	1.03	1.03						
B.2.32	Teen Service (Res. Dist. Alerting Service)	.15	1.03	1.03						
B.2.33	Code Restriction and Diversion	.04	1.03	1.03						
B.2.34	Call Park	.04	1.03	1.03						
B.2.35	Automatic Line	.09	1.03	1.03						
B.2.36	ISDN Message Waiting Indication-Lamp	.01	1.03	1.03						
	Disconnect Charge for each feature above except B.2.28		.55	.55						
	Disconnect Charge for B.2.28		5.22	5.22						
B.2.37	ISDN Feature Function Buttons		1.03	1.03						
	Disconnect Charges		.55	.55						
B.2.39	Subsequent Ordering Charge		2.88	4.80						
	Disconnect Charge		2.88 .96	2.88 .96						
	Exchange port - 2-wire analog line port (res/bus) all available features included	7.62	46.65 46.65	74.02 59.62						
	Disconnect Charges		18.41 18.41	36.18 19.85						
	Exchange port - 4-wire analog line port (res/bus) all available features included									
	Exchange port - 2-wire ISDN line port - all available features included									
	Exchange port - 4-wire ISDN trunk port -all available features included									
	Exchange port - 2-wire analog line port (PBX) all available features included									
	Exchange Port - 2-wire analog (res/bus) with three features included									

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Revised 03/21/00

STATE RATE DECI[illegible]NS (AL - FL - GA)

Cost Ref. #	Rate Element	ALABAMA Recurring	ALABAMA Non-Recurring Electronic	ALABAMA Non-Recurring Manual	FLORIDA Recurring	FLORIDA Non-Recurring Electronic	FLORIDA Non-Recurring Manual	GEORGIA Recurring	GEORGIA Non-Recurring Electronic	GEORGIA Non-Recurring Manual
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	Exchange Port - 2-wire analog (PBX) with three features included									
	Exchange Port - 2-wire ISDN digital line side port with three features included									
	All Features Offered									
C.0	**Unbundled Switching and Local Interconnection**									
C.1	*End Office Switching*									
C.1.1	End office switching function per MOU	.0018			.0175 Init. .005 add'l.			.0016333		
C.1.2	End office trunk port - shared per MOU	.00020						.0001564		
	Reciprocal compensation (FL only)				.002					
C.2	*Tandem Switching*									
C.2.1	Tandem switching function per MOU	.00063			.00029			.0006757		
C.2.2	Tandem trunk port - shared per MOU	.00033						.0002126		
	Tandem intermediary charge									
	Reciprocal compensation (FL only)				.00125					
D.0	**Unbundled Transport and Local Interoffice Transport**									
D.1	*Common Transport*									
D.1.1	Common transport - per mile, per MOU	.00001			.000012			.000008		
D.1.2	Common transport - facilities termination per MOU	.00045			.0005			.0004152		
D.2	*Interoffice (IO) Transport - Dedicated - Voice Grade*									
D.2.1	Interoffice transport - dedicated - 2-wire voice grade - per mile	.0339						.0222		

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STATE RATE DECISIONS (AL - FL - GA)

Cost Ref. #	Rate Element	ALABAMA Recurring	ALABAMA Non-Recurring Electronic	ALABAMA Non-Recurring Manual	FLORIDA Recurring	FLORIDA Non-Recurring Electronic	FLORIDA Non-Recurring Manual	GEORGIA Recurring	GEORGIA Non-Recurring Electronic	GEORGIA Non-Recurring Manual
	Status	Rates set in 8/25/98 Order in Docket No. 26029. Order dated 10/13/98 corrected several disconnection prices.			Rates were adopted during arbitrations in December, 1996 or subsequently in 4/29/98 Order; Add'l rates per Docket 990149-TP (10/14/99) and Docket 990750-TP (3/15/00)			Rates set in 12/16/97 Order in Docket No. 7061-U; Add'l rates per Docket 10418-U (12/28/99) and Docket 10692-U (2/1/00)		
D.2.2	Interoffice transport - dedicated - 2-wire voice grade - facility termination per month	18.49	107.11 48.27	134.48 75.64				17.07	79.61 36.08	98.55 55.02
	Disconnect Charges		37.16 5.88	50.13 18.85						
D.3	*Interoffice Transport - Dedicated - DSO - 56/64kbps*									
D.3.1	Interoffice transport - dedicated - DSO - per mile	.0339						.0222		
D.3.2	Interoffice transport - dedicated - DSO - facility termination	17.81	107.11 48.27	134.48 75.64				16.45	79.61 36.08	98.55 55.02
	Disconnect Charges		37.16 5.88	50.13 18.85						
D.4	*Interoffice Transport - Dedicated - DS1*									
D.4.1	Interoffice transport - dedicated - DS1 - per mile	.692			.6013			.4523		
D.4.2	Interoffice transport - dedicated - DS1 - facility termination	79.69	198.15 148.18	225.52 175.55	99.79	45.91 44.18		78.47	147.07 111.75	166.01 130.69
	Disconnect Charges		25.44 20.42	38.41 33.39						
	Unbundled local exchange access interoffice channel									
	0-8 miles, fixed									
	0-8 miles, per mile, per month									
	9-25 miles, fixed									
	9-25 miles, per mile, per month									
	Over 25 miles, fixed									
	Over 25 miles, per mile, per month									
	Nonrecurring									
D.5	*Local Channel - Dedicated*									

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BellSouth Telecommunications, Inc.
KPSC Case No. 99-434
Staff's First Set of Data Requests
Item No. 7
Attachments Pages 1-28

STATE RATE DECISIONS (AL - FL - GA)

Cost Ref. #	Rate Element	ALABAMA Recurring	ALABAMA Non-Recurring Electronic	ALABAMA Non-Recurring Manual	FLORIDA Recurring	FLORIDA Non-Recurring Electronic	FLORIDA Non-Recurring Manual	GEORGIA Recurring	GEORGIA Non-Recurring Electronic	GEORGIA Non-Recurring Manual
	Status	Rates set in 8/25/98 Order in Docket No. 26029. Order dated 10/13/98 corrected several disconnection prices.			Rates were adopted during arbitrations in December, 1996 or subsequently in 4/29/98 Order; Add'l rates per Docket 990149-TP (10/14/99) and Docket 990750-TP (3/15/00)			Rates set in 12/16/97 Order in Docket No. 7061-U; Add'l rates per Docket 10418-U (12/28/99) and Docket 10692-U (2/1/00)		
D.5.1	Local Channel - Dedicated - 2-wire voice grade	14.61	494.65 84.44	522.02 103.17				13.91	382.95 62.40	401.89 70.82
	Disconnect Charges		77.81 7.63	95.56 7.63						
D.5.2	Local Channel - Dedicated - 4-wire voice grade	15.77	502.43 86.68	529.80 105.41				14.99	368.44 64.05	387.38 72.47
	Disconnect Charges		78.71 8.53	96.46 8.53						
D.5.3	Local Channel - Dedicated - DS1	35.52	503.57 442.84	565.52 442.84	43.64	242.45 226.44		38.36	356.15 312.89	400.37 312.89
	Disconnect Charges		46.28 32.18	75.55 32.18						
E.0	**Signaling Networks, Databases and Service Management Systems**									
E.1	*800/888 Access Ten Digit Screening*									
E.1.1	800 access ten digit screening, per call	.0005						.0004868		
E.1.2	800 access ten digit screening, reservation charge, per 800 number reserved		7.13 .97	34.50 .97					6.57 .76	25.51 .76
E.1.3	800 access ten digit screening, per 800 # established without POTS translations		15.88 1.97	43.25 1.97					12.81 1.45	31.75 1.45
	Disconnect Charges		10.04 .97	27.79 .97						
E.1.4	800 access ten digit screening, per 800 # established with POTS translations		15.88 1.97	43.25 1.97					12.81 1.45	31.75 1.45
	Disconnect Charges		10.04 .97	27.79 .97						
E.1.5	800 access ten digit screening, customized area of service per 800 #		5.69 2.85						4.46 2.23	4.46 2.23

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STATE RATE DEC NS (AL - FL - GA)

Cost Ref. #	Rate Element	ALABAMA			FLORIDA			GEORGIA		
	Status	Rates set in 8/25/98 Order in Docket No. 26029. Order dated 10/13/98 corrected several disconnection prices.			Rates were adopted during arbitrations in December, 1996 or subsequently in 4/29/98 Order; Add'l rates per Docket 990149-TP (10/14/99) and Docket 990750-TP (3/15/00)			Rates set in 12/16/97 Order in Docket No. 7061-U; Add'l rates per Docket 10418-U (12/28/99) and Docket 10692-U (2/1/00)		
		Recurring	Non-Recurring Electronic	Non-Recurring Manual	Recurring	Non-Recurring Electronic	Non-Recurring Manual	Recurring	Non-Recurring Electronic	Non-Recurring Manual
E.1.6	800 access ten digit screening, multiple interLATA CXR routing per CXR requested per 800#		6.66 3.81						5.22 2.99	5.22 2.99
E.1.7	800 access ten digit screening, change charge per request		8.10 .97	35.47 .97					7.33 .76	26.27 .76
E.1.8	800 access ten digit screening, call handling and destination features		5.69						4.72 4.46	4.72 4.46
E.2	*Line Information Database Access (LIDB)*									
E.2.1	LIDB common transport per query	.00004						.0000338		
E.2.2	LIDB validation per query	.0142						.0105974		
E.2.3	LIDB originating point code establishment or change		64.36	90.29					50.30	69.24
	Disconnect Charges									
E.3	*CCS7 Signaling Transport*									
E.3.1	CCS7 signaling connection, per 56Kbps	18.79	171.98	197.91				17.05	131.96	150.90
	Disconnect Charges		135.70	152.01						
	CCS7 signaling links, A link				5.00	400.00				
	CCS7 signaling links, B/D link				5.00	400.00				
E.3.2	CCS7 signaling termination, per STP port	148.72			113.00			133.99		
E.3.3	CCS7 Signaling Usage, Per Call Setup Message	.00004			.00001			.0000354		
E.3.4	CCS7 signaling usage, per TCAP message	.0001			.00004			.0000870		
E.3.5	CCS7 signaling usage surrogate, per 56Kbps facility, per LATA per month	376.12			64.00			340.67		
F.0	Operations Support Systems (OSS)									
F.1	*Operational Support Systems (OSS)*									
	OSS Interactive Ordering and Trouble Maintenance, Establishment, per user								200.00	

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STATE RATE DEC[illegible]NS (AL - FL - GA)

Cost Ref. #	Rate Element	ALABAMA			FLORIDA			GEORGIA		
	Status	Rates set in 8/25/98 Order in Docket No. 26029. Order dated 10/13/98 corrected several disconnection prices.			Rates were adopted during arbitrations in December, 1996 or subsequently in 4/29/98 Order; Add'l rates per Docket 990149-TP (10/14/99) and Docket 990750-TP (3/15/00)			Rates set in 12/16/97 Order in Docket No. 7061-U; Add'l rates per Docket 10418-U (12/28/99) and Docket 10692-U (2/1/00)		
		Recurring	Non-Recurring Electronic	Non-Recurring Manual	Recurring	Non-Recurring Electronic	Non-Recurring Manual	Recurring	Non-Recurring Electronic	Non-Recurring Manual
F.1.1	Recovery of incremental OSS costs, per electronic order		10.88							
	Disconnect Charges									
	OSS Electronic Interface, per first 1,000 orders							550.00		
	OSS Electronic Interface, next 1,000 orders							110.00		
	Optional Daily Usage File (ODUF)									
F.1.2	OSS CLEC daily usage file (billing): recording, per message	.0002						.0001275		
F.1.3	OSS CLEC daily usage file (billing): message distribution, per message	.0033						.0082548		
F.1.4	OSS CLEC daily usage file; message distribution, per magnetic tape provisioned	55.19						28.85		
F.1.5	OSS CLEC daily usage file (billing): data transmission (connect:direct), per message	.00004						.0000434		
G.0	**Operator Services and Directory Assistance**									
G.1	*Operator Call Processing*									
G.1.1	Operator call processing - operator provided cost per minute - using BST LIDB	1.21			1.00			.9680296		
G.1.2	Operator call processing - operator provided cost per minute - using foreign LIDB	1.25			1.00			1.02		
G.1.3	Operator call processing - fully automated cost per call - using BST LIDB	.11			.10			.0776409		
G.1.4	Operator call processing - fully automated cost per call - using foreign LIDB	.13			.10			.0976984		
G.1.5	Loading expense per announcement for branded announcement			254.32 254.32						253.87 253.87

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STATE RATE DECISIONS (AL - FL - GA)

	Status	ALABAMA: Rates set in 8/25/98 Order in Docket No. 26029. Order dated 10/13/98 corrected several disconnection prices.			FLORIDA: Rates were adopted during arbitrations in December, 1996 or subsequently in 4/29/98 Order; Add'l rates per Docket 990149-TP (10/14/99) and Docket 990750-TP (3/15/00)			GEORGIA: Rates set in 12/16/97 Order in Docket No. 7061-U; Add'l rates per Docket 10418-U (12/28/99) and Docket 10692-U (2/1/00)		
Cost Ref. #	Rate Element	Recurring	Non-Recurring Electronic	Non-Recurring Manual	Recurring	Non-Recurring Electronic	Non-Recurring Manual	Recurring	Non-Recurring Electronic	Non-Recurring Manual
	Disconnect Charges									
G.1.6	Recording expense per announcement for branded announcement			1,649.00 1,646.00						17.54 15.43
	Disconnect Charges			9.61 9.61						
G.2	*Inward Operator Services*									
G.2.1	Inward operator services - verification, per minute	1.16			.80			.09210833		
G.2.2	Inward operator services - emergency interrupt, per minute	1.16			1.00			.09210833		
G.3	*Directory Assistance Call Completion (DACC)*									
G.3.1	Directory assistance call completion access service, per call attempt	.0598			.03			.0348712		
G.4	*Number Services Intercept Access Service*									
G.4.1	Number services intercept, per query	.0235			.01			.0097497		
G.5	*Directory Assistance Access Service*									
G.5.1	Directory assistance access service call, cost per call	.26			.25			.2124568		
G.5.2	Loading expense per announcement for branded announcement			254.32 254.32						253.87 253.87
	Disconnect Charges									
G.5.3	Recording expense per announcement for branded announcement			1,649.00 1,646.00						17.54 15.43
	Disconnect Charges			9.61 9.61						
G.6	*Directory Transport*									

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STATE RATE DECISIONS (AL - FL - GA)

		ALABAMA			FLORIDA			GEORGIA		
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Cost Ref. #	Rate Element	Recurring	Non-Recurring Electronic	Non-Recurring Manual	Recurring	Non-Recurring Electronic	Non-Recurring Manual	Recurring	Non-Recurring Electronic	Non-Recurring Manual
G.6.1/ D.5.3	Directory transport - switched local channel DS1	35.52	503.57 442.84	565.56 442.84	43.64	242.45 226.44		38.36	356.15 312.89	400.37 312.89
	Disconnect Charges		46.28 32.18	75.55 32.18						
G.6.2/ D.4.1	Directory transport - DS1 level interoffice per mile	.6923			.0613			.4523		
G.6.3/ D.4.2	Directory transport - DS1 level interoffice per facility termination	79.69	198.15 148.18	225.52 175.55	99.79	45.91 44.18		78.47	147.07 111.75	166.01 130.69
	Disconnect Charges		25.44 20.42	38.41 33.39						
G.6.4	Switched common transport per DA access service per call	.0003			.0003			.0002906		
G.6.5	Switched common transport per DA access service per call per mile	.00003			.00001			.0000186		
G.6.6	Access tandem switching per DA access service per call	.0023			.00055			.0019152		
G.6.7	Directory transport - DA interconnection per DA service call									
G.6.8	Directory transport - installation NRC, per trunk or signaling connection			260.69 5.95			332.42 8.82			204.23 4.42
	Disconnect Charges			173.46 5.95						
G.7	*Directory Assistance Database Service (DADS)*									
G.7.1	Directory assistance database service, cost per listing	.0446			.001			.0445		
G.7.2	Directory assistance database service, monthly recurring cost	128.55			100.00			95.50		
G.8	*Direct Access to Directory Assistance*									
G.8.1	Direct access to directory assistance service, per month	7,055.00			5,000.00			5,254.00		
G.8.2	Direct access to directory assistance service, per query	.0472685			.01			.0469016		

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STATE RATE DECISIONS (AL - FL - GA)

Cost Ref. #	Rate Element	ALABAMA Recurring	ALABAMA Non-Recurring Electronic	ALABAMA Non-Recurring Manual	FLORIDA Recurring	FLORIDA Non-Recurring Electronic	FLORIDA Non-Recurring Manual	GEORGIA Recurring	GEORGIA Non-Recurring Electronic	GEORGIA Non-Recurring Manual
	Status	Rates set in 8/25/98 Order in Docket No. 26029. Order dated 10/13/98 corrected several disconnection prices.			Rates were adopted during arbitrations in December, 1996 or subsequently in 4/29/98 Order; Add'l rates per Docket 990149-TP (10/14/99) and Docket 990750-TP (3/15/00)			Rates set in 12/16/97 Order in Docket No. 7061-U; Add'l rates per Docket 10418-U (12/28/99) and Docket 10692-U (2/1/00)		
G.8.3	Direct access to directory assistance service, service establishment charge			1,118.00			820.00			788.24
	Disconnect Charges			81.83						
G.9	*Customized Routing (or selective routing)*									
G.9.1	Customized routing per unique line class code, per request, per switch		230.60	256.53					180.62	199.56
	Per line or PBX trunk, one-time charge									
H.0	**Collocation**									
H.1	*Physical Collocation*									
H.1.1	Physical collocation - application cost			7,124.00	15.53		3,248.00			3,850.00
	Application cost - cageless						1,279.00			
	Disconnect Charges			1.73						
H.1.2	Physical collocation - space preparation	ICB					ICB			
	Physical collocation - Space preparation (per sq. ft.) - Min. 100 sq. ft., add'l space calculated in 50 sq. ft. increments									100.00
	Physical collocation - cage construction cost per first 100 square feet Wire cage (FL only) Gypsum cage (FL only) Fire rated cage (FL only)				 41.99 84.10 99.73					45.00 per sq. ft.
	Physical collocation - cage construction cost per additional 50 square feet Wire cage (FL only) Gypsum cage (FL only) Fire rated cage (FL only)				 4.14 9.35 11.30					45.00 per sq. ft.

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STATE RATE DEC[illegible]NS (AL - FL - GA)

Cost Ref. #	Rate Element	ALABAMA Recurring	ALABAMA Non-Recurring Electronic	ALABAMA Non-Recurring Manual	FLORIDA Recurring	FLORIDA Non-Recurring Electronic	FLORIDA Non-Recurring Manual	GEORGIA Recurring	GEORGIA Non-Recurring Electronic	GEORGIA Non-Recurring Manual
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H.1.3	Physical Collocation - Space Construction lost per First 100 sq. ft.	136.64								
H.1.4	Physical Collocation - Space construction cost per add'l 50 sq. ft.	15.85								
H.1.5	Physical collocation - cable installation cost per cable			2,335.00	2.77		1056.00			2,750.00
	Disconnect Charges			54.39						
	Physical collocation - cable installation Cable rack				22.94					
H.1.6	Physical collocation - floor space, per square feet - zone A	3.85			4.25			7.50		
	Physical collocation - floor space, per square feet - zone B	3.85						6.75		
H.1.7	Physical collocation - cable support structure, per entrance cable	23.23						13.35		
H.1.8	Physical collocation - power, per ampere	7.14			6.95			5.00		
H.1.9	Physical collocation - 2-wire cross connects	.28	30.76 29.40	34.03 32.67				.30	12.60 12.60	12.60 12.60
	Disconnect Charges		12.75 11.38	14.48 13.11						
H.1.10	Physical collocation - 4-wire cross connects	.56	31.01 29.58	34.28 32.85				.50	12.60 12.60	12.60 12.60
	Disconnect Charges		12.82 11.39	14.55 13.12						
H.1.11	Physical collocation - DS1 cross connects	2.14	60.81 41.71	64.08 44.98				8.00	155.00 27.00	155.00 27.00
	Disconnect Charges		12.85 11.50	14.58 13.23						
H.1.12	Physical collocation - DS3 cross connects	38.63	57.80 39.81	61.07 43.08				72.00	155.00 27.00	155.00 27.00
	Disconnect Charges		14.93 11.76	16.66 13.49						
	Cross connects 2-wire, per 100 circuits (FL only)				5.24	1157.00				

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STATE RATE DEC[...]NS (AL - FL - GA)

Cost Ref. #	Rate Element	ALABAMA Recurring	ALABAMA Non-Recurring Electronic	ALABAMA Non-Recurring Manual	FLORIDA Recurring	FLORIDA Non-Recurring Electronic	FLORIDA Non-Recurring Manual	GEORGIA Recurring	GEORGIA Non-Recurring Electronic	GEORGIA Non-Recurring Manual
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	Cross connects 4-wire, per 100 circuits (FL only)				5.24	1157.00				
	Cross connects DS-1/DCS, per 28 circuits (FL only)				226.39	1950.00				
	Cross connects DS-1/DSX, per 28 circuits (FL only)				11.51	1950.00				
	Cross connects DS-3/DCS, per circuit (FL only)				56.97	528.00				
	Cross connects DS-3/DSC, per circuit (FL only)				10.06	528.00				
	Cross connects - Optical circuits, per connection (FL only)				6.46	2431.00				
H.1.13.	Physical collocation - 2-wire POT bay	.08						.40		
H.1.14	Physical collocation - 4-wire POT bay	.17						1.20		
H.1.15	Physical collocation - DS1 POT bay	.69						1.20		
H.1.16	Physical collocation - DS3 POT bay	4.74						8.00		
H.1.17	Physical collocation - security escort - basic, per half hour and additional			43.57 25.82			10.89 per ¼ hr.			'41.00 25.00
H.1.18	Physical collocation - security escort - overtime, per ½ hour and additional ½ hour			55.25 32.79			13.64 per ¼ hr.			48.00 30.00
H.1.19	Physical collocation - security escort - premium, per ½ hour and additional ½ hour			67.03 39.76			16.40 per ¼ hr.			55.00 35.00
	Security Access – New Access Card, per request (five cards) (FL only)						85.12			
H.2	*Virtual Collocation*									
H.2.1	Virtual collocation - application cost			2,848.30			4122.00			2,848.30
	Additional Cable Request						1249.00			
H.2.2	Virtual collocation - cable installation cost per cable			2,750.00	12.45		965.00			2,750.00
	Disconnect Charges									

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STATE RATE DECISIONS (AL - FL - GA)

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	Cable installation - Cable rack per ¼ rack (FL only)				2.24					
H.2.3	Virtual collocation - floor space per square feet	3.20			4.25			3.20		
H.2.4	Virtual collocation - floor space power, per ampere	3.48			6.95			3.48		
H.2.5	Virtual collocation - cable support structure, per entrance cable	13.35						13.35		
H.2.6	Virtual collocation - 2-wire cross connects									
	Disconnect Charges									
H.2.7	Virtual collocation - 4-wire cross connects									
	Disconnect Charges									
H.2.8	Virtual collocation - DS1 cross connects	7.50	155.00 14.00	155.00 14.00				7.50	155.00 14.00	155.00 14.00
	Disconnect Charges									
H.2.9	Virtual collocation - DS3 cross connects	56.25	151.90 11.83	151.90 11.83				56.25	151.90 11.83	151.90 11.83
	Disconnect Charges									
	Cross connects 2-wire, per 100 circuits				5.02	1157.00				
	Cross connects 4-wire, per 100 circuits				5.02	1157.00				
	Cross connects DS-1/DCS, per 28 circuits				226.39	1950.00				
	Cross connects DS-1/DSX, per 28 circuits				11.51	1950.00				
	Cross connects DS-3/DCS, per circuit				56.97	528.00				
	Cross connects DS-3/DSC, per circuit				10.06	528.00				
	Cross connects - Optical circuits, per connection				6.71	2431.00				
	Virtual to virtual connection Fiber per cable				.19		526.17			

Under non-recurring charges where there are two entries, first entry is for the first unit installed, second entry is for additional units installed.

STATE RATE DEC[illegible]NS (AL - FL - GA)

Cost Ref. #	Rate Element	ALABAMA Recurring	ALABAMA Non-Recurring Electronic	ALABAMA Non-Recurring Manual	FLORIDA Recurring	FLORIDA Non-Recurring Electronic	FLORIDA Non-Recurring Manual	GEORGIA Recurring	GEORGIA Non-Recurring Electronic	GEORGIA Non-Recurring Manual
	Status	Rates set in 8/25/98 Order in Docket No. 26029. Order dated 10/13/98 corrected several disconnection prices.			Rates were adopted during arbitrations in December, 1996 or subsequently in 4/29/98 Order; Add'l rates per Docket 990149-TP (10/14/99) and Docket 990750-TP (3/15/00)			Rates set in 12/16/97 Order in Docket No. 7061-U; Add'l rates per Docket 10418-U (12/28/99) and Docket 10692-U (2/1/00)		
	Virtual to virtual connection DS-1/DS-3 per cable				.17		134.46			
H.2.10	Virtual collocation - security escort - basic, per half hour			41.00 25.00			10.89 per ¼ hr.			41.00 25.00
H.2.11	Virtual collocation - security escort, overtime, per half hour			48.00 30.00			13.64 per ¼ hr.			48.00 30.00
H.2.12	Virtual collocation - security escort, premium, per half hour			55.00 35.00			16.40 per ¼ hr.			55.00 35.00
I.0	**Service Provider Number Portability**									
I.1	*Service Provider Number Portability - remote call forwarding*									
I.1.1	Service provider number portability - remote call forwarding, per number ported, residential	2.13	.65	.65				2.03	.51	.51
	Disconnect Charges		.07	.07						
I.1.1	Service provider number portability - remote call forwarding, per number ported, business	2.13	.65	.65				2.03	.51	.51
	Disconnect Charges		.07	.07						
I.1.2	Service provider number portability - remote call forwarding, per additional path	,32						.2836		
I.1.3	Service provider number portability - remote call forwarding, per service order, per end-user location		1.44 1.44	28.81 28.81					2.10 2.10	21.04 21.04
	Disconnect Charges		1.44 1.44	1.44 1.44						
I.2	*Service Provider Number Portability - DID*									
I.2.1	Service provider number portability - DID per number ported, residence		1.18	1.18					.93	.93
	Disconnect Charges		1.18	1.18						

Under non-recurring charges where there are two entries, first entry is for the first unit installed, second entry is for additional units installed.

Revised 03/21/00

STATE RATE DEC[illegible]NS (AL - FL - GA)

Cost Ref. #	Rate Element	ALABAMA Recurring	ALABAMA Non-Recurring Electronic	ALABAMA Non-Recurring Manual	FLORIDA Recurring	FLORIDA Non-Recurring Electronic	FLORIDA Non-Recurring Manual	GEORGIA Recurring	GEORGIA Non-Recurring Electronic	GEORGIA Non-Recurring Manual
	Status	Rates set in 8/25/98 Order in Docket No. 26029. Order dated 10/13/98 corrected several disconnection prices.			Rates were adopted during arbitrations in December, 1996 or subsequently in 4/29/98 Order; Add'l rates per Docket 990149-TP (10/14/99) and Docket 990750-TP (3/15/00)			Rates set in 12/16/97 Order in Docket No. 7061-U; Add'l rates per Docket 10418-U (12/28/99) and Docket 10692-U (2/1/00)		
I.2.2	Service provider number portability - DID per number ported, business		1.18	1.18					.93	.93
	Disconnect Charges		1.18	1.18						
I.2.3	Service provider number portability - DID per service order, per location		1.44 1.44	28.81 28.81					2.10 2.10	21.04 21.04
	Disconnect Charges		1.44 1.44	1.44 1.44						
I.2.4	Service provider number portability - DID per trunk termination, initial	11.84	173.73	173.73				10.73	135.47	135.47
	Disconnect Charges		50.43	50.43						
I.2.5	Service provider number portability - DID per trunk termination, subsequent	11.84	51.35	51.35				10.73	39.53	39.53
	Disconnect Charges		25.00	25.00						
J.0	**Other**									
J.1	*Dark Fiber*									
J.1.1	Dark fiber, per four fiber strands, per route mile or fraction thereof	59.84		1,893.00 368.21				44.22		1,355.29 273.69
	Disconnect Charges			625.66 466.87						
	Dark fiber, per fiber strand, per mile									
	Dark fiber, per four fiber strands, per route foot or fraction thereof							.008375		1355.29 273.69
J.2	*Access to Poles, Ducts, Conduits and Rights-of-Way*									
J.2.1	Access to poles, per foot, per year	22.53						4.20		
J.2.2	Access to conduits, per foot, per year	.68						.6019520		
J.2.3	Access to Innerduct, per foot, per year	.49						.4155351		
K.0	**Advanced Intelligent Network (AIN) Services**									
K.1	*BellSouth AIN SMS Access Service*									

Under non-recurring charges where there are two entries, first entry is for the first unit installed, second entry is for additional units installed.

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Cost Ref. #	Rate Element	ALABAMA Recurring	ALABAMA Non-Recurring Electronic	ALABAMA Non-Recurring Manual	FLORIDA Recurring	FLORIDA Non-Recurring Electronic	FLORIDA Non-Recurring Manual	GEORGIA Recurring	GEORGIA Non-Recurring Electronic	GEORGIA Non-Recurring Manual
	Status	Rates set in 8/25/98 Order in Docket No. 26029. Order dated 10/13/98 corrected several disconnection prices.			Rates were adopted during arbitrations in December, 1996 or subsequently in 4/29/98 Order; Add'l rates per Docket 990149-TP (10/14/99) and Docket 990750-TP (3/15/00)			Rates set in 12/16/97 Order in Docket No. 7061-U; Add'l rates per Docket 10418-U (12/28/99) and Docket 10692-U (2/1/00)		
K.1.1	AIN SMS access service - service establishment, per state, initial setup			197.49						90.25
	Disconnect Charges			114.22						
K.1.2	AIN SMS access service - port connection - dial/shared access			64.05						29.66
	Disconnect Charges			27.04						
K.1.3	AIN SMS access service - port connection - ISDN access			64.05						29.66
	Disconnect Charges			27.04						
K.1.4	AIN SMS access service - user identification codes - per user ID code			141.84						84.43
	Disconnect Charges			70.05						
K.1.5	AIN SMS access service - security card, per user ID code, initial or replacement			142.13						35.44
	Disconnect Charges			35.26						
K.1.6	AIN SMS access service - storage, per unit (100 kilobytes)	.0026						.0023		
K.1.7	AIN SMS access service - session, per minute	.0892						.0795604		
K.1.8	AIN SMS access service - company performed session, per minute	2.08						2.08		
K.2	*BellSouth AIN Toolkit Service*									
K.2.1	AIN toolkit service - service establishment charge, per state, initial setup			192.69						86.74
	Disconnect Charges			114.22						
K.2.2	AIN toolkit service - training session, per customer			8,363.00						8,348.00
	Disconnect Charges									
K.2.3	AIN toolkit service - trigger access charge, per trigger, per DN, term. attempt			49.64						19.13
	Disconnect Charges			27.04						

Under non-recurring charges where there are two entries, first entry is for the first unit installed, second entry is for additional units installed.

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STATE RATE DECISIONS (AL - FL - GA)

Cost Ref. #	Rate Element	ALABAMA Recurring	ALABAMA Non-Recurring Electronic	ALABAMA Non-Recurring Manual	FLORIDA Recurring	FLORIDA Non-Recurring Electronic	FLORIDA Non-Recurring Manual	GEORGIA Recurring	GEORGIA Non-Recurring Electronic	GEORGIA Non-Recurring Manual
	Status	Rates set in 8/25/98 Order in Docket No. 26029. Order dated 10/13/98 corrected several disconnection prices.			Rates were adopted during arbitrations in December, 1996 or subsequently in 4/29/98 Order; Add'l rates per Docket 990149-TP (10/14/99) and Docket 990750-TP (3/15/00)			Rates set in 12/16/97 Order in Docket No. 7061-U; Add'l rates per Docket 10418-U (12/28/99) and Docket 10692-U (2/1/00)		
K.2.4	AIN toolkit service - trigger access charge, per trigger, per DN, off-hook delay			49.64						114.80
	Disconnect Charges			27.04						
K.2.5	AIN toolkit service - trigger access charge, per trigger, per DN, off-hook immediate			49.64						19.13
	Disconnect Charges			27.04						
K.2.6	AIN toolkit service - trigger access charge, per trigger, per DN, 10-digit PODP			117.98						70.06
	Disconnect Charges			37.90						
K.2.7	AIN toolkit service - trigger access charge, per trigger, per DN, CDP			117.98						70.06
	Disconnect Charges			37.90						
K.2.8	AIN toolkit service - trigger access charge, per trigger, per DN, Feature Code			117.98						70.06
	Disconnect Charges			37.90						
K.2.9	AIN toolkit service - query charge, per query	.024						.0209223		
K.2.10	AIN toolkit service - type 1 node charge, per AIN toolkit subscription, per node, per query	.0060						.0053137		
K.2.11	AIN toolkit service - SCP storage charge, per SMS access account, per 100 kilobytes	1.63						1.46		
K.2.12	AIN toolkit service - monthly report - per AIN toolkit service subscription	16.00		44.56				15.96		22.64
	Disconnect Charges			31.84						
K.2.13	AIN toolkit service - special study - per AIN toolkit service subscription, per study	.10		47.74				.0861109		22.64
	Disconnect Charges									
K.2.14	AIN toolkit service - call event report - per AIN toolkit service subscription	15.90		44.56				15.87		22.64

Under non-recurring charges where there are two entries, first entry is for the first unit installed, second entry is for additional units installed.

STATE RATE DEC[illegible]NS (AL - FL - GA)

		ALABAMA			FLORIDA			GEORGIA		
	Status	Rates set in 8/25/98 Order in Docket No. 26029. Order dated 10/13/98 corrected several disconnection prices.			Rates were adopted during arbitrations in December, 1996 or subsequently in 4/29/98 Order; Add'l rates per Docket 990149-TP (10/14/99) and Docket 990750-TP (3/15/00)			Rates set in 12/16/97 Order in Docket No. 7061-U; Add'l rates per Docket 10418-U (12/28/99) and Docket 10692-U (2/1/00)		
Cost Ref. #	Rate Element	Recurring	Non-Recurring Electronic	Non-Recurring Manual	Recurring	Non-Recurring Electronic	Non-Recurring Manual	Recurring	Non-Recurring Electronic	Non-Recurring Manual
	Disconnect Charges			31.84						
K.2.15	AIN toolkit service - call event special study - per AIN toolkit service subscription	.003		47.74				.0028704		22.64
	Disconnect Charges									
L.0	Access Daily Usage File (ADUF)									
L.1.1	ADUF, Message Processing, per message							.0136327		
L.1.2	ADUF, Message Distribution, per Magnetic Tape Provisioned									
L,1.3	ADUF, Data Transmission (CONNECT:DIRECT), per message							.0000434		
M.0	Enhanced Optional Daily Usage File (EODUF)									
M.1.1	EODUF, Message Processing, per message							.0034555		
	Unbundled Loop Combinations									
	2-Wire Voice Grade Loop							12.55		
	Exchange Port – 2-Wire Line Port							1.79		
	2-Wire Voice Grade Loop Port Combination – Non-recurring Costs								2.01 .31	35.68 8.17
	2-Wire Voice Grade Extended Loop with DS1 Dedicated Interoffice Transport									
	2-Wire Voice Grade Loop							17.89		
	Interoffice Transport – Dedicated – DS1 – Per Mile							.3068		
	Interoffice Transport – Dedicated – DS1 – Per Facility Termination							63.39		
	Interoffice Transport – Dedicated – DS1 System							18.23		

Under non-recurring charges where there are two entries, first entry is for the first unit installed, second entry is for additional units installed.

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STATE RATE DEC[illegible]NS (AL - FL - GA)

Cost Ref. #	Rate Element	ALABAMA Recurring	ALABAMA Non-Recurring Electronic	ALABAMA Non-Recurring Manual	FLORIDA Recurring	FLORIDA Non-Recurring Electronic	FLORIDA Non-Recurring Manual	GEORGIA Recurring	GEORGIA Non-Recurring Electronic	GEORGIA Non-Recurring Manual
	Status	Rates set in 8/25/98 Order in Docket No. 26029. Order dated 10/13/98 corrected several disconnection prices.			Rates were adopted during arbitrations in December, 1996 or subsequently in 4/29/98 Order; Add'l rates per Docket 990149-TP (10/14/99) and Docket 990750-TP (3/15/00)			Rates set in 12/16/97 Order in Docket No. 7061-U; Add'l rates per Docket 10418-U (12/28/99) and Docket 10692-U (2/1/00)		
	2-Wire Voice Grade Extended Loop/DS1 Interoffice Combination – Non-recurring Costs								12.97 11.27	58.43 26.99
	Interoffice Transport – Voice Grade Plug-in							2.20		
	2-Wire Voice Grade Extended Loop/DS1 Interoffice Combination – Non-recurring Costs – Disconnect								12.61 12.61	12.61 12.61
	4-Wire Voice Grade Extended Loop with DS1 Dedicated Interoffice Transport									
	4-Wire Voice Grade Loop							26.58		
	Interoffice Transport – Dedicated – DS1 – Per Mile							.3068		
	Interoffice Transport – Dedicated – DS1 – Facility Termination							63.39		
	Interoffice Transport – Dedicated DS1 System							18.23		
	4-Wire Voice Grade Extended Loop/DS1 Interoffice Combination – Non-recurring Costs								12.97 11.27	58.43 26.99
	Interoffice Transport – Voice Grade Plug-in							2.67		
	4-Wire Voice Grade Extended Loop/DS1 Interoffice Combination – Non-recurring Costs – Disconnect								12.61 12.61	12.61 12.61
	4-Wire 56 or 64 KBPS Extended Digital Loop with Dedicated DS1 Interoffice Transport									
	4-Wire 56 or 64 KBPS Digital Grade Loop							30.72		
	Interoffice Transport – Dedicated – DS1 – Per Mile							.3068		
	Interoffice Transport – Dedicated – DS1 – Facility Termination							63.39		
	Interoffice Transport – Dedicated DS1 System							18.23		
	4-Wire 56 or 64 KBPS Extended Loop/DS1 Interoffice Combination – Non-recurring Costs								12.97 11.27	58.43 26.99
	Interoffice Transport – Voice Grade Plug-in							1.06		

Under non-recurring charges where there are two entries, first entry is for the first unit installed, second entry is for additional units installed.

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STATE RATE DECISIONS (AL - FL - GA)

Cost Ref. #	Rate Element	ALABAMA Recurring	ALABAMA Non-Recurring Electronic	ALABAMA Non-Recurring Manual	FLORIDA Recurring	FLORIDA Non-Recurring Electronic	FLORIDA Non-Recurring Manual	GEORGIA Recurring	GEORGIA Non-Recurring Electronic	GEORGIA Non-Recurring Manual
	Status	Rates set in 8/25/98 Order in Docket No. 26029. Order dated 10/13/98 corrected several disconnection prices.			Rates were adopted during arbitrations in December, 1996 or subsequently in 4/29/98 Order; Add'l rates per Docket 990149-TP (10/14/99) and Docket 990750-TP (3/15/00)			Rates set in 12/16/97 Order in Docket No. 7061-U; Add'l rates per Docket 10418-U (12/28/99) and Docket 10692-U (2/1/00)		
	4-Wire 56 or 64 KBPS Extended Loop/DS1 Interoffice Combination – Non-recurring Costs - Disconnect								12.61 12.61	12.61 12.61
	Extended 2-Wire Voice Grade Dedicated Local Channel with Dedicated DS1 Interoffice Transport									
	Local Channel – Dedicated – 2-Wire Voice Grade							16.28		
	Interoffice Transport – Dedicated – DS1 – Per Mile							.3068		
	Interoffice Transport – Dedicated – DS1 – Facility Termination							63.39		
	Interoffice Transport – Dedicated DS1 System							18.23		
	Extended 2-Wire Voice Grade Dedicated Local Channel/DS1 Interoffice Combination – Non-recurring Costs								12.97 11.27	58.43 26.99
	Interoffice Transport – Voice Grade Plug-in							2.20		
	Extended 2-Wire Voice Grade Dedicated Local Channel/DS1 Interoffice Combination – Non-recurring Costs - Disconnect								12.61 12.61	12.61 12.61
	Extended 4-Wire Voice Grade Dedicated Local Channel with Dedicated DS1 Interoffice Transport									
	Local Channel – Dedicated – 4-Wire Voice Grade							17.18		
	Interoffice Transport – Dedicated – DS1 – Per Mile							.3068		
	Interoffice Transport – Dedicated – DS1 – Facility Termination							63.39		
	Interoffice Transport – Dedicated DS1 System							18.23		
	Extended 4-Wire Voice Grade Dedicated Local Channel/DS1 Interoffice Combination – Non-recurring Costs								12.97 11.27	58.43 26.99
	Interoffice Transport – Voice Grade Plug-in							2.67		

Under non-recurring charges where there are two entries, first entry is for the first unit installed, second entry is for additional units installed.

STATE RATE DECISIONS (AL - FL - GA)

		ALABAMA			FLORIDA			GEORGIA		
	Status	Rates set in 8/25/98 Order in Docket No. 26029. Order dated 10/13/98 corrected several disconnection prices.			Rates were adopted during arbitrations in December, 1996 or subsequently in 4/29/98 Order; Add'l rates per Docket 990149-TP (10/14/99) and Docket 990750-TP (3/15/00)			Rates set in 12/16/97 Order in Docket No. 7061-U; Add'l rates per Docket 10418-U (12/28/99) and Docket 10692-U (2/1/00)		
Cost Ref. #	Rate Element	Recurring	Non-Recurring Electronic	Non-Recurring Manual	Recurring	Non-Recurring Electronic	Non-Recurring Manual	Recurring	Non-Recurring Electronic	Non-Recurring Manual
	Extended 4-Wire Voice Grade Dedicated Local Channel/DS1 Interoffice Combination – Non-recurring Costs - Disconnect								12.61 12.61	12.61 12.61
	Extended 4-Wire DS1 Digital Loop with Dedicated DS1 Interoffice Transport									
	4-Wire DS1 Digital Loop							60.88		
	Interoffice Transport – Dedicated – DS1 – Per Mile							.3068		
	Interoffice Transport – Dedicated – DS1 – Facility Termination							63.39		
	Extended 4-Wire DS1 Digital Loop/DS1 Interoffice Combination – Non-recurring Costs								12.97 11.27	58.43 26.99
	Extended 4-Wire DS1 Digital Loop/DS1 Interoffice Combination – Non-recurring Costs – Disconnect								12.61 12.61	12.61 12.61
	Extended 4-Wire DS1 digital Loop with Dedicated DS3 Interoffice Transport									
	4-Wire DS1 Digital Loop							60.88		
	Interoffice Transport – Dedicated – DS3 – Per Mile							6.46		
	Interoffice Transport – Dedicated – DS3 – Facility Termination							717.60		
	Interoffice Transport – Dedicated – DS3 System							202.91		
	Extended 4-Wire DS1 Digital Loop/DS3 Dedicated IOF Transport – Non-recurring Costs								12.97 11.27	58.43 26.99
	Interoffice Transport – DS1 Card or W-DCS port							.6670		
	Extended 4-Wire DS1 Digital Loop/DS3 Dedicated IOF Transport – Non-recurring Costs – Disconnect								12.61 12.61	12.61 12.61
	Extended DS1 Dedicated Local Channel with Dedicated DS3 Interoffice Transport									

Under non-recurring charges where there are two entries, first entry is for the first unit installed, second entry is for additional units installed.

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STATE RATE DEC[illegible]NS (AL - FL - GA)

Cost Ref. #	Rate Element	ALABAMA Recurring	ALABAMA Non-Recurring Electronic	ALABAMA Non-Recurring Manual	FLORIDA Recurring	FLORIDA Non-Recurring Electronic	FLORIDA Non-Recurring Manual	GEORGIA Recurring	GEORGIA Non-Recurring Electronic	GEORGIA Non-Recurring Manual
	Status	Rates set in 8/25/98 Order in Docket No. 26029. Order dated 10/13/98 corrected several disconnection prices.			Rates were adopted during arbitrations in December, 1996 or subsequently in 4/29/98 Order; Add'l rates per Docket 990149-TP (10/14/99) and Docket 990750-TP (3/15/00)			Rates set in 12/16/97 Order in Docket No. 7061-U; Add'l rates per Docket 10418-U (12/28/99) and Docket 10692-U (2/1/00)		
	Local Channel - Dedicated DS1							38.57		
	Local Channel – Dedicated – DS3 – Per Mile							6.46		
	Interoffice Transport – Dedicated – DS3 – Facility Termination							717.60		
	Interoffice Transport – Dedicated – DS3 System							202.91		
	Extended DS1 Dedicated Local Channel/DS3 Interoffice Combination – Non-recurring Costs								12.97 11.27	58.43 26.99
	Interoffice Transport – DS1 Card or W-DCS port							.6670		
	Extended DS1 Dedicated Local Channel/DS3 Interoffice Combination – Non-recurring Costs – Disconnect								12.61 12.61	12.61 12.61

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Under non-recurring charges where there are two entries, first entry is for the first unit installed, second entry is for additional units installed.

Revised 03/21/00

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STATE RATE DEC[illegible]NS (KY - LA - MS)

Cost Ref. #	Rate Element	KENTUCKY Recurring	KENTUCKY Non-Recurring Electronic	KENTUCKY Non-Recurring Manual	LOUISIANA Recurring	LOUISIANA Non-Recurring Electronic	LOUISIANA Non-Recurring Manual	MISSISSIPPI Recurring	MISSISSIPPI Non-Recurring Electronic	MISSISSIPPI Non-Recurring Manual
	Status	Rates established for 2 years in 7/14/97 Order (Case Nos. 96-431 & 96-482)			Rates set in 10/24/97 Order in Docket Nos. U-22022/22093 plus Additional rates in Docket U-22252			Rates set in 8/25/98 Order in Docket No. 97-AD-544		
A.0	**Unbundled Local Loop**									
A.1	*2-Wire Analog Voice Grade Loop*									
A.1.1	2-wire analog voice grade loop - service level 1	20.00 18.20	86.08 58.57		19.35	40.69 29.96	58.83 38.02	21.26	59.25 43.67	84.77 55.01
	Disconnect Charges					11.48 3.36	22.89 3.36		16.35 4.60	32.41 4.60
A.1.2	2-wire analog voice grade loop - service level 2	23.35 21.41	236.75 177.10		22.84	99.69 74.73	117.83 82.79	25.05	144.01 107.70	169.53 119.04
	Disconnect Charges					28.73 18.87	40.14 18.87		40.98 26.95	57.04 26.95
A.1.3	2-wire analog voice grade loop - service level 1 - manual order coordination					34.90 34.90	34.90 34.90		50.29 50.29	50.29 50.29
	Disconnect Charges					8.77 8.77	8.77 8.77		12.64 12.64	12.64 12.64
A.1.4	2-wire analog voice grade loop - service level 1 - order coordination for specified conversion time					32.77	32.77		45.27	45.27
A.1.5	2-wire analog voice grade loop - service level 2 - order coordination for specified conversion time					32.77	32.77		45.27	45.27
A.2	*Sub-Loop 2-Wire Analog*									
A.2.1	Loop feeder per 2-wire analog voice grade loop				9.90	197.61 162.77	215.75 170.83			
	Disconnect Charges					74.27 39.44	85.68 39.44			
A.2.2	Loop distribution per 2-wire analog voice grade loop (incl. NID)	10.83 9.95	459.85 352.89		12.29	197.76 163.60	215.90 171.66			
	Disconnect Charges					71.20 37.03	82.61 37.03			
	Loop distribution - per 4-wire analog voice grade loop (incl. NID)									
	Disconnect Charges									

Under non-recurring charges where there are two entries, first entry is for the first unit installed, second entry is for additional units installed.
For Kentucky all non-recurring charges are electronic with the exception of certain elements that can only be ordered manually.

Kentucky recurring loops indicate two rates; first rate is loop with NID, second rate is loop without NID.

Revised 03/21/00

BellSouth Telecommunications, Inc.
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STATE RATE DECISIONS (KY - LA - MS)

Cost Ref. #	Rate Element	KENTUCKY Recurring	KENTUCKY Non-Recurring Electronic	KENTUCKY Non-Recurring Manual	LOUISIANA Recurring	LOUISIANA Non-Recurring Electronic	LOUISIANA Non-Recurring Manual	MISSISSIPPI Recurring	MISSISSIPPI Non-Recurring Electronic	MISSISSIPPI Non-Recurring Manual
	Status	Rates established for 2 years in 7/14/97 Order (Case Nos. 96-431 & 96-482)			Rates set in 10/24/97 Order in Docket Nos. U-22022/22093 plus Additional rates in Docket U-22252			Rates set in 8/25/98 Order in Docket No. 97-AD-544		
A.2.3	Loop concentration - Channelization system (outside CO)	263.06	1508.41 596.11		402.00	618.57 270.40	636.71 278.46			
	Disconnect Charges					198.30 48.24	209.71 48.24			
A.2.4	Loop concentration - Remote terminal cabinet (outside CO)				ICB					
A.2.5	Loop concentration - Working plug-in 2-wire voice grade (outside CO)	1.80	23.30 23.25		1.02	8.99 8.97	8.99 8.97			
	Disconnect Charges					4.49 4.48	4.49 4.48			
A.2.6	NID per 2-wire analog voice grade loop	1.80			1.09	2.02 2.02	20.16 10.08	1.22	2.84 2.84	28.36 14.18
	Disconnect Charges					2.01 2.01	13.42 2.01		2.84 2.84	18.90 2.84
	NID to NID cross connect (FL only)									
A.2.8	Sub-loop feeder order coordination for specified conversion time					32.77	32.77			
	Disconnect Charges									
A.2.9	Sub-loop distribution order coordination for specified conversion time					32.77	32.77			
A.3	*Loop Channelization and CO Interface (inside CO)*									
A.3.1	Loop channelization system - digital loop carrier	429.33	664.06 166.55		301.68	292.90 72.38	311.04 80.44	388.37	421.76 104.58	447.28 115.92
	Disconnect Charges					5.30	16.71		7.29	23.35
A.3.2	CO channel interface - 2 wire voice grade	1.26	46.68 46.38		1.08	19.97 19.84	19.97 19.84	1.02	26.23 26.06	26.23 26.06
	Disconnect Charges					8.26 8.21	8.26 8.21		10.86 10.78	10.86 10.78
A.4	*4-Wire Analog Voice Grade Loop*									

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Revised 03/21/00

STATE RATE DECISIONS (KY - LA - MS)

Cost Ref. #	Rate Element	Kentucky: Rates established for 2 years in 7/14/97 Order (Case Nos. 96-431 & 96-482) Recurring	Kentucky Non-Recurring Electronic	Kentucky Non-Recurring Manual	Louisiana: Rates set in 10/24/97 Order in Docket Nos. U-22022/22093 plus Additional rates in Docket U-22252 Recurring	Louisiana Non-Recurring Electronic	Louisiana Non-Recurring Manual	Mississippi: Rates set in 8/25/98 Order in Docket No. 97-AD-544 Recurring	Mississippi Non-Recurring Electronic	Mississippi Non-Recurring Manual
A.4.1	4-wire analog voice grade loop	28.28 26.38	457.14 348.83		31.52	198.10 163.26	216.24 171.32	30.55	289.06 238.19	314.58 249.53
	Disconnect Charges					74.27 39.44	85.68 39.44		108.14 57.28	124.20 57.28
A.4.2	NID per 4-wire analog voice grade loop				1.22	2.02 2.02	20.16 10.08	1.34	2.84 2.84	28.36 14.18
	Disconnect Charges					2.01 2.01	13.42 2.01		2.84 2.84	18.90 2.84
A.4.3	4-wire analog voice grade loop - order coordination for specified conversion time					32.77	32.77		45.27	45.27
A.5	*2-Wire ISDN Digital Grade Loop*									
A.5.1	2-wire ISDN digital grade loop	31.99 29.65	541.28 431.61		27.36	223.27 172.63	241.41 180.69	29.83	326.38 252.00	351.90 263.34
	Disconnect Charges					74.27 39.44	85.68 39.44		108.14 57.27	124.20 57.27
A.5.2/ A.2.6	NID per 2-wire ISDN Digital Grade Loop	1.80			1.08	2.02 2.02	20.16 10.08	1.22	2.84 2.84	28.36 14.18
	Disconnect Charges					2.01 2.01	13.42 2.01		2.84 2.84	18.90 2.84
A.5.3	2-wire ISDN digital grade loop - order coordination for specified conversion time					32.77	32.77		45.27	45.27
A.6	*2-Wire Asymmetrical Digital Subscriber Line (ADSL) Loop*									
A.6.1	2-wire asymmetrical digital subscriber line (ADSL) loop	11.89 10.63	713.50 609.44		15.39	343.13 310.03	361.27 318.09	14.83	504.82 456.24	530.34 467.58
	Disconnect Charges					72.54 39.42	83.95 39.42		105.86 57.25	121.92 57.25
A.6.2/ A.2.6	NID per 2-wire asymmetrical digital subscriber line (ADSL) loop	1.80			1.09	2.02 2.02	20.16 10.08	1.22	2.84 2.84	28.36 14.18

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Revised 03/21/00

STATE RATE DECISIONS (KY - LA - MS)

Cost Ref. #	Rate Element	KY Recurring	KY Non-Recurring Electronic	KY Non-Recurring Manual	LA Recurring	LA Non-Recurring Electronic	LA Non-Recurring Manual	MS Recurring	MS Non-Recurring Electronic	MS Non-Recurring Manual
	Status	Rates established for 2 years in 7/14/97 Order (Case Nos. 96-431 & 96-482)			Rates set in 10/24/97 Order in Docket Nos. U-22022/22093 plus Additional rates in Docket U-22252			Rates set in 8/25/98 Order in Docket No. 97-AD-544		
	Disconnect Charges					2.01 2.01	13.42 2.01		2.84 2.84	18.90 2.84
A.6.3	2-wire ADSL loop - order coordination for specified conversion time					32.77	32.77		45.27	45.27
A.7	*2-Wire High Bit Rate Digital Subscriber Line (HDSL) Loop*									
A.7.1	2-wire high bit rate digital subscriber line (HDSL) loop	8.51 7.40	713.50 609.44		11.61	343.13 310.03	361.27 318.09	11.60	504.82 456.24	530.34 467.58
	Disconnect Charges					72.54 39.42	83.95 39.42		105.86 57.25	121.92 57.25
A.7.2/ A.2.6	NID per 2-wire high bit rate digital subscriber line (HDSL) loop				1.09	2.02 2.02	20.16 10.08	1.22	2.84 2.84	28.36 14.18
	Disconnect Charges					2.01 2.01	13.42 2.01		2.84 2.84	18.90 2.84
A.7.3	2-wire HDSL loop - order coordination for specified conversion time					32.77	32.77		45.27	45.27
A.8	*4-Wire High Bit Rate Digital Subscriber Line (HDSL) Loop*									
A.8.1	4-wire high bit rate digital subscriber line (HDSL) loop	10.39 9.70	748.93 646.17		16.39	361.45 328.35	379.59 336.41	14.14	531.21 482.63	556.73 493.97
	Disconnect Charges					72.54 39.41	83.95 39.41		105.86 57.25	121.92 57.25
A.8.2/ A.4.2	NID per 4-wire high bit rate digital subscriber line (HDSL) loop				1.21	2.02 2.02	20.16 10.08	1.34	2.84 2.84	28.36 14.18
	Disconnect Charges					2.01 2.01	13.42 2.01		2.84 2.84	18.90 2.84
A.8.3	4-wire HDSL loop - order coordination for specified conversion time					32.77	32.77		45.27	45.27

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Revised 03/21/00

STATE RATE DECISIONS (KY - LA - MS)

Cost Ref. #	Rate Element	KENTUCKY Recurring	KENTUCKY Non-Recurring Electronic	KENTUCKY Non-Recurring Manual	LOUISIANA Recurring	LOUISIANA Non-Recurring Electronic	LOUISIANA Non-Recurring Manual	MISSISSIPPI Recurring	MISSISSIPPI Non-Recurring Electronic	MISSISSIPPI Non-Recurring Manual
	Status	Rates established for 2 years in 7/14/97 Order (Case Nos. 96-431 & 96-482)			Rates set in 10/24/97 Order in Docket Nos. U-22022/22093 plus Additional rates in Docket U-22252			Rates set in 8/25/98 Order in Docket No. 97-AD-544		
A.9	*4-Wire DS1 Digital Loop*									
A.9.1	4-wire DS1 digital loop	67.96	849.80 523.27		72.86	410.38 255.48	428.52 263.54	69.59	599.09 373.90	624.61 385.24
	Disconnect Charges					92.35 38.44	103.76 38.44		133.53 56.25	149.59 56.25
A.9.3	Order Coordination For Specified Conversion Time					33.05	33.05		48.17	48.17
A.10	*4-Wire 56 or 64 KBPS Digital Grade Loop*									
A.10.1	4-wire 56 or 64 Kbps digital grade loop				35.58	333.28 230.50	351.42 238.56	34.95	489.00 337.93	514.52 349.27
	Disconnect Charges					87.99 44.24	99.40 44.24		128.36 64.35	144.42 64.35
A.10.2	NID per 4-wire 56 or 64 Kbps digital grade loop				1.21	2.02 2.02	20.16 10.08	1.34	2.84 2.84	28.36 14.18
	Disconnect Charges					2.01 2.01	13.42 2.01		2.84 2.84	18.90 2.84
A.10.3	4-wire 56 or 64 Kbps digital grade loop - order coordination for specified conversion time					32.77	32.77		45.27	45.27
B.0	**Unbundled Local Exchange Ports and Features**									
B.1	*Exchange Ports*									
B.1.1	Exchange ports - 2-wire analog line port, residence/business	2.61	37.78 Res. 37.55 Bus. 36.47 PBX		2.20	16.43 16.43	34.57 24.49	2.11	22.98 22.98	48.50 34.32
	Disconnect Charges					4.38 4.38	14.77 4.38		6.56 6.56	22.62 6.56

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Revised 03/21/00

STATE RATE DEC[illegible]NS (KY - LA - MS)

Cost Ref. #	Rate Element	KENTUCKY: Rates established for 2 years in 7/14/97 Order (Case Nos. 96-431 & 96-482)			LOUISIANA: Rates set in 10/24/97 Order in Docket Nos. U-22022/22093 plus Additional rates in Docket U-22252			MISSISSIPPI: Rates set in 8/25/98 Order in Docket No. 97-AD-544		
	Status	Recurring	Non-Recurring Electronic	Non-Recurring Manual	Recurring	Non-Recurring Electronic	Non-Recurring Manual	Recurring	Non-Recurring Electronic	Non-Recurring Manual
B.1.2	Exchange ports - 4-wire analog voice grade port				10.13	16.43 16.43	34.57 24.49	9.60	22.98 22.98	48.50 34.32
	Disconnect Charges					3.77 3.77	12.71 3.77		6.56 6.56	22.62 6.56
B.1.3	Exchange ports - 2-wire analog DID trunk port				13.12	59.28 59.28	77.42 67.34	14.63	83.09 83.09	108.61 94.43
	Disconnect Charges					9.20 9.20	19.59 9.20		13.48 13.48	29.55 13.48
B.1.4	Exchange ports - 4-wire DID trunk port				149.27	85.63 50.23	103.77 58.29	146.46	117.81 71.18	143.33 82.52
	Disconnect Charges					8.82 8.83	19.21 8.83		12.94 12.94	29.00 12.94
B.1.5	Exchange ports - 2-wire ISDN digital line side port	12.33	90.48 84.53		23.33	45.35 45.35	83.64 83.64	51.91	63.59 63.59	117.46 117.46
	Disconnect Charges					4.31 4.31	10.96 10.96		7.04 7.04	18.38 18.38
	User Profile per B channel		5.61							
B.1.6	Exchange ports - 4-wire ISDN DS1 digital trunk port	275.48	181.27 116.42		194.72	181.89 181.89	215.07 215.07	213.21	244.12 244.12	295.15 295.15
	Disconnect Charges					27.11 27.11	34.84 34.84		53.32 53.32	61.83 61.83
B.1.7	Exchange ports - 2-wire analog line port, PBX				2.20	16.43 16.43	34.57 24.49	2.11	22.98 22.98	48.50 34.32
	Disconnect Charges					3.77 3.77	12.71 3.77		6.56 6.56	22.62 6.56
B.1.8	Exchange ports - 4-wire analog coin port	3.04	40.71		2.50	16.43 16.43	34.57 24.49	2.32	22.98 22.98	48.50 34.32
	Disconnect Charges					4.15 4.15	14.01 4.15		6.56 6.56	22.62 6.56
B.2	*Features*									
B.2.1	Three-Way Calling							1.32	1.02	1.02
B.2.2	Customer Changeable Speed Calling							.0755	1.02	1.02
B.2.3	Call Waiting							.0330	1.02	1.02

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STATE RATE DEC[ISI]ONS (KY - LA - MS)

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	Status	Rates established for 2 years in 7/14/97 Order (Case Nos. 96-431 & 96-482)			Rates set in 10/24/97 Order in Docket Nos. U-22022/22093 plus Additional rates in Docket U-22252			Rates set in 8/25/98 Order in Docket No. 97-AD-544		
B.2.4	Remote Activation of Call Forwarding							.4859	1.02	1.02
B.2.5	Cancel Call Waiting							.0082	1.02	1.02
B.2.6	Automatic Callback							.9977	1.02	1.02
B.2.7	Automatic Recall							.3164	1.02	1.02
B.2.8	Calling Number Delivery							.1817	1.02	1.02
B.2.9	Calling Number Delivery Blocking							.9913	1.02	1.02
B.2.10	Customer Originated Trace							.1918	1.02	1.02
B.2.11	Selective Call Rejection							.1721	1.02	1.02
B.2.12	Selective Call Forwarding							.1050	1.02	1.02
B.2.13	Selective Call Acceptance							.4010	1.02	1.02
B.2.15	Multiline Hunt Service (Rotary) Service per line, (in addition to port)	.29	2.14					.1271	1.02	1.02
B.2.16	Call Forwarding Variable							.0474	1.02	1.02
B.2.17	Call Forwarding Busy Line							.0279	1.02	1.02
B.2.18	Call Forwarding Don't Answer All Calls							.0308	1.02	1.02
B.2.19	Remote Call Forwarding							1.47	1.02	1.02
B.2.20	Call Transfer							.1404	1.02	1.02
B.2.21	Call Hold							.0190	1.02	1.02
B.2.22	Toll Restricted Service							.0387	1.02	1.02
B.2.23	Message Waiting Indicator - Stutter Dial Tone							.0356	1.02	1.02
B.2.24	Anonymous Call Rejection							.9519	1.02	1.02
B.2.25	Shared Call Appearances of a DN							.5015	1.02	1.02
B.2.26	Multiple Call Appearances							.0932	1.02	1.02
B.2.27	ISDN Bridged Call Exclusion							.0013	1.02	1.02
B.2.28	Call by Call Access							50.89	28.61	28.61
B.2.29	Privacy Release							.0030	1.02	1.02
B.2.30	Multi Appearance Directory Number Calls							.1115	1.02	1.02
B.2.31	Make Set Busy							.0013	1.02	1.02
B.2.32	Teen Service (Res. Dist. Alerting Service)							.1071	1.02	1.02

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STATE RATE DECISIONS (KY - LA - MS)

	Status	KENTUCKY: Rates established for 2 years in 7/14/97 Order (Case Nos. 96-431 & 96-482)			LOUISIANA: Rates set in 10/24/97 Order in Docket Nos. U-22022/22093 plus Additional rates in Docket U-22252			MISSISSIPPI: Rates set in 8/25/98 Order in Docket No. 97-AD-544		
Cost Ref. #	Rate Element	Recurring	Non-Recurring Electronic	Non-Recurring Manual	Recurring	Non-Recurring Electronic	Non-Recurring Manual	Recurring	Non-Recurring Electronic	Non-Recurring Manual
B.2.33	Code Restriction and Diversion							.0464	1.02	1.02
B.2.34	Call Park							.0443	1.02	1.02
B.2.35	Automatic Line							.1111	1.02	1.02
B.2.36	ISDN Message Waiting Indication-Lamp							.0105	1.02	1.02
B.2.37	ISDN Feature Function Buttons								1.02	1.02
	Disconnect charges for each feature above except B.2.28								.5466	.5466
	Disconnect charges for B.2.28								5.16	5.16
B.2.39	Subsequent Ordering Charge								2.84 .95	4.73 .95
	Exchange port - 2-wire analog line port (res/bus) all available features included				10.48	16.43 16.43	34.57 24.49	8.86	44.40 44.40	69.92 55.74
	Disconnect Charges								19.68 19.68	35.74 19.68
	Exchange Port - 2-wire analog (res/bus) with three features included							5.42	26.04 26.04	51.56 37.38
	Disconnect Charges								8.20 8.20	24.26 8.20
	All Features Offered				8.28					
C.0	**Unbundled Switching and Local Interconnection**									
C.1	*End Office Switching*									
C.1.1	End office switching function per MOU	.002562			.0021			.0023771		
C.1.2	End office trunk port - shared per MOU				.0002			.0001927		
C.2	*Tandem Switching*									
C.2.1	Tandem switching function per MOU	.001096			.0008			.0007834		
C.2.2	Tandem trunk port - shared per MOU				.0003			.0002834		
	Tandem intermediary charge	.001096								

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STATE RATE DECISIONS (KY - LA - MS)

Cost Ref. #	Rate Element	KENTUCKY			LOUISIANA			MISSISSIPPI		
	Status	Rates established for 2 years in 7/14/97 Order (Case Nos. 96-431 & 96-482)			Rates set in 10/24/97 Order in Docket Nos. U-22022/22093 plus Additional rates in Docket U-22252			Rates set in 8/25/98 Order in Docket No. 97-AD-544		
		Recurring	Non-Recurring Electronic	Non-Recurring Manual	Recurring	Non-Recurring Electronic	Non-Recurring Manual	Recurring	Non-Recurring Electronic	Non-Recurring Manual
D.0	**Unbundled Transport and Local Interoffice Transport**									
D.1	*Common Transport*									
D.1.1	Common transport - per mile, per MOU	.0000049			.0000083			.0000091		
D.1.2	Common transport - facilities termination per MOU	.000426			.00047			.0004281		
D.2	*Interoffice (IO) Transport - Dedicated - Voice Grade*									
D.2.1	Interoffice transport - dedicated - 2-wire voice grade - per mile				.0384			.0323		
D.2.2	Interoffice transport - dedicated - 2-wire voice grade - facility termination per month				19.10	76.20 34.54	94.34 52.68	21.33	106.72 48.83	132.24 74.35
	Disconnect Charges					28.03 5.37	36.09 13.43		38.05 7.23	49.39 18.57
D.3	*Interoffice Transport - Dedicated - DSO - 56/64kbps*									
D.3.1	Interoffice transport - dedicated - DSO - per mile				.0384			.0323		
D.3.2	Interoffice transport - dedicated - DSO - facility termination				18.37	76.20 34.54	94.34 52.68	20.64	106.72 48.83	132.24 74.35
	Disconnect Charges					28.03 5.37	36.09 13.43		38.05 7.23	49.39 18.57
D.4	*Interoffice Transport - Dedicated - DS1*									
D.4.1	Interoffice transport - dedicated - DS1 - per mile	.45			.7831			.6598		
D.4.2	Interoffice transport - dedicated - DS1 - facility termination	55.05	298.18 231.23		93.40	140.49 106.69	158.63 124.83	74.40	196.28 147.31	221.80 172.83

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STATE RATE DEC[illegible]NS (KY - LA - MS)

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	Status	Rates established for 2 years in 7/14/97 Order (Case Nos. 96-431 & 96-482)			Rates set in 10/24/97 Order in Docket Nos. U-22022/22093 plus Additional rates in Docket U-22252			Rates set in 8/25/98 Order in Docket No. 97-AD-544		
	Disconnect Charges					20.00 16.34	28.06 24.40		26.56 21.61	37.90 32.95
	Unbundled local exchange access interoffice channel									
	0-8 miles, fixed	16.14	181.93 75.56							
	0-8 miles, per mile, per month	.0301								
	9-25 miles, fixed	17.18	181.93 75.56							
	9-25 miles, per mile, per month	.0726								
	Over 25 miles, fixed	18.41	181.93 75.56							
	Over 25 miles, per mile, per month	.0831								
	Nonrecurring									
D.5	*Local Channel – Dedicated*									
D.5.1	Local Channel - Dedicated - 2-wire voice grade				14.94	347.49 59.75	365.63 67.81	17.83	487.62 84.35	513.14 95.69
	Disconnect Charges					53.68 6.60	65.08 6.60		77.69 8.95	93.74 8.95
D.5.2	Local Channel - Dedicated - 4-wire voice grade				16.21	352.75 61.33	370.89 69.39	19.03	495.25 86.56	520.77 97.90
	Disconnect Charges					54.36 7.28	65.76 7.28		78.58 9.84	94.63 9.84
D.5.3	Local Channel - Dedicated - DS1				43.80	348.56 300.30	390.90 300.30	38.91	494.83 435.28	554.41 435.28
	Disconnect Charges					24.15 21.31	43.63 21.31		46.85 33.02	74.26 33.02
D.5.7 D.5.8	Local Channel - Dedicated - DS3							533.33	526.67 493.71	558.16 525.20
	Disconnect Charges								42.41 40.87	67.76 66.22

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STATE RATE DECISIONS (KY - LA - MS)

Cost Ref. #	Rate Element	KENTUCKY: Rates established for 2 years in 7/14/97 Order (Case Nos. 96-431 & 96-482)			LOUISIANA: Rates set in 10/24/97 Order in Docket Nos. U-22022/22093 plus Additional rates in Docket U-22252			MISSISSIPPI: Rates set in 8/25/98 Order in Docket No. 97-AD-544		
		Recurring	Non-Recurring Electronic	Non-Recurring Manual	Recurring	Non-Recurring Electronic	Non-Recurring Manual	Recurring	Non-Recurring Electronic	Non-Recurring Manual
D.6	*Interoffice Transport – Dedicated – DS3*									
D.6.1	Interoffice Transport – Dedicated – DS3 – per mile							15.02		
D.6.2 D.6.3	Interoffice Transport – Dedicated – DS3 – Facility Termination							744.38	686.74 477.76	751.71 542.73
	Disconnect Charges								125.56 118.79	152.64 145.87
	Local Usage (See formulas on last page of matrix)									
Note 1	Intraoffice, per MOU				.00209					
Note 2	Interoffice (assumes 5 mi. Of transport) per MOU				.00538					
	Local Interconnection (See last page of matrix)									
Note 3	End office connection, per MOU				.00209					
Note 4	Tandem connection (assumes 5 mi. Of transport) per MOU				.00430					
Note 5	Multi-tandem connection, per MOU				Variable					
E.0	**Signaling Networks, Databases and Service Management Systems**									
E.1	*800/888 Access Ten Digit Screening*									
E.1.1	800 access ten digit screening, per call				.0005305			.0005321		
	Per 800 call utilizing access 10-digit screening service w/800 number delivery, per query	.0010								
	Per 800 call utilizing access ten digit screening service with 800 number delivery, for 800 numbers with optional complex features, per query	.0011								

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Revised 03/21/00

STATE RATE DEC[illegible]NS (KY - LA - MS)

	Status	KENTUCKY: Rates established for 2 years in 7/14/97 Order (Case Nos. 96-431 & 96-482)			LOUISIANA: Rates set in 10/24/97 Order in Docket Nos. U-22022/22093 plus Additional rates in Docket U-22252			MISSISSIPPI: Rates set in 8/25/98 Order in Docket No. 97-AD-544		
Cost Ref. #	Rate Element	Recurring	Non-Recurring Electronic	Non-Recurring Manual	Recurring	Non-Recurring Electronic	Non-Recurring Manual	Recurring	Non-Recurring Electronic	Non-Recurring Manual
	Per 800 call utilizing access ten digit screening service with POTS number delivery, per query	.0010								
	Per 800 call utilizing access ten digit screening service with POTS number delivery, with optional complex features, per query	.0011								
E.1.2	800 access ten digit screening, reservation charge, per 800 number reserved		10.05 1.19			6.29 .73	24.43 .73		8.46 .96	33.98 .96
E.1.3	800 access ten digit screening, per 800 # established without POTS translations		30.59 3.22			12.27 1.39	30.41 1.39		17.04 1.93	42.56 1.93
	Disconnect Charges					8.30 .73	19.70 .73		11.32 .96	27.37 .96
E.1.4	800 access ten digit screening, per 800 # established with POTS translations		30.59 3.22			12.27 1.39	30.41 1.39		17.04 1.93	42.56 1.93
	Disconnect Charges					8.30 .73	19.70 .73		11.32 .96	27.37 .96
E.1.5	800 access ten digit screening, customized area of service per 800 #		6.97 3.49			4.27 2.14	4.27 2.14		5.63 2.81	5.63 2.81
E.1.6	800 access ten digit screening, multiple interLATA CXR routing per CXR requested per 800#		8.16 4.67			5.00 2.86	5.00 2.86		6.59 3.77	6.59 3.77
E.1.7	800 access ten digit screening, change charge per request		11.24 1.19			7.01 .73	25.15 .73		9.42 .96	34.94 .96
E.1.8	800 access ten digit screening, call handling and destination features		6.97			4.27	4.27		5.63 5.63	5.63 5.63
E.2	*Line Information Database Access (LIDB)*									
E.2.1	LIDB common transport per query	.00006			.0000418			.0000446		
E.2.2	LIDB validation per query	.00938			.0103774			.0142132		

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STATE RATE DECI[illegible]NS (KY - LA - MS)

		KENTUCKY			LOUISIANA			MISSISSIPPI		
	Status	Rates established for 2 years in 7/14/97 Order (Case Nos. 96-431 & 96-482)			Rates set in 10/24/97 Order in Docket Nos. U-22022/22093 plus Additional rates in Docket U-22252			Rates set in 8/25/98 Order in Docket No. 97-AD-544		
Cost Ref. #	Rate Element	Recurring	Non-Recurring Electronic	Non-Recurring Manual	Recurring	Non-Recurring Electronic	Non-Recurring Manual	Recurring	Non-Recurring Electronic	Non-Recurring Manual
E.2.3	LIDB originating point code establishment or change		107.60			48.17	66.31		63.63	89.15
	Disconnect Charges									
E.3	*CCS7 Signaling Transport*									
E.3.1	CCS7 signaling connection, per 56Kbps	16.31	354.95 174.08		19.48	126.34	144.48	21.58	169.72	195.24
	Disconnect Charges					101.10	112.50		134.08	150.13
	CCS7 signaling links, A link									
	CCS7 signaling links, B/D link									
E.3.2	CCS7 signaling termination, per STP port	174.08			161.99			161.12		
E.3.3	CCS7 Signaling Usage, Per Call Setup Message	.000037893			.0000430			.0000456		
E.3.4	CCS7 signaling usage, per TCAP message	.000102042			.0001052			.0001115		
E.3.5	CCS7 signaling usage surrogate, per 56Kbps facility, per LATA per month	329.98			406.71			406.53		
F.0	Operations Support Systems (OSS)									
F.1	*Operational Support Systems (OSS)*									
	OSS Interactive Ordering and Trouble Maintenance, Establishment, per user				50.00	100.00				
F.1.1	Recovery of incremental OSS costs, per electronic order		10.89			9.16			10.60	
	OSS Electronic Interface, per first 1,000 orders									
	OSS Electronic Interface, next 1,000 orders									
F.1.2	OSS CLEC daily usage file (billing): recording, per message	.0008611			.00019			.0001179		
F.1.3	OSS CLEC daily usage file (billing): message distribution, per message	.0032357			.00240			.0032089		

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	Status	Recurring	Non-Recurring		Recurring	Non-Recurring		Recurring	Non-Recurring	
			Electronic	Manual		Electronic	Manual		Electronic	Manual
F.1.4	OSS CLEC daily usage file; message distribution, per magnetic tape provisioned	55.68			47.30			54.62		
F.1.5	OSS CLEC daily usage file (billing): data transmission (connect:direct), per message	.0000365			.00003			.0000354		
G.0	**Operator Services and Directory Assistance**									
G.1	*Operator Call Processing*									
G.1.1	Operator call processing - operator provided cost per minute - using BST LIDB	1.6016			.91			1.19		
G.1.2	Operator call processing - operator provided cost per minute - using foreign LIDB	1.6249			.96			1.24		
G.1.3	Operator call processing - fully automated cost per call - using BST LIDB	.0856			.10			.1072884		
G.1.4	Operator call processing - fully automated cost per call - using foreign LIDB	.1071			.12			.1253666		
G.1.5	Loading expense per announcement for branded announcement			244.04						254.83 254.83
G.1.6	Recording expense per announcement for branded announcement			1664.89						1,652.00 1,640.00
	Disconnect Charges									9.45 9.45
G.2	*Inward Operator Services*									
G.2.1	Inward operator services - verification, per minute	1.00 per call			.86			1.14		
G.2.2	Inward operator services - emergency interrupt, per minute	1.111 per call			.86			1.14		

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	Status	Recurring	Non-Recurring Electronic	Non-Recurring Manual	Recurring	Non-Recurring Electronic	Non-Recurring Manual	Recurring	Non-Recurring Electronic	Non-Recurring Manual
G.3	*Directory Assistance Call Completion (DACC)*									
G.3.1	Directory assistance call completion access service, per call attempt	.058			.04			.0425585		
G.4	*Number Services Intercept Access Service*									
G.4.1	Number services intercept, per query	.0086			.02			.0188268		
	Per intercept query update	.0055								
G.5	*Directory Assistance Access Service*									
G.5.1	Directory assistance access service call, cost per call	.3136			.20			.2617159		
G.5.2	Loading expense per announcement for branded announcement			244.04						254.83 254.83
G.5.3	Recording expense per announcement for branded announcement			1664.89						1,652.00 1,649.00
	Disconnect Charges									9.45 9.45
G.6	*Directory Transport*									
G.6.1/ D.5.3	Directory transport - switched local channel DS1	36.32	637.46 546.94		43.83	339.69 298.29	382.03 298.29	38.91	494.83 435.28	554.41 435.28
	Disconnect Charges					33.02 23.32	52.50 23.32		46.85 33.02	74.26 33.02
G.6.2/ D.4.1	Directory transport - DS1 level interoffice per mile	.45			.78			.6598		
G.6.3/ D.4.2	Directory transport - DS1 level interoffice per facility termination	55.05	298.18 231.18		93.40	140.49 106.69	158.63 124.83	74.40	196.28 147.31	221.80 172.83
	Disconnect Charges					20.00 16.34	28.06 24.40		26.56 21.61	37.90 32.95

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STATE RATE DECISIONS (KY - LA - MS)

Cost Ref. #	Rate Element	KENTUCKY Recurring	KENTUCKY Non-Recurring Electronic	KENTUCKY Non-Recurring Manual	LOUISIANA Recurring	LOUISIANA Non-Recurring Electronic	LOUISIANA Non-Recurring Manual	MISSISSIPPI Recurring	MISSISSIPPI Non-Recurring Electronic	MISSISSIPPI Non-Recurring Manual
	Status	Rates established for 2 years in 7/14/97 Order (Case Nos. 96-431 & 96-482)			Rates set in 10/24/97 Order in Docket Nos. U-22022/22093 plus Additional rates in Docket U-22252			Rates set in 8/25/98 Order in Docket No. 97-AD-544		
G.6.4	Switched common transport per DA access service per call	.000175			.0003274			.0002997		
G.6.5	Switched common transport per DA access service per call per mile	.000004			.0000175			.0000202		
G.6.6	Access tandem switching per DA access service per call	.000783			.0025257			.0023713		
G.6.7	Directory transport - DA interconnection per DA service call									
G.6.8	Directory transport - installation NRC, per trunk or signaling connection			501.98 13.32			195.54 4.23			257.73 5.85
	Disconnect Charges						130.05 4.23			171.49 5.85
G.7	*Directory Assistance Database Service (DADS)*									
G.7.1	Directory assistance database service, cost per listing	.0193			.0443			.0447		
G.7.2	Directory assistance database service, monthly recurring cost	120.76			90.54			126.17		
G.8	*Direct Access to Directory Assistance*									
G.8.1	Direct access to directory assistance service, per month	7,235.01			4,982.00			6,926.00		
G.8.2	Direct access to directory assistance service, per query	.0052			.0460			.0461336		
G.8.3	Direct access to directory assistance service, service establishment charge			1,186.94			786.82			1,097.00
	Disconnect Charges						57.23			80.52
G.9	*Customized Routing (or selective routing)*									
G.9.1	Customized routing per unique line class code, per request, per switch								227.99	253.51

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BellSouth Telecommunications, Inc.
KPSC Case No. 99-434
Staff's First Set of Data Requests
Item No. 7
Attachments Pages 1-24a

STATE RATE DEC[illegible]NS (KY - LA - MS)

Cost Ref. #	Rate Element	KENTUCKY: Rates established for 2 years in 7/14/97 Order (Case Nos. 96-431 & 96-482)			LOUISIANA: Rates set in 10/24/97 Order in Docket Nos. U-22022/22093 plus Additional rates in Docket U-22252			MISSISSIPPI: Rates set in 8/25/98 Order in Docket No. 97-AD-544		
	Status	Recurring	Non-Recurring Electronic	Non-Recurring Manual	Recurring	Non-Recurring Electronic	Non-Recurring Manual	Recurring	Non-Recurring Electronic	Non-Recurring Manual
	Per line or PBX trunk, one-time charge			10.00						
G.10	*Selective Carrier Routing*									
G.10.1	Service Establishment per CLEC				200,747					
G.10.5	Disconnect per CLEC						14,790			
G.10.2	Service Establishment per End Office				320.53					
G.10.6	Disconnect per End Office						25.72			
G.10.3	Service Establishment per Line/Port				2.06					
G.10.7	Disconnect per Line/Port						2.06			
G.10.4	Query Cost				.0053744					
H.0	**Collocation**									
H.1	*Physical Collocation*									
H.1.1	Physical collocation - application cost			9,926.72			4,910.00			6,993.00
	Disconnect Charges									1.70
H.1.2	Physical collocation - space preparation			ICB	ICB			ICB		
	Physical collocation - space construction cost per first 100 square feet			9,985.50	136.63			132.65		
	Physical collocation - space construction cost per additional 50 square feet			1,092.21	15.85			15.39		
	Physical collocation - cable installation cost per cable			2,327.08			1,706.00			2,419.00
	Disconnect Charges						36.00			53.24
H.1.6	Physical collocation - floor space, per square feet - zone A	5.00			4.01			3.45		
	Physical collocation - floor space, per square feet - zone B	5.00			N/A			N/A		
H.1.7	Physical collocation - cable support structure, per entrance cable	24.23			24.05			22.90		

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	Status	Rates established for 2 years in 7/14/97 Order (Case Nos. 96-431 & 96-482)			Rates set in 10/24/97 Order in Docket Nos. U-22022/22093 plus Additional rates in Docket U-22252			Rates set in 8/25/98 Order in Docket No. 97-AD-544		
H.1.8	Physical collocation - power, per ampere	7.68			7.15			6.93		
H.1.9	Physical collocation - 2-wire cross connects	.31	54.21 51.07		.26	23.04 22.11	24.92 23.99	.3996	30.93 29.59	33.58 32.24
	Disconnect Charges					9.48 8.54	10.56 9.62		12.76 11.43	14.27 12.94
H.1.10	Physical collocation - 4-wire cross connects	.62	54.23 50.96		.52	23.23 22.24	25.11 24.12	.7992	31.17 29.77	33.82 32.42
	Disconnect Charges					9.53 8.55	10.61 9.63		12.83 11.43	14.34 12.94
H.1.11	Physical collocation - DS1 cross connects	1.92	99.23 69.15		2.03	43.61 30.60	45.49 32.48	2.90	60.42 41.68	63.07 44.33
	Disconnect Charges					9.56 8.63	10.64 9.71		12.87 11.54	14.38 13.05
H.1.12	Physical collocation - DS3 cross connects	39.94	97.48 66.90		36.27	41.46 29.20	43.34 31.08	53.31	57.45 39.81	60.10 42.46
	Disconnect Charges					11.06 8.86	12.14 9.94		14.92 11.80	16.43 13.31
H.1.13	Physical collocation - 2-wire POT bay	.06			.0776			.1195		
H.1.14	Physical collocation - 4-wire POT bay	.15			.1552			.2389		
H.1.15	Physical collocation - DS1 POT bay	.58			.6406			.9862		
H.1.16	Physical collocation - DS3 POT bay	4.51			4.75			5.81		
H.1.17	Physical collocation - security escort - basic, per half hour and additional			56.09 31.99			32.35 19.95			42.87 25.54
H.1.18	Physical collocation - security escort - overtime, per ½ hour and additional ½ hour			67.75 39.00			40.50 25.00			54.43 32.41
H.1.19	Physical collocation - security escort - premium, per ½ hour and additional ½ hour			79.41 46.01			48.66 30.05			65.99 39.28
	Cards, per five cards									
H.2	*Virtual Collocation*									
H.2.1	Virtual collocation - application cost						2,517.00			2,848.30

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STATE RATE DECISIONS (KY - LA - MS)

Cost Ref. #	Rate Element	KENTUCKY Recurring	KENTUCKY Non-Recurring Electronic	KENTUCKY Non-Recurring Manual	LOUISIANA Recurring	LOUISIANA Non-Recurring Electronic	LOUISIANA Non-Recurring Manual	MISSISSIPPI Recurring	MISSISSIPPI Non-Recurring Electronic	MISSISSIPPI Non-Recurring Manual
	Status	Rates established for 2 years in 7/14/97 Order (Case Nos. 96-431 & 96-482)			Rates set in 10/24/97 Order in Docket Nos. U-22022/22093 plus Additional rates in Docket U-22252			Rates set in 8/25/98 Order in Docket No. 97-AD-544		
	Additional Cable Request									
H.2.2	Virtual collocation - cable installation cost per cable						1,706.00			2,750.00
	Disconnect Charges						36.00			
H.2.3	Virtual collocation - floor space per square feet				3.20			3.20		
H.2.4	Virtual collocation - floor space power, per ampere				3.48			3.48		
H.2.5	Virtual collocation - cable support structure, per entrance cable				13.35			13.35		
H.2.6	Virtual collocation - 2-wire cross connects				.08	23.04 22.11	24.92 23.99	.1121	30.93 29.59	33.58 32.24
	Disconnect Charges					9.48 8.54	10.56 9.62		12.76 11.43	14.27 12.94
H.2.7	Virtual collocation - 4-wire cross connects				.16	23.23 22.24	25.11 24.12	.2242	31.17 29.77	33.82 32.42
	Disconnect Charges					9.53 8.55	10.61 9.63		12.83 11.43	14.34 12.94
H.2.8	Virtual collocation - DS1 cross connects				7.50	43.61 30.60	45.49 32.48	7.50	155.00 14.00	155.00 14.00
	Disconnect Charges					9.56 8.63	10.64 9.71			
H.2.9	Virtual collocation - DS3 cross connects				56.25	41.46 29.20	43.34 31.08	56.25	151.90 11.83	151.90 11.83
	Disconnect Charges					11.06 8.86	12.14 9.94			
H.2.10	Virtual collocation - security escort - basic, per half hour					32.35 19.95				41.00 25.00
H.2.11	Virtual collocation - security escort, overtime, per half hour					40.50 25.00				48.00 30.00
H.2.12	Virtual collocation - security escort, premium, per half hour					48.66 30.05				55.00 35.00

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Cost Ref. #	Rate Element	Kentucky Recurring	Kentucky Non-Recurring Electronic	Kentucky Non-Recurring Manual	Louisiana Recurring	Louisiana Non-Recurring Electronic	Louisiana Non-Recurring Manual	Mississippi Recurring	Mississippi Non-Recurring Electronic	Mississippi Non-Recurring Manual
	Status	Rates established for 2 years in 7/14/97 Order (Case Nos. 96-431 & 96-482)			Rates set in 10/24/97 Order in Docket Nos. U-22022/22093 plus Additional rates in Docket U-22252			Rates set in 8/25/98 Order in Docket No. 97-AD-544		
I.0	**Service Provider Number Portability**									
I.1	*Service Provider Number Portability - remote call forwarding*									
I.1.1	Service provider number portability - remote call forwarding, per number ported				2.29	.49	.49	2.34	.6441	.6441
	Disconnect Charges					.05	.05		.0644	.0644
I.1.2	Service provider number portability - remote call forwarding, per additional path				.38			.3838		
I.1.3	Service provider number portability - remote call forwarding, per service order, per end-user location					2.02 2.02	20.16 20.16		2.84 2.84	28.36 28.36
	Disconnect Charges					2.01 2.01	13.42 13.42		2.84 2.84	18.90 18.90
I.2	*Service Provider Number Portability - DID*									
I.2.1	Service provider number portability - DID per number ported, residence					.89	.89		1.17	1.17
	Disconnect Charges					.90	.90		1.17	1.17
I.2.2	Service provider number portability - DID per number ported, business					.89	.89		1.17	1.17
	Disconnect Charges					.90	.90		1.17	1.17
I.2.3	Service provider number portability - DID per service order, per location					2.02 2.02	20.16 20.16		2.84 2.84	28.36 28.36
	Disconnect Charges					2.01 2.01	13.42 13.42		2.84 2.84	18.90 18.90
I.2.4	Service provider number portability - DID per trunk termination, initial				12.46	129.69	129.69	13.78	171.68	171.68
	Disconnect Charges					37.85	37.85		49.86	49.86
I.2.5	Service provider number portability - DID per trunk termination, subsequent				12.46	37.85	37.85	13.78	50.69	50.69

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	Disconnect Charges					18.75	18.75		24.71	24.71
J.0	**Other**									
J.1	*Dark Fiber*									
J.1.1	Dark fiber, per four fiber strands, per route mile or fraction thereof									
	Disconnect Charges									
	Dark fiber, per fiber strand, per mile									
	Dark fiber, per four fiber strands, per route foot or fraction thereof									
J.2	*Access to Poles, Ducts, Conduits and Rights-of-Way*									
J.2.1	Access to poles, per foot, per year				4.20			4.89 (FCC)		
J.2.2	Access to conduits, per foot, per year				.56			2.50 (GSST)		
J.2.3	Access to Innerduct, per foot, per year							.4884007		
K.0	**Advanced Intelligent Network (AIN) Services**									
K.1	*BellSouth AIN SMS Access Service*									
K.1.1	AIN SMS access service - service establishment, per state, initial setup						153.31			174.03
	Disconnect Charges						78.06			135.96
K.1.2	AIN SMS access service - port connection - dial/shared access						50.07			53.47
	Disconnect Charges						18.61			37.70
K.1.3	AIN SMS access service - port connection - ISDN access						50.07			53.47
	Disconnect Charges						18.61			37.70
K.1.4	AIN SMS access service - user identification codes - per user ID code						104.95			129.83

Under non-recurring charges where there are two entries, first entry is for the first unit installed, second entry is for additional units installed.
For Kentucky all non-recurring charges are electronic with the exception of certain elements that can only be ordered manually.

Kentucky recurring loops indicate two rates; first rate is loop with NID, second rate is loop without NID.

Revised 03/21/00

STATE RATE DEC[illegible]NS (KY - LA - MS)

Cost Ref. #	Rate Element	KENTUCKY: Rates established for 2 years in 7/14/97 Order (Case Nos. 96-431 & 96-482)			LOUISIANA: Rates set in 10/24/97 Order in Docket Nos. U-22022/22093 plus Additional rates in Docket U-22252			MISSISSIPPI: Rates set in 8/25/98 Order in Docket No. 97-AD-544		
	Status	Recurring	Non-Recurring Electronic	Non-Recurring Manual	Recurring	Non-Recurring Electronic	Non-Recurring Manual	Recurring	Non-Recurring Electronic	Non-Recurring Manual
	Disconnect Charges						48.95			79.91
K.1.5	AIN SMS access service - security card, per user ID code, initial or replacement						125.33			131.54
	Disconnect Charges						24.40			45.77
K.1.6	AIN SMS access service - storage, per unit (100 kilobytes)				.0029			.0029		
K.1.7	AIN SMS access service - session, per minute				.10			.0975650		
K.1.8	AIN SMS access service - company performed session, per minute				1.97			2.09		
K.2	*BellSouth AIN Toolkit Service*									
K.2.1	AIN toolkit service - service establishment charge, per state, initial setup						153.25			169.31
	Disconnect Charges						78.05			135.96
K.2.2	AIN toolkit service - training session, per customer						8,315.00			8,379.00
K.2.3	AIN toolkit service - trigger access charge, per trigger, per DN, term. attempt						41.08			39.30
	Disconnect Charges						18.60			37.70
K.2.4	AIN toolkit service - trigger access charge, per trigger, per DN, off-hook delay						41.08			39.30
	Disconnect Charges						18.60			37.70
K.2.5	AIN toolkit service - trigger access charge, per trigger, per DN, off-hook immediate						41.08			39.30
	Disconnect Charges						18.60			37.70
K.2.6	AIN toolkit service - trigger access charge, per trigger, per DN, 10-digit PODP						92.99			106.90
	Disconnect Charges						26.73			48.44

Under non-recurring charges where there are two entries, first entry is for the first unit installed, second entry is for additional units installed.
For Kentucky all non-recurring charges are electronic with the exception of certain elements that can only be ordered manually.

Kentucky recurring loops indicate two rates; first rate is loop with NID, second rate is loop without NID.

STATE RATE DECISIONS (KY - LA - MS)

Cost Ref. #	Rate Element	KENTUCKY: Rates established for 2 years in 7/14/97 Order (Case Nos. 96-431 & 96-482) Recurring	Non-Recurring Electronic	Non-Recurring Manual	LOUISIANA: Rates set in 10/24/97 Order in Docket Nos. U-22022/22093 plus Additional rates in Docket U-22252 Recurring	Non-Recurring Electronic	Non-Recurring Manual	MISSISSIPPI: Rates set in 8/25/98 Order in Docket No. 97-AD-544 Recurring	Non-Recurring Electronic	Non-Recurring Manual
K.2.7	AIN toolkit service - trigger access charge, per trigger, per DN, CDP						92.99			106.90
	Disconnect Charges						26.73			48.44
K.2.8	AIN toolkit service - trigger access charge, per trigger, per DN, Feature Code						92.99			106.90
	Disconnect Charges						26.73			48.44
K.2.9	AIN toolkit service - query charge, per query				.03			.0256138		
K.2.10	AIN toolkit service - type 1 node charge, per AIN toolkit subscription, per node, per query				.0065			.0065161		
K.2.11	AIN toolkit service - SCP storage charge, per SMS access account, per 100 kilobytes				1.79			1.79		
K.2.12	AIN toolkit service - monthly report - per AIN toolkit service subscription				15.89		34.61	16.01		44.02
	Disconnect Charges						21.97			31.28
K.2.13	AIN toolkit service - special study - per AIN toolkit service subscription, per study				.08		37.77	.0810536		47.21
K.2.14	AIN toolkit service - call event report - per AIN toolkit service subscription				15.81		34.61	15.93		44.02
	Disconnect Charges						21.97			31.28
K.2.15	AIN toolkit service - call event special study - per AIN toolkit service subscription				.0026		37.77	.0027018		47.21
L.0	**Access Daily Usage File (ADUF)**									
L.1.1	ADUF,Message Distribution, per Msg				.0037					
	ADUF,Message Distribution, per port				1.00					
L.1.2	ADUF,Message Distribution, per Magnetic Tape Provisioned				47.30					
L.1.3	ADUF, Data Transmission (CONNECT:DIRECT), per Msg				.0000305					

Under non-recurring charges where there are two entries, first entry is for the first unit installed, second entry is for additional units installed.
For Kentucky all non-recurring charges are electronic with the exception of certain elements that can only be ordered manually.

Kentucky recurring loops indicate two rates; first rate is loop with NID, second rate is loop without NID.

Revised 03/21/00

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STATE RATE DEC[illegible]NS (KY - LA - MS)

Cost Ref. #	Rate Element	Kentucky Recurring	Kentucky Non-Recurring Electronic	Kentucky Non-Recurring Manual	Louisiana Recurring	Louisiana Non-Recurring Electronic	Louisiana Non-Recurring Manual	Mississippi Recurring	Mississippi Non-Recurring Electronic	Mississippi Non-Recurring Manual
	Status	Rates established for 2 years in 7/14/97 Order (Case Nos. 96-431 & 96-482)			Rates set in 10/24/97 Order in Docket Nos. U-22022/22093 plus Additional rates in Docket U-22252			Rates set in 8/25/98 Order in Docket No. 97-AD-544		

Note 1: Intraoffice local usage is equivalent to cost reference Item # C.1.1.
Note 2: Interoffice local usage includes end office switching at both ends of the call, i.e. items C.1.1, C.1.2, tandem switching, i.e. item C.2.1, C.2.2 for the average number of tandem switching occurrences per interoffice local call and common transport, i.e. D.1.1, D.1.2 for the average number of common transport legs and the distance between the two end offices. The rate is derived using the following formula (2 x end office switching) + (.43 x tandem switching) + (1.43x facility term for common transport) + end office to end office common transport mileage.
Note 3: Items C.1.1 and C.1.2 apply. Dedicated transport or collocation may also apply.
Note 4: Items C.2.1, C.2.2, D.1.1 and D.1.2 apply in addition to Note 3.
Note 5: Additional tandem and common transport charges would apply in addition to Note 4.

PCDocs 122919

Under non-recurring charges where there are two entries, first entry is for the first unit installed, second entry is for additional units installed.
For Kentucky all non-recurring charges are electronic with the exception of certain elements that can only be ordered manually.

<u>Kentucky</u> recurring loops indicate two rates; first rate is loop with NID, second rate is loop without NID.

Revised 03/21/00

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STATE RATE DECISIONS (NC - SC - TN)

Cost Ref. #	Rate Element	NORTH CAROLINA			SOUTH CAROLINA			TENNESSEE		
	Status	Rates set per 3/13/00 Order in Docket P-100, Sub 133d			Rates set per 6/1/98 Order in Docket 97-374-C (Selected rates modified in 9/18/98 Order; Add'l rates in Docket 1999-259-C, 10/4/99)			Awaiting decision in generic cost docket (97-01262)		
		Recurring	Non-Recurring Electronic	Non-Recurring Manual	Recurring	Non-Recurring Electronic	Non-Recurring Manual	Recurring	Non-Recurring Electronic	Non-Recurring Manual
A.0	**Unbundled Local Loop**									
A.1	*2-Wire Analog Voice Grade Loop*									
A.1.1	2-wire analog voice grade loop - service level 1	15.88	57.99 42.37	84.93 55.13	22.49	70.44 44.05	114.86 57.60			
	Disconnect Charges									
A.1.2	2-wire analog voice grade loop - service level 2	19.50	142.97 106.56	169.91 119.32	26.25	178.12 128.80	222.54 142.35			
	Disconnect Charges									
A.1.3	2-wire analog voice grade loop - service level 1 - manual order coordination		61.38 61.38	61.38 61.38		62.10 62.10	62.10 62.10			
	Disconnect Charges									
A.1.4	2-wire analog voice grade loop - service level 1 - order coordination for specified conversion time		45.34	45.34		45.43	45.43			
A.1.5	2-wire analog voice grade loop - service level 2 - order coordination for specified conversion time		45.34	45.34		45.43	45.43			
A.2	*Sub-Loop 2-Wire Analog*									
A.2.1	Loop feeder per 2-wire analog voice grade loop									
	Disconnect Charges									
A.2.2	Loop distribution per 2-wire analog voice grade loop (incl. NID)									
	Disconnect Charges									
A.2.3	Loop concentration - Channelization system (outside CO)									
	Disconnect Charges									
A.2.4	Loop concentration - Remote terminal cabinet (outside CO)									

Under non-recurring charges where there are two entries, first entry is for the first unit installed, second entry is for additional units installed. Revised 03/21/00

STATE RATE DECISIONS (NC - SC - TN)

Cost Ref. #	Rate Element	NORTH CAROLINA			SOUTH CAROLINA			TENNESSEE		
	Status	Rates set per 3/13/00 Order in Docket P-100, Sub 133d			Rates set per 6/1/98 Order in Docket 97-374-C (Selected rates modified in 9/18/98 Order; Add'l rates in Docket 1999-259-C, 10/4/99)			Awaiting decision in generic cost docket (97-01262)		
		Recurring	Non-Recurring Electronic	Non-Recurring Manual	Recurring	Non-Recurring Electronic	Non-Recurring Manual	Recurring	Non-Recurring Electronic	Non-Recurring Manual
A.2.5	Loop concentration - Working plug-in 2-wire voice grade (outside CO)									
	Disconnect Charges									
A.2.6	NID per 2-wire analog voice grade loop	1.01	1.42 1.42	28.36 14.18	1.13	1.36 1.36	45.78 14.91			
	Disconnect Charges									
A.2.8	Sub-loop feeder order coordination for specified conversion time									
	Disconnect Charges									
A.2.9	Sub-loop distribution order coordination for specified conversion time									
A.3	*Loop Channelization and CO Interface (inside CO)*									
A.3.1	Loop channelization system - digital loop carrier	315.16	426.48 103.42	468.67 116.18	363.77	426.32 102.99	470.09 116.54			
	Disconnect Charges									
A.3.2	CO channel interface - 2 wire voice grade	.89	35.73 35.49	35.73 35.49	1.04	35.75 35.51	35.75 35.51			
	Disconnect Charges									
A.4	*4-Wire Analog Voice Grade Loop*									
A.4.1	4-wire analog voice grade loop	27.49	288.47 237.45	315.41 250.21	35.86	383.39 286.77	427.45 300.32			
	Disconnect Charges									
A.4.2	NID per 4-wire analog voice grade loop	1.14	1.42 1.42	28.36 14.18	1.25	1.35 1.35	45.41 14.90			
	Disconnect Charges									
A.4.3	4-wire analog voice grade loop - order coordination for specified conversion time		45.34	45.34		45.43	45.43			

Under non-recurring charges where there are two entries, first entry is for the first unit installed, second entry is for additional units installed.

Revised 03/21/00

STATE RATE DECI[illegible]NS (NC - SC - TN)

Cost Ref. #	Rate Element	NORTH CAROLINA			SOUTH CAROLINA			TENNESSEE		
	Status	Rates set per 3/13/00 Order in Docket P-100, Sub 133d			Rates set per 6/1/98 Order in Docket 97-374-C (Selected rates modified in 9/18/98 Order; Add'l rates in Docket 1999-259-C, 10/4/99)			Awaiting decision in generic cost docket (97-01262)		
		Recurring	Non-Recurring Electronic	Non-Recurring Manual	Recurring	Non-Recurring Electronic	Non-Recurring Manual	Recurring	Non-Recurring Electronic	Non-Recurring Manual
A.5	*2-Wire ISDN Digital Grade Loop*									
A.5.1	2-wire ISDN digital grade loop	24.98	325.91 251.31	352.85 264.07	32.47	423.04 301.75	467.46 315.30			
	Disconnect Charges									
A.5.2/ A.2.6	NID per 2-wire ISDN Digital Grade Loop	1.01	1.42 1.42	28.36 14.18	1.13	1.36 1.36	45.78 14.91			
	Disconnect Charges									
A.5.3	2-wire ISDN digital grade loop - order coordination for specified conversion time		45.34	45.34		45.43	45.43			
A.6	*2-Wire Asymmetrical Digital Subscriber Line (ADSL) Loop*									
A.6.1	2-wire asymmetrical digital subscriber line (ADSL) loop	14.60	504.90 456.17	531.84 468.93	20.81	600.61 507.33	645.03 520.88			
	Disconnect Charges									
A.6.2/ A.2.6	NID per 2-wire asymmetrical digital subscriber line (ADSL) loop	1.01	1.42 1.42	28.36 14.18	1.13	1.36 1.36	45.78 14.91			
	Disconnect Charges									
A.6.3	2-wire ADSL loop - order coordination for specified conversion time		45.34	45.34		45.43	45.43			
A.7	*2-Wire High Bit Rate Digital Subscriber Line (HDSL) Loop*									
A.7.1	2-wire high bit rate digital subscriber line (HDSL) loop	11.98	504.90 456.17	531.84 468.93	14.86	600.61 507.33	645.03 520.88			
	Disconnect Charges									
A.7.2/ A.2.6	NID per 2-wire high bit rate digital subscriber line (HDSL) loop	1.01	1.42 1.42	28.36 14.18	1.13	1.36 1.36	45.78 14.91			
	Disconnect Charges									

Under non-recurring charges where there are two entries, first entry is for the first unit installed, second entry is for additional units installed.

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STATE RATE DECISIONS (NC - SC - TN)

		NORTH CAROLINA			SOUTH CAROLINA			TENNESSEE		
	Status	Rates set per 3/13/00 Order in Docket P-100, Sub 133d			Rates set per 6/1/98 Order in Docket 97-374-C (Selected rates modified in 9/18/98 Order; Add'l rates in Docket 1999-259-C, 10/4/99)			Awaiting decision in generic cost docket (97-01262)		
Cost Ref. #	Rate Element	Recurring	Non-Recurring Electronic	Non-Recurring Manual	Recurring	Non-Recurring Electronic	Non-Recurring Manual	Recurring	Non-Recurring Electronic	Non-Recurring Manual
A.7.3	2-wire HDSL loop - order coordination for specified conversion time		45.34	45.34		45.43	45.43			
A.8	*4-Wire High Bit Rate Digital Subscriber Line (HDSL) Loop*									
A.8.1	4-wire high bit rate digital subscriber line (HDSL) loop	13.97	531.35 482.62	558.29 495.38	19.73	625.11 532.78	669.17 546.33			
	Disconnect Charges									
A.8.2/ A.4.2	NID per 4-wire high bit rate digital subscriber line (HDSL) loop	1.14	1.42 1.42	28.36 14.18	1.25	1.35 1.35	45.41 14.90			
	Disconnect Charges									
A.8.3	4-wire HDSL loop - order coordination for specified conversion time		45.34	45.34		45.43	45.43			
A.9	*4-Wire DS1 Digital Loop*									
A.9.1	4-wire DS1 digital loop	62.78	714.84 421.47	757.03 434.23	72.55	715.77 421.50	759.54 435.05			
	Disconnect Charges									
A.9.3	Order Coordination For Specified Conversion Time		48.31	48.31		48.47	48.47			
A.10	*4-Wire 56 or 64 KBPS Digital Grade Loop*									
A.10.1	4-wire 56 or 64 Kbps digital grade loop	32.67	489.04 337.51	515.98 350.27	41.70	602.73 393.50	646.79 407.05			
	Disconnect Charges									
A.10.2	NID per 4-wire 56 or 64 Kbps digital grade loop	1.14	1.42 1.42	28.36 14.18	1.25	1.35 1.35	45.41 14.90			
	Disconnect Charges									
A.10.3	4-wire 56 or 64 Kbps digital grade loop - order coordination for specified conversion time		45.34	45.34		45.43	45.43			

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STATE RATE DECISIONS (NC - SC - TN)

Cost Ref. #	Rate Element	NORTH CAROLINA			SOUTH CAROLINA			TENNESSEE		
	Status	Rates set per 3/13/00 Order in Docket P-100, Sub 133d			Rates set per 6/1/98 Order in Docket 97-374-C (Selected rates modified in 9/18/98 Order; Add'l rates in Docket 1999-259-C, 10/4/99)			Awaiting decision in generic cost docket (97-01262)		
		Recurring	Non-Recurring Electronic	Non-Recurring Manual	Recurring	Non-Recurring Electronic	Non-Recurring Manual	Recurring	Non-Recurring Electronic	Non-Recurring Manual
B.0	**Unbundled Local Exchange Ports and Features**									
B.1	*Exchange Ports*									
B.1.1	Exchange ports - 2-wire analog line port, residence/business	2.19	21.60 21.60	48.54 34.36	2.35	24.98 24.98	69.40 39.61			
B.1.2	Exchange ports - 4-wire analog voice grade port	8.69	21.69 21.69	48.54 34.36						
	Disconnect Charges									
B.1.3	Exchange ports - 2-wire analog DID trunk port	12.36	81.84 81.84	108.78 94.60						
	Disconnect Charges									
B.1.4	Exchange ports - 4-wire DID trunk port	123.65	116.59 69.92	143.53 82.68						
	Disconnect Charges									
B.1.5	Exchange ports - 2-wire ISDN digital line side port	24.50	62.29 62.29	117.59 117.59	33.74	65.79 65.79	133.31 133.31			
	Disconnect Charges									
B.1.6	Exchange ports - 4-wire ISDN DS1 digital trunk port	179.75	241.63 241.63	295.52 295.52	214.79	278.37 278.37	343.85 343.85			
	Disconnect Charges									
B.1.7	Exchange ports - 2-wire analog line port (PBX)	2.18	21.60 21.60	48.54 34.36	2.35	24.36 24.36	66.22 38.82			
	Disconnect Charges									
B.1.8	Exchange ports - 4-wire analog coin port	2.59	21.60 21.60	48.54 34.36	2.77	24.75 24.75	68.23 39.32			
	Disconnect Charges									
B.2	*Features*									
B.2.1	Three-Way Calling	.89	1.51	1.51	1.10	1.51	1.51			
B.2.2	Customer Changeable Speed Calling	.17	1.51	1.51	.1247	1.51	1.51			

Under non-recurring charges where there are two entries, first entry is for the first unit installed, second entry is for additional units installed. Revised 03/21/00

STATE RATE DECISIONS (NC - SC - TN)

Cost Ref. #	Rate Element	NORTH CAROLINA			SOUTH CAROLINA			TENNESSEE		
	Status	Rates set per 3/13/00 Order in Docket P-100, Sub 133d			Rates set per 6/1/98 Order in Docket 97-374-C (Selected rates modified in 9/18/98 Order; Add'l rates in Docket 1999-259-C, 10/4/99)			Awaiting decision in generic cost docket (97-01262)		
		Recurring	Non-Recurring Electronic	Non-Recurring Manual	Recurring	Non-Recurring Electronic	Non-Recurring Manual	Recurring	Non-Recurring Electronic	Non-Recurring Manual
B.2.3	Call Waiting	.09	1.51	1.51	.0665	1.51	1.51			
B.2.4	Remote Activation of Call Forwarding	.85	1.51	1.51	.3743	1.51	1.51			
B.2.5	Cancel Call Waiting	.01	1.51	1.51	.0099	1.51	1.51			
B.2.6	Automatic Callback	.66	1.51	1.51	.8015	1.51	1.51			
B.2.7	Automatic Recall	.29	1.51	1.51	.3102	1.51	1.51			
B.2.8	Calling Number Delivery	.33	1.51	1.51	.3272	1.51	1.51			
B.2.9	Calling Number Delivery Blocking	.02	1.51	1.51	.3684	1.51	1.51			
B.2.10	Customer Originated Trace	.14	1.51	1.51	.1402	1.51	1.51			
B.2.11	Selective Call Rejection	.13	1.51	1.51	.1528	1.51	1.51			
B.2.12	Selective Call Forwarding	.28	1.51	1.51	.1287	1.51	1.51			
B.2.13	Selective Call Acceptance	.33	1.51	1.51	.3283	1.51	1.51			
B.2.15	Multiline Hunt Service (Rotary) Service per line, (in addition to port)	.14	1.51	1.51	.1301	1.51	1.51			
B.2.16	Call Forwarding Variable	.10	1.51	1.51	.0768	1.51	1.51			
B.2.17	Call Forwarding Busy Line	.08	1.51	1.51	.0603	1.51	1.51			
B.2.18	Call Forwarding Don't Answer All Calls	.09	1.51	1.51	.0655	1.51	1.51			
B.2.19	Remote Call Forwarding	.95	1.51	1.51	1.41	1.51	1.51			
B.2.20	Call Transfer	.14	1.51	1.51	.1392	1.51	1.51			
B.2.21	Call Hold	.15	1.51	1.51	.0677	1.51	1.51			
B.2.22	Toll Restricted Service	.10	1.51	1.51	.0743	1.51	1.51			
B.2.23	Message Waiting Indicator - Stutter Dial Tone	.03	1.51	1.51	.0318	1.51	1.51			
B.2.24	Anonymous Call Rejection	1.29	1.51	1.51	1.13	1.51	1.51			
B.2.25	Shared Call Appearances of a DN	.29	1.47	1.47	.3513	1.47	1.47			
B.2.26	Multiple Call Appearances	.07	1.47	1.47	.0891	1.47	1.47			
B.2.27	ISDN Bridged Call Exclusion	.0011	1.47	1.47	.0013	1.47	1.47			
B.2.28	Call by Call Access	19.83	33.33	33.33	.3621	33.36	33.36			
B.2.29	Privacy Release	.0041	1.51	1.51	.0116	1.51	1.51			
B.2.30	Multi Appearance Directory Number Calls	.13	1.51	1.51	.1048	1.51	1.51			
B.2.31	Make Set Busy	.002	1.51	1.51	.0101	1.51	1.51			

Under non-recurring charges where there are two entries, first entry is for the first unit installed, second entry is for additional units installed.

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STATE RATE DECISIONS (NC - SC - TN)

Cost Ref. #	Rate Element	NORTH CAROLINA			SOUTH CAROLINA			TENNESSEE		
	Status	Rates set per 3/13/00 Order in Docket P-100, Sub 133d			Rates set per 6/1/98 Order in Docket 97-374-C (Selected rates modified in 9/18/98 Order; Add'l rates in Docket 1999-259-C, 10/4/99)			Awaiting decision in generic cost docket (97-01262)		
		Recurring	Non-Recurring Electronic	Non-Recurring Manual	Recurring	Non-Recurring Electronic	Non-Recurring Manual	Recurring	Non-Recurring Electronic	Non-Recurring Manual
B.2.32	Teen Service (Res. Dist. Alerting Service)	.26	1.51	1.51	.2149	1.51	1.51			
B.2.33	Code Restriction and Diversion	.09	1.51	1.51	.0708	1.51	1.51			
B.2.34	Call Park	.09	1.51	1.51	.0694	1.51	1.51			
B.2.35	Automatic Line	.14	1.51	1.51	.1179	1.51	1.51			
B.2.36	ISDN Message Waiting Indication-Lamp	.0107	1.47	1.47	.0138	1.47	1.47			
B.2.37	ISDN Feature Function Buttons		1.51	1.51		1.51	1.51			
B.2.39	Subsequent Ordering Charge		5.42 .95	7.31 .95		1.36 .7132	7.35 .9528			
	Exchange port - 2-wire analog line port (res/bus) all available features included	NA			8.64	61.22 61.22	105.64 75.85			
	Exchange port - 4-wire analog line port (res/bus) all available features included	NA								
	Exchange port - 2-wire ISDN line port - all available features included	NA			38.68	106.40 106.40	173.92 173.92			
	Exchange port - 4-wire ISDN trunk port -all available features included	NA			251.00	311.73 311.73	377.21 377.21			
	Exchange port - 2-wire analog line port (PBX) all available features included	NA			8.67	60.60 60.60	102.46 75.06			
	Exchange Port - 2-wire analog (res/bus) with three features included	NA			5.38	29.51 29.51	73.93 44.14			
	Exchange Port - 2-wire analog (PBX) with three features included	NA			5.38	28.89 28.89	70.75 43.35			
	Exchange Port - 2-wire ISDN digital line side port with three features included	NA			36.01	70.32 70.32	137.84 137.84			
C.0	**Unbundled Switching and Local Interconnection**									

Under non-recurring charges where there are two entries, first entry is for the first unit installed, second entry is for additional units installed. Revised 03/21/00

STATE RATE DECI[hole punch]NS (NC - SC - TN)

Cost Ref. #	Rate Element	NORTH CAROLINA			SOUTH CAROLINA			TENNESSEE		
	Status	Rates set per 3/13/00 Order in Docket P-100, Sub 133d			Rates set per 6/1/98 Order in Docket 97-374-C (Selected rates modified in 9/18/98 Order; Add'l rates in Docket 1999-259-C, 10/4/99)			Awaiting decision in generic cost docket (97-01262)		
		Recurring	Non-Recurring Electronic	Non-Recurring Manual	Recurring	Non-Recurring Electronic	Non-Recurring Manual	Recurring	Non-Recurring Electronic	Non-Recurring Manual
C.1	*End Office Switching*									
C.1.1	End office switching function per MOU	.0015			.0019295					
C.1.2	End office trunk port - shared per MOU	.00023			.0002581					
C.2	*Tandem Switching*									
C.2.1	Tandem switching function per MOU	.0006			.0006843					
C.2.2	Tandem trunk port - shared per MOU	.0003			.0004034					
	Tandem intermediary charge	NA								
D.0	**Unbundled Transport and Local Interoffice Transport**									
D.1	*Common Transport*									
D.1.1	Common transport - per mile, per MOU	.00001			.0000121					
D.1.2	Common transport - facilities termination per MOU	.00034			.0004672					
D.2	*Interoffice (IO) Transport - Dedicated - Voice Grade*									
D.2.1	Interoffice transport - dedicated - 2-wire voice grade - per mile	.0282			.0373					
D.2.2	Interoffice transport - dedicated - 2-wire voice grade - facility termination per month	18.00	137.48 52.58	175.55 90.65	21.42	136.44 51.37	176.07 91.00			
	Disconnect Charges									
D.3	*Interoffice Transport - Dedicated - DSO - 56/64kbps*									
D.3.1	Interoffice transport - dedicated - DSO - per mile	.0282			.0373					
D.3.2	Interoffice transport - dedicated - DSO - facility termination	17.40	137.48 52.58	175.55 90.65	20.71	136.44 51.37	176.07 91.00			

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STATE RATE DECISIONS (NC - SC - TN)

Cost Ref. #	Rate Element	NORTH CAROLINA			SOUTH CAROLINA			TENNESSEE		
	Status	Rates set per 3/13/00 Order in Docket P-100, Sub 133d			Rates set per 6/1/98 Order in Docket 97-374-C (Selected rates modified in 9/18/98 Order; Add'l rates in Docket 1999-259-C, 10/4/99)			Awaiting decision in generic cost docket (97-01262)		
		Recurring	Non-Recurring Electronic	Non-Recurring Manual	Recurring	Non-Recurring Electronic	Non-Recurring Manual	Recurring	Non-Recurring Electronic	Non-Recurring Manual
	Disconnect Charges									
D.4	*Interoffice Transport - Dedicated - DS1*									
D.4.1	Interoffice transport - dedicated - DS1 - per mile	.5753			.7598					
D.4.2	Interoffice transport - dedicated - DS1 - facility termination	71.29	217.17 163.75	255.24 201.82	94.98	216.27 162.70	255.90 202.33			
	Disconnect Charges									
	Unbundled local exchange access interoffice channel									
	0-8 miles, fixed	NA								
	0-8 miles, per mile, per month	NA								
	9-25 miles, fixed	NA								
	9-25 miles, per mile, per month	NA								
	Over 25 miles, fixed	NA								
	Over 25 miles, per mile, per month	NA								
	Nonrecurring	NA								
D.5	*Local Channel - Dedicated*									
D.5.1	Local Channel - Dedicated - 2-wire voice grade	14.82	553.80 89.69	595.97 102.45	16.83	554.00 88.58	597.75 102.13			
	Disconnect Charges									
D.5.2	Local Channel - Dedicated - 4-wire voice grade	15.87	562.23 92.67	604.40 105.43	18.05	562.46 91.57	606.21 105.12			
	Disconnect Charges									
D.5.3	Local Channel - Dedicated - DS1	35.68	534.48 462.69	620.63 464.46	37.20	534.81 462.81	622.80 465.92			
	Disconnect Charges									
D.5.7	Local Channel – Dedicated – DS3	498.87	562.25 527.88	618.50 584.13						

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Revised 03/21/00

STATE RATE DECISIONS (NC - SC - TN)

Cost Ref. #	Rate Element	NORTH CAROLINA: Rates set per 3/13/00 Order in Docket P-100, Sub 133d			SOUTH CAROLINA: Rates set per 6/1/98 Order in Docket 97-374-C (Selected rates modified in 9/18/98 Order; Add'l rates in Docket 1999-259-C, 10/4/99)			TENNESSEE: Awaiting decision in generic cost docket (97-01262)		
	Status	Recurring	Non-Recurring Electronic	Non-Recurring Manual	Recurring	Non-Recurring Electronic	Non-Recurring Manual	Recurring	Non-Recurring Electronic	Non-Recurring Manual
	Disconnect Charges									
	Local Usage (See formulas p. ___)									
	Intraoffice, per MOU									
	Interoffice (assumes 5 mi. Of transport) per MOU									
	Local Interconnection (See formulas, p. __)									
	End office connection, per MOU									
	Tandem connection (assumes 5 mi. Of transport) per MOU									
	Multi-tandem connection, per MOU									
D.6	*Interoffice Transport - Dedicated – DS3*									
D.6.1	Interoffice transport - dedicated – DS3 - per mile	12.98								
D.6.2	Interoffice transport - dedicated – DS3 - facility termination	720.38	794.94 579.55	886.20 670.81						
	Disconnect Charges									
E.0	**Signaling Networks, Databases and Service Management Systems**									
E.1	*800/888 Access Ten Digit Screening*									
E.1.1	800 access ten digit screening, per call	.0005			.0005227					
	Per 800 call utilizing access 10-digit screening service w/800 number delivery, per query									
	Per 800 call utilizing access ten digit screening service with 800 number delivery, for 800 numbers with optional complex features, per query									

Under non-recurring charges where there are two entries, first entry is for the first unit installed, second entry is for additional units installed. Revised 03/21/00

STATE RATE DECISIONS (NC - SC - TN)

		NORTH CAROLINA			SOUTH CAROLINA			TENNESSEE		
	Status	Rates set per 3/13/00 Order in Docket P-100, Sub 133d			Rates set per 6/1/98 Order in Docket 97-374-C (Selected rates modified in 9/18/98 Order; Add'l rates in Docket 1999-259-C, 10/4/99)			Awaiting decision in generic cost docket (97-01262)		
Cost Ref. #	Rate Element	Recurring	Non-Recurring Electronic	Non-Recurring Manual	Recurring	Non-Recurring Electronic	Non-Recurring Manual	Recurring	Non-Recurring Electronic	Non-Recurring Manual
	Per 800 call utilizing access ten digit screening service with POTS number delivery, per query									
	Per 800 call utilizing access ten digit screening service with POTS number delivery, with optional complex features, per query									
E.1.2	800 access ten digit screening, reservation charge, per 800 number reserved		7.05 .96	33.99 .96		6.38 .9583	34.22 .9583			
E.1.3	800 access ten digit screening, per 800 # established without POTS translations		23.82 2.73	65.17 2.73		22.63 2.73	65.58 2.73			
	Disconnect Charges									
E.1.4	800 access ten digit screening, per 800 # established with POTS translations		23.82 2.73	65.17 2.73		22.63 2.73	65.58 2.73			
	Disconnect Charges									
E.1.5	800 access ten digit screening, customized area of service per 800 #		5.63 2.82	5.63 2.82		5.64 2.82	5.64 2.82			
E.1.6	800 access ten digit screening, multiple interLATA CXR routing per CXR requested per 800#		6.59 3.77	6.59 3.77		6.60 3.78	6.60 3.78			
E.1.7	800 access ten digit screening, change charge per request		8.01 .96	34.95 .96		7.34 .9583	35.18 .9583			
E.1.8	800 access ten digit screening, call handling and destination features		5.63	5.63		5.64	5.64			
E.2	*Line Information Database Access (LIDB)*									
E.2.1	LIDB common transport per query	.00003			.0000442					
E.2.2	LIDB validation per query	.0134			.0145288					
E.2.3	LIDB originating point code establishment or change		62.26	89.20		61.62	89.46			

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STATE RATE DECISIONS (NC - SC - TN)

Cost Ref. #	Rate Element	NORTH CAROLINA			SOUTH CAROLINA			TENNESSEE		
	Status	Rates set per 3/13/00 Order in Docket P-100, Sub 133d			Rates set per 6/1/98 Order in Docket 97-374-C (Selected rates modified in 9/18/98 Order; Add'l rates in Docket 1999-259-C, 10/4/99)			Awaiting decision in generic cost docket (97-01262)		
		Recurring	Non-Recurring Electronic	Non-Recurring Manual	Recurring	Non-Recurring Electronic	Non-Recurring Manual	Recurring	Non-Recurring Electronic	Non-Recurring Manual
	Disconnect Charges									
E.3	*CCS7 Signaling Transport*									
E.3.1	CCS7 signaling connection, per 56Kbps	18.22	278.02	319.37	21.79	277.07	320.02			
	Disconnect Charges									
	CCS7 signaling links, A link									
	CCS7 signaling links, B/D link									
E.3.2	CCS7 signaling termination, per STP port	132.83			156.33					
E.3.3	CCS7 Signaling Usage, Per Call Setup Message	.00004			.0000452					
E.3.4	CCS7 signaling usage, per TCAP message	.00009			.0001108					
E.3.5	CCS7 signaling usage surrogate, per 56Kbps facility, per LATA per month	338.98			396.55					
F.0	**Operations Support Systems (OSS)**									
F.1	*Operational Support Systems (OSS)*									
	OSS Interactive Ordering and Trouble Maintenance, Establishment, per user				50.00	100.00				
	Recovery of incremental OSS costs, per electronic order					10.62				
F.1.1	Recovery of incremental OSS costs, per CLP, per month	305.00								
F.1.2	OSS CLEC daily usage file (billing): recording, per message	.0003			.0002862					
F.1.3	OSS CLEC daily usage file (billing): message distribution, per message	.0032			.0032344					
F.1.4	OSS CLEC daily usage file; message distribution, per magnetic tape provisioned	54.61			54.72					

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STATE RATE DECISIONS (NC - SC - TN)

Cost Ref. #	Rate Element	NORTH CAROLINA Recurring	NORTH CAROLINA Non-Recurring Electronic	NORTH CAROLINA Non-Recurring Manual	SOUTH CAROLINA Recurring	SOUTH CAROLINA Non-Recurring Electronic	SOUTH CAROLINA Non-Recurring Manual	TENNESSEE Recurring	TENNESSEE Non-Recurring Electronic	TENNESSEE Non-Recurring Manual
	Status	Rates set per 3/13/00 Order in Docket P-100, Sub 133d			Rates set per 6/1/98 Order in Docket 97-374-C (Selected rates modified in 9/18/98 Order; Add'l rates in Docket 1999-259-C, 10/4/99)			Awaiting decision in generic cost docket (97-01262)		
F.1.5	OSS CLEC daily usage file (billing): data transmission (connect:direct), per message	.00004			.0000357					
G.0	**Operator Services and Directory Assistance**									
G.1	*Operator Call Processing*									
G.1.1	Operator call processing - operator provided cost per minute - using BST LIDB	1.20			1.21					
G.1.2	Operator call processing - operator provided cost per minute - using foreign LIDB	1.24			1.25					
	Call completion access termination per completed call									
G.1.3	Operator call processing - fully automated cost per call - using BST LIDB	.11			.1115808					
G.1.4	Operator call processing - fully automated cost per call - using foreign LIDB	.12			.1293459					
G.1.5	Loading expense per announcement for branded announcement						253.42 253.42			
G.1.6	Recording expense per announcement for branded announcement						1,652.00 1,649.00			
G.2	*Inward Operator Services*									
G.2.1	Inward operator services - verification, per minute	1.15			1.15					
G.2.2	Inward operator services - emergency interrupt, per minute	1.15			1.15					

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BellSouth Telecommunications, Inc.
KPSC Case No. 99-434
Staff's First Set of Data Requests
Item No. 7
Attachments Pages 1-24b

STATE RATE DECISIONS (NC - SC - TN)

Cost Ref. #	Rate Element	NORTH CAROLINA			SOUTH CAROLINA			TENNESSEE		
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		Recurring	Non-Recurring Electronic	Non-Recurring Manual	Recurring	Non-Recurring Electronic	Non-Recurring Manual	Recurring	Non-Recurring Electronic	Non-Recurring Manual
G.3	*Directory Assistance Call Completion (DACC)*									
G.3.1	Directory assistance call completion access service, per call attempt	.062			.0638883					
G.4	*Number Services Intercept Access Service*									
G.4.1	Number services intercept, per query	.011			.0124036					
G.5	*Directory Assistance Access Service*									
G.5.1	Directory assistance access service call, cost per call	.26			.2619983					
	Call completion access termination per completed call									
G.5.2	Loading expense per announcement for branded announcement						253.42 253.42			
G.5.3	Recording expense per announcement for branded announcement						1,652.00 1,649.00			
G.6	*Directory Transport*									
G.6.1/ D.5.3	Directory transport - switched local channel DS1	35.68	534.48 462.69	620.63 464.46	37.20	534.81 462.81	622.80 465.92			
	Disconnect Charges									
G.6.2/ D.4.1	Directory transport - DS1 level interoffice per mile	.5753			.7598					
G.6.3/ D.4.2	Directory transport - DS1 level interoffice per facility termination	71.29	217.17 163.75	255.24 201.82	94.98	216.27 162.70	255.90 202.33			
	Disconnect Charges									
G.6.4	Switched common transport per DA access service per call	.0002			.0003270					
G.6.5	Switched common transport per DA access service per call per mile	.00003			.0000303					

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Revised 03/21/00

STATE RATE DECISIONS (NC - SC - TN)

		NORTH CAROLINA			SOUTH CAROLINA			TENNESSEE		
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Cost Ref. #	Rate Element	Recurring	Non-Recurring Electronic	Non-Recurring Manual	Recurring	Non-Recurring Electronic	Non-Recurring Manual	Recurring	Non-Recurring Electronic	Non-Recurring Manual
G.6.6	Access tandem switching per DA access service per call	.0021			.0024809					
G.6.7	Directory transport - DA interconnection per DA service call	.00								
G.6.8	Directory transport - installation NRC, per trunk or signaling connection			407.53 10.98			407.81 11.00			
	Disconnect Charges									
G.7	*Directory Assistance Database Service (DADS)*									
G.7.1	Directory assistance database service, cost per listing	.0446			.0444					
G.7.2	Directory assistance database service, monthly recurring cost	126.26			127.23					
G.8	*Direct Access to Directory Assistance*									
G.8.1	Direct access to directory assistance service, per month	6930.00			6,983					
G.8.2	Direct access to directory assistance service, per query	.0456			.0468212					
G.8.3	Direct access to directory assistance service, service establishment charge			1164.00		1,173				
	Disconnect Charges									
G.9	*Customized Routing (or selective routing)*									
G.9.1	Customized routing per unique line class code, per request, per switch					226.22	254.06			
	Per line or PBX trunk, one-time charge									
H.0	**Collocation**									
H.1	*Physical Collocation*									

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Revised 03/21/00

STATE RATE DECISIONS (NC - SC - TN)

Cost Ref. #	Rate Element	NORTH CAROLINA			SOUTH CAROLINA			TENNESSEE		
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		Recurring	Non-Recurring Electronic	Non-Recurring Manual	Recurring	Non-Recurring Electronic	Non-Recurring Manual	Recurring	Non-Recurring Electronic	Non-Recurring Manual
H.1.1	Physical collocation - application cost			3850.00			4,850.00			
H.1.2	Physical collocation - space preparation – **for NC, see H.1.41 – H.1.44**				ICB					
H.1.3	Physical collocation - space construction cost per first 100 square feet	125.33			144.80					
H.1.4	Physical collocation - space construction cost per additional 50 square feet	14.54			16.80					
H.1.5	Physical collocation - cable installation cost per cable			2305.00			2,217.00			
	Disconnect Charges									
H.1.6	Physical collocation - floor space, per square feet - zone A	3.45			3.90					
	Physical collocation - floor space, per square feet - zone B	3.45								
H.1.7	Physical collocation - cable support structure, per entrance cable	21.33			24.55					
H.1.8	Physical collocation - power, per ampere	6.65			7.09					
H.1.9	Physical collocation - 2-wire cross connects	.32	41.78 39.23	46.53 43.98	.3648	41.50 38.94	46.66 44.10			
	Disconnect Charges									
H.1.10	Physical collocation - 4-wire cross connects	.64	41.91 39.25	46.64 43.98	.7297	41.56 38.90	46.68 44.02			
	Disconnect Charges									
H.1.11	Physical collocation - DS1 cross connects	2.34	71.02 51.08	75.72 55.78	2.70	70.79 50.78	75.88 55.87			
	Disconnect Charges									
H.1.12	Physical collocation - DS3 cross connects	42.84	69.84 49.43	74.54 54.13	49.24	69.60 49.14	74.69 54.23			
	Disconnect Charges									

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STATE RATE DECISIONS (NC - SC - TN)

Cost Ref. #	Rate Element	NORTH CAROLINA			SOUTH CAROLINA			TENNESSEE		
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		Recurring	Non-Recurring Electronic	Non-Recurring Manual	Recurring	Non-Recurring Electronic	Non-Recurring Manual	Recurring	Non-Recurring Electronic	Non-Recurring Manual
H.1.13	Physical collocation - 2-wire POT bay	.10			.1091					
H.1.14	Physical collocation - 4-wire POT bay	.19			.2181					
H.1.15	Physical collocation - DS1 POT bay	.79			.9004					
H.1.16	Physical collocation - DS3 POT bay	4.85			5.64					
H.1.17	Physical collocation - security escort - basic, per half hour and additional			42.92 25.56			43.00 25.57			
H.1.18	Physical collocation - security escort - overtime, per ½ hour and additional ½ hour			54.51 32.44			54.62 32.46			
H.1.19	Physical collocation - security escort - premium, per ½ hour and additional ½ hour			66.10 39.32			66.24 39.35			
H.1.23	Physical Collocation – Welded Wire Cage – first 100 sq. ft.	146.80			224.59					
H.1.24	Physical Collocation – Welded Wire Cage – additional 50 sq. ft.	14.91			22.81					
H.1.31	Physical Collocation – 2-fiber Cross Connect				15.06	69.28 48.89	74.70 54.31			
H.1.32	Physical Collocation – 4-fiber Cross Connect				27.08	84.07 63.68	89.49 69.10			
H.1.33	Physical Collocation – 2-fiber POT Bay				37.36					
H.1.34	Physical Collocation – 4-fiber POT Bay				50.38					
TBD	Physical Collocation – Security Access System – New Access Card Activation, per request- 5 Cards						85.12 Interim			
H.1.41	Physical collocation – Space Preparation – C.O Modification cost per sq. ft.	1.57								

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STATE RATE DECISIONS (NC - SC - TN)

Cost Ref. #	Rate Element	NC Recurring	NC Non-Recurring Electronic	NC Non-Recurring Manual	SC Recurring	SC Non-Recurring Electronic	SC Non-Recurring Manual	TN Recurring	TN Non-Recurring Electronic	TN Non-Recurring Manual
	Status	Rates set per 3/13/00 Order in Docket P-100, Sub 133d			Rates set per 6/1/98 Order in Docket 97-374-C (Selected rates modified in 9/18/98 Order; Add'l rates in Docket 1999-259-C, 10/4/99)			Awaiting decision in generic cost docket (97-01262)		
H.1.42	Physical collocation – Space Preparation – Common Systems Modification – Cageless – per sq. ft.	3.26								
H.1.43	Physical collocation – Space Preparation – Common Systems Modification – Caged – per cage	110.79								
H.1.44	Physical collocation – Space Preparation – Power per Nominal – 48v DC Amp	5.76								
H.2	*Virtual Collocation*									
H.2.1	Virtual collocation - application cost			3622.00			2,848.30			
H.2.2	Virtual collocation - cable installation cost per cable			2305.00			2,750.00			
	Disconnect Charges									
H.2.3	Virtual collocation - floor space per square feet	3.45			3.20					
H.2.4	Virtual collocation - floor space power, per ampere	6.65			3.48					
H.2.5	Virtual collocation - cable support structure, per entrance cable	18.66			13.35					
H.2.6	Virtual collocation - 2-wire cross connects	.09	41.78 39.23	46.53 43.98	.1024	41.50 38.94	46.66 44.10			
	Disconnect Charges									
H.2.7	Virtual collocation - 4-wire cross connects	.18	41.91 39.25	46.64 43.98	.2047	41.56 38.90	46.68 44.02			
	Disconnect Charges									
H.2.8	Virtual collocation - DS1 cross connects	.97	71.02 51.08	75.72 55.78	7.50		155.00 14.00			
	Disconnect Charges									
H.2.9	Virtual collocation - DS3 cross connects	12.33	69.84 49.43	74.54 54.13	56.25		151.90 11.83			
	Disconnect Charges									

Under non-recurring charges where there are two entries, first entry is for the first unit installed, second entry is for additional units installed. Revised 03/21/00

STATE RATE DEC[hole punch]NS (NC - SC - TN)

		NORTH CAROLINA			SOUTH CAROLINA			TENNESSEE		
	Status	Rates set per 3/13/00 Order in Docket P-100, Sub 133d			Rates set per 6/1/98 Order in Docket 97-374-C (Selected rates modified in 9/18/98 Order; Add'l rates in Docket 1999-259-C, 10/4/99)			Awaiting decision in generic cost docket (97-01262)		
Cost Ref. #	Rate Element	Recurring	Non-Recurring Electronic	Non-Recurring Manual	Recurring	Non-Recurring Electronic	Non-Recurring Manual	Recurring	Non-Recurring Electronic	Non-Recurring Manual
H.2.10	Virtual collocation - security escort - basic, per half hour			42.92 25.56			41.00 25.00			
H.2.11	Virtual collocation - security escort, overtime, per half hour			54.51 32.44			48.00 30.00			
H.2.12	Virtual collocation - security escort, premium, per half hour			66.10 39.32			55.00 35.00			
H.2.16	Virtual Collocation – 2-fiber Cross Connects				2.92	69.28 48.89	74.70 54.31			
H.2.17	Virtual Collocation – 4-fiber Cross Connects				5.84	84.07 63.68	89.49 69.10			
I.0	**Service Provider Number Portability**									
I.1	*Service Provider Number Portability - remote call forwarding*									
I.1.1	Service provider number portability - remote call forwarding, per number ported, residential	1.66	.71	.71	2.17	.7046	.7046			
	Disconnect Charges									
I.1.1	Service provider number portability - remote call forwarding, per number ported, business	1.66	.71	.71	2.17	.7046	.7046			
I.1.2	Service provider number portability - remote call forwarding, per additional path	.32			.3854					
I.1.3	Service provider number portability - remote call forwarding, per service order, per end-user location		2.73 2.73	45.80 45.80		1.37 1.37	46.07 46.07			
	Disconnect Charges									
I.2	*Service Provider Number Portability - DID*									
I.2.1	Service provider number portability - DID per number ported, residence		2.25	2.25		2.25	2.25			

Under non-recurring charges where there are two entries, first entry is for the first unit installed, second entry is for additional units installed. Revised 03/21/00

STATE RATE DECISIONS (NC - SC - TN)

Cost Ref. #	Rate Element	NORTH CAROLINA			SOUTH CAROLINA			TENNESSEE		
	Status	Rates set per 3/13/00 Order in Docket P-100, Sub 133d			Rates set per 6/1/98 Order in Docket 97-374-C (Selected rates modified in 9/18/98 Order; Add'l rates in Docket 1999-259-C, 10/4/99)			Awaiting decision in generic cost docket (97-01262)		
		Recurring	Non-Recurring Electronic	Non-Recurring Manual	Recurring	Non-Recurring Electronic	Non-Recurring Manual	Recurring	Non-Recurring Electronic	Non-Recurring Manual
	Disconnect Charges									
I.2.2	Service provider number portability - DID per number ported, business		2.25	2.25		2.25	2.25			
	Disconnect Charges									
I.2.3	Service provider number portability - DID per service order, per location		2.73 2.73	45.80 45.80		1.37 1.37	46.07 46.07			
	Disconnect Charges									
I.2.4	Service provider number portability - DID per trunk termination, initial	11.43	217.88	217.88	13.16	218.03	218.03			
	Disconnect Charges									
I.2.5	Service provider number portability - DID per trunk termination, subsequent	11.43	73.56	73.56	13.16	73.63	73.63			
	Disconnect Charges									
J.0	**Other**									
J.1	*Dark Fiber*									
J.1.1	Dark fiber, per four fiber strands, per route mile or fraction thereof				72.45		2,406.00 765.30			
	Disconnect Charges									
None	Dark fiber, per fiber strand, per mile									
J.2	*Access to Poles, Ducts, Conduits and Rights-of-Way*									
J.2.1	Access to poles, per foot, per year	4.16			3.38					
J.2.2	Access to conduits, per foot, per year	.59			.49					
J.2.3	Access to Innerduct, per foot, per year									
K.0	**Advanced Intelligent Network (AIN) Services**									
K.1	*BellSouth AIN SMS Access Service*									
K.1.1	AIN SMS access service - service establishment, per state, initial setup			294.77			296.16			

Under non-recurring charges where there are two entries, first entry is for the first unit installed, second entry is for additional units installed. Revised 03/21/00

STATE RATE DECISIONS (NC - SC - TN)

		NORTH CAROLINA			SOUTH CAROLINA			TENNESSEE		
	Status	Rates set per 3/13/00 Order in Docket P-100, Sub 133d			Rates set per 6/1/98 Order in Docket 97-374-C (Selected rates modified in 9/18/98 Order; Add'l rates in Docket 1999-259-C, 10/4/99)			Awaiting decision in generic cost docket (97-01262)		
Cost Ref. #	Rate Element	Recurring	Non-Recurring Electronic	Non-Recurring Manual	Recurring	Non-Recurring Electronic	Non-Recurring Manual	Recurring	Non-Recurring Electronic	Non-Recurring Manual
	Disconnect Charges									
K.1.2	AIN SMS access service - port connection - dial/shared access			86.94			87.29			
	Disconnect Charges									
K.1.3	AIN SMS access service - port connection - ISDN access			86.94			87.29			
	Disconnect Charges									
K.1.4	AIN SMS access service - user identification codes - per user ID code			200.83			202.08			
	Disconnect Charges									
K.1.5	AIN SMS access service - security card, per user ID code, initial or replacement			172.05			172.26			
	Disconnect Charges									
K.1.6	AIN SMS access service - storage, per unit (100 kilobytes)	.0023			.0028					
K.1.7	AIN SMS access service - session, per minute	.0791			.0942966					
K.1.8	AIN SMS access service - company performed session, per minute	2.08			2.07					
K.2	*BellSouth AIN Toolkit Service*									
K.2.1	AIN toolkit service - service establishment charge, per state, initial setup			290.05			291.41			
	Disconnect Charges									
K.2.2	AIN toolkit service - training session, per customer			8363.00			8,333			
K.2.3	AIN toolkit service - trigger access charge, per trigger, per DN, term. attempt			72.76			73.02			
	Disconnect Charges									

Under non-recurring charges where there are two entries, first entry is for the first unit installed, second entry is for additional units installed. Revised 03/21/00

STATE RATE DECISIONS (NC - SC - TN)

Cost Ref. #	Rate Element	NORTH CAROLINA			SOUTH CAROLINA			TENNESSEE		
	Status	Rates set per 3/13/00 Order in Docket P-100, Sub 133d			Rates set per 6/1/98 Order in Docket 97-374-C (Selected rates modified in 9/18/98 Order; Add'l rates in Docket 1999-259-C, 10/4/99)			Awaiting decision in generic cost docket (97-01262)		
		Recurring	Non-Recurring Electronic	Non-Recurring Manual	Recurring	Non-Recurring Electronic	Non-Recurring Manual	Recurring	Non-Recurring Electronic	Non-Recurring Manual
K.2.4	AIN toolkit service - trigger access charge, per trigger, per DN, off-hook delay			72.76			73.02			
	Disconnect Charges									
K.2.5	AIN toolkit service - trigger access charge, per trigger, per DN, off-hook immediate			72.76			73.02			
	Disconnect Charges									
K.2.6	AIN toolkit service - trigger access charge, per trigger, per DN, 10-digit PODP			149.95			150.25			
	Disconnect Charges									
K.2.7	AIN toolkit service - trigger access charge, per trigger, per DN, CDP			149.95			150.25			
	Disconnect Charges									
K.2.8	AIN toolkit service - trigger access charge, per trigger, per DN, Feature Code			149.95			150.25			
	Disconnect Charges									
K.2.9	AIN toolkit service - query charge, per query	.02			.0250662					
K.2.10	AIN toolkit service - type 1 node charge, per AIN toolkit subscription, per node, per query	.005			.0062979					
K.2.11	AIN toolkit service - SCP storage charge, per SMS access account, per 100 kilobytes	1.45			1.73					
K.2.12	AIN toolkit service - monthly report - per AIN toolkit service subscription	15.98		71.80	15.93		72.15			
	Disconnect Charges									
K.2.13	AIN toolkit service - special study - per AIN toolkit service subscription, per study	.08		47.20	.0872769		47.35			

Under non-recurring charges where there are two entries, first entry is for the first unit installed, second entry is for additional units installed. Revised 03/21/00

STATE RATE DECISIONS (NC - SC - TN)

Cost Ref. #	Rate Element	NORTH CAROLINA			SOUTH CAROLINA			TENNESSEE		
	Status	Rates set per 3/13/00 Order in Docket P-100, Sub 133d			Rates set per 6/1/98 Order in Docket 97-374-C (Selected rates modified in 9/18/98 Order; Add'l rates in Docket 1999-259-C, 10/4/99)			Awaiting decision in generic cost docket (97-01262)		
		Recurring	Non-Recurring Electronic	Non-Recurring Manual	Recurring	Non-Recurring Electronic	Non-Recurring Manual	Recurring	Non-Recurring Electronic	Non-Recurring Manual
K.2.14	AIN toolkit service - call event report - per AIN toolkit service subscription	15.90		71.80	15.84		72.15			
	Disconnect Charges									
K.2.15	AIN toolkit service - call event special study - per AIN toolkit service subscription	.003		47.20	.0029092		47.35			
P.0	**Unbundled Loop Combinations**									
P.1	2-Wire Voice Grade Loop with 2-Wire Line Port	16.46	2.77 .40	42.95 9.85						
P.1.5	2-Wire Voice Grade Loop/Line Port – Subsequent Database Update		1.42	11.69						
P.3	2-Wire Voice Grade Loop with 2-Wire DID Trunk Port	23.79	13.26 8.39	67.15 19.73						
P.4	2-Wire ISDN Digital Grade Loop with 2-Wire ISDN Digital Line Side Port	43.45	174.35 174.35	174.35 174.35						
P.4.5	2-Wire ISDN Digital Grade Loop with 2-Wire ISDN Digital Line Side Port – Non Feature Subsequent Activity		286.15	286.15						
P.5	4-Wire DS1 Digital Loop with 4-wire ISDN DS1 Digital Trunk Port	241.72	481.51 481.51	481.51 481.51						
P.5.5	4-Wire DS1 Digital Loop with 4-wire ISDN DS1 Digital Trunk Port – Subsequent Channel Activation – Per Channel		36.92	36.92						
P.5.6	4-Wire DS1 Digital Loop with 4-wire ISDN DS1 Digital Trunk Port – Subsequent Inward/2-Way Telephone Numbers		1.17	1.17						

Under non-recurring charges where there are two entries, first entry is for the first unit installed, second entry is for additional units installed.

BellSouth Telecommunications, Inc.
KPSC Case No. 99-434
Staff's First Set of Data Requests
Item No. 7
Attachments Pages 1-24b

PCDocs 122920

STATE RATE DECISIONS (NC - SC - TN)

	Status	NORTH CAROLINA Rates set per 3/13/00 Order in Docket P-100, Sub 133d			SOUTH CAROLINA Rates set per 6/1/98 Order in Docket 97-374-C (Selected rates modified in 9/18/98 Order; Add'l rates in Docket 1999-259-C, 10/4/99)			TENNESSEE Awaiting decision in generic cost docket (97-01262)		
Cost Ref. #	Rate Element	Recurring	Non-Recurring Electronic	Non-Recurring Manual	Recurring	Non-Recurring Electronic	Non-Recurring Manual	Recurring	Non-Recurring Electronic	Non-Recurring Manual
P.5.7	4-Wire DS1 Digital Loop with 4-wire ISDN DS1 Digital Trunk Port – Subsequent Outward Telephone Numbers		28.17	28.17						
P.5.8	4-Wire DS1 Digital Loop with 4-wire ISDN DS1 Digital Trunk Port – Subsequent Inward Telephone Numbers		56.33	56.33						
P.5.9	4-Wire DS1 Digital Loop with 4-wire ISDN DS1 Digital Trunk Port – Subsequent Service Order Per Order		255.25	255.25						
P.15	4-Wire DS1 Digital Loop with 4-Wire DID Trunk Port	186.23	490.38 490.38	490.38 490.38						
P15.5	4-Wire DS1 Digital Loop with 4-Wire DID Trunk Port – Subsequent Channel Activation – Per Channel		146.91	146.91						
P15.6	4-Wire DS1 Digital Loop with 4-Wire DID Trunk Port – Subsequent Telephone Numbers		120.96	120.96						
P15.7	4-Wire DS1 Digital Loop with 4-Wire DID Trunk Port – Subsequent Signaling Changes		29.65	29.65						
P15.8	4-Wire DS1 Digital Loop with 4-Wire DID Trunk Port – Subsequent Service Order Per Order		127.63	127.63						

Under non-recurring charges where there are two entries, first entry is for the first unit installed, second entry is for additional units installed.

Revised 03/21/00

REQUEST: Is BellSouth aware of any price cap plan containing market baskets structured similarly to those in its proposal? Explain.

RESPONSE: BellSouth is not aware of any price cap (price regulation) plan containing market baskets structured similarly to the industrial and retail classifications of services as in BellSouth's proposal. BellSouth's proposed Transition Regulation Plan (TRP) is designed to provide more pricing flexibility in the rapidly changing retail market, while incorporating regulatory oversight required for services provided on a wholesale basis: Unbundled Network Element rates, terms and conditions, resale discounts and conditions, and specific regulatory programs such as Lifeline and Universal Service.

REQUEST: Regarding Service Quality Measures, is BellSouth aware of any measures being contemplated at the FCC which would impact those "services" in the proposed "industrial" or "retail" market baskets? If so, list the items and explain.

RESPONSE: If the Commission staff is referring to actual performance measures, BellSouth is not aware of any additional measures being contemplated by the FCC beyond those measures set forth in the FCC Notice of Proposed Rule Making (NPRM) in Docket 98-56. BellSouth's current Service Quality Measures (SQM) includes those measures. BellSouth has also stated in several CLEC arbitration proceedings, that BellSouth would modify the BellSouth SQM to include any future performance measures ordered by the FCC or State Commissions within BellSouth's territory.

With respect to the services in the retail market category, the Commission will continue to have monthly results on service quality objectives to monitor, subject to its decision on changes in these objectives recommended by Vantage (see Audit Report, Recommendations IV-R1 and IV-R2, page 107), and proposed by the Company in the Transition Regulation Plan (see proposed tariff section A36.1.3.E).

REQUEST: Regarding Service Quality Measures, are there any arbitration proceeding decisions or any ongoing arbitration proceedings in any BellSouth state, containing Service Quality Measurements that would impact any of the proposed market baskets? If so, list by state and explain.

RESPONSE: Yes. In each of the state arbitration proceedings, whether settled or still open, BellSouth has offered the BellSouth SQMs as the appropriate set of performance measurements to insure non-discriminatory treatment of CLECs, as defined by the Act. The ICG arbitration proceedings in Kentucky and Georgia have been settled with the adoption of BellSouth's SQMs. The Tennessee ICG and ITC^DeltaCom proceedings are still pending TRA decisions. ITC^DeltaCom decisions in Georgia and Alabama are still pending.

In addition to arbitration proceedings, several states; Louisiana, North Carolina, South Carolina, and Florida, have open dockets on performance measures that may have further impact.

REQUEST: For those services in the proposed "industrial" market basket, what competitive pressures will discipline BellSouth to maintain high levels of service quality, especially after it enters the interLATA markets?

RESPONSE: Regardless of whether BellSouth enters the interLATA market, it is obligated by law to open its network to CLECs in a professional manner. BellSouth intends on meeting its commitments for quality of service as laid out in its SQMs and VSEEM. In addition, the following will be the oversight mechanism for such quality of service:

1) The competitive pressure to retain CLECs as customers and avoid total bypass by facility- based CLECs.

2) BellSouth's obligation to maintain high levels of service quality so that BellSouth can seek and obtain 271 authority support from the Kentucky Commission and approval from the FCC to compete in the long distance market in Kentucky.

3) As part of the interconnection agreements between BellSouth and CLECs doing business in BellSouth's territory, BellSouth has offered a Voluntary Self Effectuating Enforcement Mechanism (VSEEM III) proposal. This proposal is based on key, outcome measurements contained in the BellSouth SQM, and provides for a three tiered schedule of penalties for non-performance.

Tier-1 enforcement mechanisms are triggered when BellSouth fails on any one of the Tier-1 VSEEM measurements for a particular month, and is paid directly to individual CLECs.

Tier-2 enforcement mechanisms are triggered when BellSouth fails at the CLEC aggregate level on any one of the Tier-2 VSEEM measurements in a calendar quarter. These payments are paid directly to the State Commission or designated agency.

RESPONSE: (Cont.)

Tier-3 enforcement mechanisms are triggered when BellSouth consistently fails at the CLEC aggregate level on any five of the Tier-3 VSEEM measurements in a calendar quarter. Tier-3 consequences are non-monetary, wherein BellSouth is offering to discontinue marketing of Long Distance in that particular state.

This 3-tiered approach, particularly Tier-3, will impose significant competitive pressure on BellSouth to provide CLECs with non-discriminatory performance as required by the Act.

REQUEST: What does BellSouth see as alternatives if the Commission decides not to raise local rates, as proposed in its filing?

RESPONSE: The obvious alternative is a new line item charge designed to generate funding for the Intrastate Universal Service Fund.

The addition of a line item charge is not an alternative that the Company endorses because of the number of add-on charges that are already required on bills and because these add-on charges are a source of customer dissatisfaction with telco billing.

BellSouth believes that a gradual, scheduled, and modest increase in basic rates is a better alternative than the addition of a separate line item for the purposes of the Universal Service Fund. The Transition Regulation Plan includes a rate adjustment so that an additional line item charge will not be necessary.

The Commission has expressed concern over establishing an intrastate line item charge of $4 to $5, and has asked for comments on how the impact of the USF on ratepayers might be minimized (see Commission order in Administrative Case 360 dated December 10, 1999, pages 5-6). The proposed Transition Regulatory Plan provides an alternative to the line item charge.

The following example assumes hypothetical increases in all residential exchange rates in 2000 and 2001. These increases are typical of what we might propose under the new Transition Regulation Plan. As shown below, the resulting increases compare favorably to a $4 to $5 line item charge. The increase would also be gradual instead of a flash cut.

	Current Rates	Increase 5/1/00	New Rate	Increase 5/1/01	New Rate	Total Increase
Rate Group 1	$12.17	$1.23	$13.40	$1.35	$14.75	$2.58
Rate Group 2	$13.02	$1.28	$14.30	$1.45	$15.75	$2.73
Rate Group 3	$13.69	$1.36	$15.05	$1.45	$16.50	$2.81
Rate Group 4	$14.34	$1.41	$15.75	$1.55	$17.30	$2.96
Exception RG	$14.50	$1.45	$15.95	$1.60	$17.55	$3.05
Rate Group 5	$17.55	$0.85	$18.40	$0.00	$18.40	$0.85

RESPONSE: (Cont.)

Raising local rates is the appropriate mechanism to achieve rate rebalancing. These rates are currently subsidized by other services targeted for rate reductions in the plan.

REQUEST: If NTSRR is eliminated by rolling it into local rates, then how should further access charge reform at the federal level be treated in Kentucky?

RESPONSE: See the response to item number 5.

BellSouth Telecommunications, Inc.
KPSC Case No. 99-434
Staff's First Set of Data Requests
March 10, 2000
Item No. 14a

REQUEST: a. How does the Coalition for Affordable Local and Long Distance Services ("CALLS") proposal affect BellSouth's filing? Explain.

RESPONSE:

a. The CALLS proposal, when adopted, will set the target rate for switched access. This rate in the revised CALLS proposal remains \$.0055 per minute per end. The elimination of NTSRR will put BellSouth intrastate switched access at \$.008 per end. The remaining reductions in intrastate switched access will occur through the mirroring process as proposed in BellSouth's Transition Regulation Plan. Should the CALLS target rate change prior to its approval, that would change the intrastate target. However, this possibility is already reflected in the plan as filed.

REQUEST: b. Since the CALLS proposal agrees to continue with a 6.5 percent productivity factor, does BellSouth see any conflict with the auditor's reports, which recommends discontinuation of the productivity factor? Explain.

RESPONSE: b. Vantage Consulting took note of the CALLS proposal in the audit report. They viewed the CALLS proposal as the ultimate end of the X-factor, not its continuance. In addition, their recommendation to eliminate the productivity factor in the intrastate jurisdiction was only part of their recommendation. The remainder of their recommendation is that there is a more rational, pro-competitive way to capture the company's efficiency gains through infrastructure deployment and economic development. The Company has incorporated these provisions as important elements of its overall plan.

As stated in the *Memorandum in Support of the Revised Plan of the Coalition for Affordable Local and Long Distance Service*[1] filed with the FCC on March 8, 2000,

> "Under existing rules, the Commission regulates interstate access charge levels through a price cap mechanism adjusted by inflation and an annual productivity offset. The productivity offset, or X-factor," has been the subject of extensive regulatory proceedings and litigation, and it has created significant uncertainty in the marketplace. The CALLS plan is designed to end this regulatory gridlock by adopting an X-factor of 6.5% to reach target rates for local switching and switched transport."

Under the CALLS proposal, all price cap rate reductions that occur as a result of the application of the existing 6.5% X-factor, except for those reductions applicable to special access, are targeted to reduce interstate switched access charges until the average per minute rate reaches

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[1] Access Charge Reform, Low Volume Long Distance Users, Federal-State Joint Board on Universal Service, CC Docket Nos. 96-262, 94-1, 99-249 and 96-45, Public Notice, DA 00-533 (rel. March 8, 2000).

RESPONSE: (Cont'd)

$0.0055 per end. Once the per minute target rate is achieved, then the X-Factor becomes equal to inflation. Rates for special access services are reduced by the application of an X-Factor of 3.0% in 2000, and an X-Factor of 6.5% in 2001, 2002, and 2003. (NOTE: The X-Factor will not be applicable to special access services when relief is granted by the FCC under Phase I or Phase II pricing flexibility.) Thereafter, the X-Factor will equal inflation for special access services as well.

BellSouth expects to hit the average switched access per minute target rate in Kentucky in August, 2000 assuming approval of the CALLS proposal by the FCC effective with the July 1, 2000 annual filing.

CASE NUMBER:

99-434

Filed 6-21-00

KY. PUBLIC SERVICE COMMISSION

Index for Case: 1999-00417 AS OF : 03/06/07

Jackson County Water Association, Inc.

General Rates

IN THE MATTER OF THE PETITION OF JACKSON COUNTY WATER ASSOCIATION FOR ADJUSTMENT OF RATES

SEQ NBR		Date	Remarks
1		10/04/99	Application.
2		10/15/99	Acknowledgement letter.
3		10/21/99	Deficiency letter rejecting & returning tariff, response due 11/5/99.
4	(M)	10/25/99	RESPONSE TO OCT 21,99 LETTER (JOHN HUGHES JACKSON CO WATER ASSOC)
5		12/16/99	Order granting req. for dev;filed date is 11/25; rates suspended until 5/26/00.
6	(M)	01/19/00	MOTION TO INTERVENE (AG DAVID SPENARD)
7		01/24/00	Order granting motion of Attorney General for full intervention.
8		05/02/00	Order issuing Staff Report; comments or request for hearing due 5/12
9	(M)	05/11/00	COMMENTS TO ORDER OF MAY 2,00 (JOHN HUGHES JACKSON CO WATER ASSOC)
10	(M)	05/25/00	SUPPLEMENTAL COMMENTS ACCEPTING PROPOSAL & HAVING NO EFFECTIVE DATE (JOHN HUGHES/JACKSON COUNTY WATER)
11	(M)	06/05/00	AFFIDAVIT OF PUBLICATION (JOHN HUGHES/JACKSON CO. WATER)
12		07/20/00	Final Order approving rates in Appendix A.
13		08/23/00	Nunc Pro Tunc Order amending 7/20/2000 Order.
14		08/06/03	First Reminder Letter for information to be filed by utility in response to 7/20/2000 Order; Response now due 8/21/2003
15	(M)	08/25/03	John Powell - Jackson County Water Association, - Response to reminder letter of Jackson Co Water Association

KY. PUBLIC SERVICE COMMISSION

Index for Case: 1999-00441 AS OF : 03/06/07

Inter-County Energy Cooperative Corporation

Deviation

AEP, KU, LG&E, OWEN, SHELBY, ULH&P-METER TESTING PLAN

IN THE MATTER OF THE JOINT APPLICATION OF THE UTILITIES: INTER COUNTY ENERGY COOPERATIVE CORP., KENTUCKY POWER COMPANY , d/b/a AMERICAN ELECTRIC POWER, KENTUCKY UTILITIES COMPANY, LOUISVILLE GAS AND ELECTRIC, OWEN ELECTRIC COOPERATIVE, SHELBY ENERGY COOPERATIVE, THE UNION LIGHT, HEAT AND POWER COMPANY COLLECTIVELY CALLED ("UTILITIES") FOR APPROVAL OF A PILOT METER TESTING PLAN PURSUANT TO 807 KAR 5:041, SECTIONS 13, 15, 16, 17 AND 22

SEQ NBR		Date	Remarks
1		10/29/99	Application.
2		11/02/99	Acknowledgement letter.
3		12/29/99	Data Request Order, responses from utilities due 1/21/2000.
4	(M)	01/21/00	Mark R Overstreet - Stites & Harbison - RESPONSE TO ORDER OF DEC 29,99 (MARK OVERSTREET JOINT UTILITIES)
5		02/23/00	Order sched. IC on 3/8 to discuss the utilities' responses to 12/29 Order.
6		03/21/00	IC Memo; comments, if any, due in 5 days.
7	(M)	04/17/00	Mark R Overstreet - Stites & Harbison - PETITION FOR CONFIDENTIAL TREATMENT (MARK OVERSTREET KY POWER)
8	(M)	04/17/00	Mark R Overstreet - Stites & Harbison - RESPONSE TO DATA REQ BY PSC STAFF ON MARCH 8,00
9	(M)	04/17/00	Mark R Overstreet - Stites & Harbison - MOTION FOR LEAVE TO FILE AMENDED JOINT APPLICATION (MARK OVERSTREET KY POWER)
10		04/26/00	Letter granting petition for conf. filed 4/17/2000 by LG&E et.al.
11		05/05/00	Order ent.,case s/be submitted for decision unless req.for hearing filed by 5/15
12	(M)	05/11/00	Mark R Overstreet - Stites & Harbison - SUPPLEMENTATION OF DATA RESPONSE & NOTICE OF WAIVER OF HEARING (MARK R. OVERSTREET)
13		08/04/00	Final Order giving the Utilities 20 days to file meter test plan.
14	(M)	08/24/00	Mark R Overstreet - Stites & Harbison - INTER-COUNTY RESPONSE TO ORDER OF AUG 4,00 REVISED AMENDED SAMPLE METER PLAN
15		10/09/00	Order ent.,the utilities shall file w/in 20 days a corrected Rev.Amended Plan.
16	(M)	10/25/00	Mark R Overstreet - Stites & Harbison - ULH&P RESPONSE TO COMISSION'S ORDER OF OCTOBER 9, 2000
17		12/12/00	Final Order accepting filing and closing case.
18	(M)	11/01/01	Marty J Reinert - Louisville Gas and Electric Company - LG&E letter regarding new sample testing plan for participating electric utilities
19	(M)	11/09/01	David Graham - Shelby Energy Cooperative, Inc. - Shelby response to Dec 12,00 Order accepting new sample meter testing pilot plan
20	(M)	02/22/02	Errol K Wagner - American Electric Power - AEP reports for annual filing requirements outlines in the utilities revised amended sample meter pilot testing plan
21	(M)	03/01/02	Marty J Reinert - Louisville Gas and Electric Company - LG&E response to Order sample testing plan
22	(M)	03/01/02	Marty J Reinert - Louisville Gas and Electric Company - LG&E response to Order - Sample Meter Testing Pilot Plan
23	(M)	04/04/02	William J Grealis - The Union Light, Heat and Power - ULH&P Response to Order Revised amended Meter Pilot Testing Plan
24	(M)	02/14/03	Errol K Wagner - American Electric Power - KY Power revised amended sample meter pilot testing plan appendix A section I 4 also sample plan for 2002 sample test results
25	(M)	03/03/03	Marty J Reinert - Louisville Gas and Electric Company - Sample meter testing Pilot Plan from LG&E in response to Order of October 25,00
26	(M)	03/03/03	Marty J Reinert - Kentucky Utilities Company - Sample Meter Testing Pilot Plan in response to Order of October 25, 00 from KU
27	(M)	04/02/03	Steve D Greco - Cinergy Communications Company - Revised Amended Sample Meter Pilot Testing Plan of ULH&P
28	(M)	02/17/04	Errol K Wagner - American Electric Power - AEP revised amended sample meter pilot testing plan
29	(M)	03/01/04	Marty J Reinert - Kentucky Utilities Company - KU response to Order of Oct 25, 00 revised amended sample meter testing pilot plan appendix a section I 4 & appendix a section II D 3 B KU submits the following
30	(M)	03/01/04	Marty J Reinert - Louisville Gas and Electric Company - Response to Order of Oct 25, 00 revised amended Sample Meter Testing Plan appendix a section I 4 & appendix a section II D3 B LG&E submits the following
31	(M)	04/05/04	Charlie T Ploeger - Cinergy Corp. - Response to PSC Order revised amended sample meter pilot testing plan, Cinergy-ULH&P annual meter test report

32		06/07/04	Letter to American Electric Power regarding informal conference on 5/25/2004 advising that if utility is able to demonstrate a manufacturing difference between its D4S meters with serial numbers in range of 68,000,000 to 68,999,999 and those with different serial number range, Commission would be receptive to proposal to split Group K3D42 into sub-groups. Absent such demonstration, Kentucky Power's Pilot Meter Testing Plan requires all meters within a failed group to be tested or replaced within 18 months
33	(M)	02/18/05	Marty J Reinert - Louisville Gas and Electric Company - Certified test results of all new meters filed by LG&E
34	(M)	02/18/05	Marty J Reinert - Kentucky Utilities Company - Certified test results of all new meters from KU
35	(M)	02/28/05	Errol K Wagner - American Electric Power - Letter pertaining to filing of Amended sample metering pilot testing plan of Kentucky Power and a date of being filed as March 9, 05 instead of March 1, 05
36	(M)	02/24/06	Marty J Reinert - Kentucky Utilities Company - Sample meter testing pilot plan from KU
37	(M)	02/24/06	Marty J Reinert - Louisville Gas and Electric Company - Sample meter testing pilot plan from LGE

BEFORE THE

KENTUCKY PUBLIC SERVICE COMMISSION

CASE NO. 99-434

RE: BELLSOUTH TELECOMMUNICATIONS, INC.
PRICE REGULATION PLAN

Pursuant to notice duly given, the above styled matter came to be heard June 6, 2000, at 9:00 a.m. in the hearing room of the Kentucky Public Service Commission, 211 Sower Boulevard, Frankfort, Kentucky; The Honorable B. J. Helton presiding.

BEFORE THE

KENTUCKY PUBLIC SERVICE COMMISSION

CASE NO. 99-434

RE: BELLSOUTH TELECOMMUNICATIONS, INC.
PRICE REGULATION PLAN

APPEARANCES:

Hon. B. J. Helton
Chairman
PUBLIC SERVICE COMMISSION

Hon. Edward Holmes
Vice-Chairman
PUBLIC SERVICE COMMISSION

Hon. Gary Gillis
Commissioner
PUBLIC SERVICE COMMISSION

Hon. Amy Dougherty
Legal Counsel
PUBLIC SERVICE COMMISSION

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PUBLIC SERVICE LITIGATION BRANCH

INDEX

CHAIRMAN HELTON:

Good morning, we are here in the case of the review of BellSouth Telecommunications, Incorporated, Price Regulation Plan, Case Number 99-434. Could we have appearance of the parties please?

MR. MERSHON:

Madam Chairman, for BellSouth Telecommunications, Creighton Mershon and Langley Kitchings, 601 West Chestnut Street, Louisville, Kentucky 40203.

MS. CHEUVRONT:

For the Attorney General's Office, Ann Louise Cheuvront, 1024 Capital Center Drive, Frankfort

MS. DOUGHERTY:

For the Commission and Staff Amy Dougherty.

CHAIRMAN HELTON:

Is there any member of the public that would like to give public comment. Hearing none, Mr. Mershon, you may call your first witness.

MR. MERSHON:

As a preliminary matter we have the affidavits for the Commission that we have published notice of the hearing per the Commission rules, which I'd like to give to the clerk and we have also provided a copy of our testimony. We call Mr. Gerwing.

(WITNESS DULY SWORN)

MR. KITCHINGS:

Good morning, Chairman Helton, may I proceed?

CHAIRMAN HELTON:

Yes.

MR. KITCHINGS:

Thank you.

The witness, FRED GERWING, having first been duly sworn, testified as follows:

DIRECT EXAMINATION

BY MR. KITCHINGS:

Q Would you please state your name and business address?

A Fred L. Gerwing, 601 West Chestnut Street, Louisville.

Q By whom are you employed Mr. Gerwing?

A BellSouth.

Q Are you the same Fred Gerwing who caused to be prefiled some 19 pages of direct testimony and two exhibits?

A Yes, I am.

Q Do you have any additions or deletions or corrections to your testimony?

A I do have one correction to the FLG-2, the price-out for the rebalance. It is the attachment to the settlement in the year two Louisville rate, we are proposing to add 85 cents to the present rate to take it to $18.40, and we have a typo in the second column that says "$18.50," and it should say "$18.40."

Q Subject to that correction, Mr. Gerwing, if I were to ask you the same questions as contained in your direct testimony, would your answers be the same?

A They would.

MR. KITCHINGS:

Chairman Helton, I would move Mr. Gerwing's testimony into the record as corrected and we would make Mr. Gerwing available for cross-examination.

CHAIRMAN HELTON:

So ordered. Ms. Cheuvront.

MS. CHEUVRONT:

Thank you.

CROSS EXAMINATION

Q Good morning.

A Good morning.

Q Do you know how your other eight states are doing competitively wise?

A There is a lot of competitive activity in all of our states. Certainly, I think Atlanta, Georgia, and Florida we are seeing the most competitive activity, but we have many multi-state contracts with CLECs and the competitive activity is heavy and growing in all of our states.

Q In mainly business, or are you seeing it in residential area also?

A Well, you know, for purposes of 271 I think you have one definition; for purposes of your question, I'm going to say that we are seeing it in all areas because, clearly, with wireless services it has become very clear when you can purchase a telephone--I noticed the other day a Powertel add for $10 and pay $19.95 for a 100 minutes which includes a lot of intraLATA long distance and sometimes even beyond intraLATA long distance. There is obviously a lot of a folks that are substituting wire line for wireless services. Cable modems are--there is quite a bit of cable modem activity which is cannibalizing our additional line services and also taking--competitive with us for our ADSL services. So, I would say that there is quite a bit of activity, competitive alternatives for all of our services, both residence and business.

Q You are talking about the wireless service and how it is--you are seeing it--you've seen it as a competitor, there is legislation being proposed to make the incoming caller pay for the minute. From talking to residential or consumers that have wireless phones that is sort of irritating them. And they are saying they are not going to give out their telephone number, do you see that as going to make a difference in being competitive?

A Well, I mean, our--I think we will continue to see lots of wireless activity. I mean, that is the way it is in Europe and it certainly hasn't cut down on that business in Europe. So, you know, I really haven't studied the effects of caller pay since I'm not in the wireless business, I don't represent the wireless industry. But, no, I fully expect that to be--continue to be a very viable competitor.

Q We'll get back to the subject now, I was just curious about wireless in competition. In the AG's Data Request Number 2 you said there was no way that you could report--that you could figure out what your rate of return would be with what you report to this Commission, but, in the FCC, don't you still file a rate of return or a Form 492?

A Well, the--all of the financials are now done on a GAP accounting basis. We departed from Part 71 accounting some several years ago and I think it would be very difficult to try to say under traditional rate of return what your financials look like because so much of our behavior has changed under price regulation as opposed to rate of return regulation. There is a number of things we've done that--such as promotions, our contract businesses has accelerated, accelerating our depreciation, which lowers our capital base. I mean, there is just so many changes that have been made to try to do a retro of our--

Q My question was do you file a form--a report or a Form 492 with the FCC which they refer to as a rate of return report?

A Since you have it there in front of you, obviously, we do, I'm not familiar with Form 492.

Q I can pass out a copy if you'd like--but it just--

A We do--

Q --on the form it shows that you had--in 1998 you did a 20.80% rate of return, which is an increase since 1994 and you have increased every year since 1994. If you would like to see it I do have copies of it.

A I wouldn't--

Q But that's not really the question.

A I wouldn't dispute that we have earned better since 1995.

Q Okay. Well, that is the question. This report shows that you made 15.92 in `94. Since your answer says the Commission allowed an 11.26, I'm even going to assume that what you filed with the FCC may be different than what you would file here. And it may be for all your nine states and not just for Kentucky, so my question was have you done well since you have been under the price cap?

A Have we earned better in 1999 and the year 2000 than we did in 1995, certainly. That's what we were incented to do by this Commission. We were put under a Price Regulation Plan for just that purpose. Have we done a number of things under Price Regulation that traditionally were not allowed under traditional rate of return regulation in order to obtain those earnings, yes, we have. We have taken quite a bit of risk. We have done a number of things, bonus plans for our employees that were traditionally disallowed under traditional rate of return regulation. We've changed pricing that was not traditionally allowed under the rate of return regulation because the risk of changing that pricing creating revenue requirement in other categories that the Commission didn't want to deal with at the time. We have, as I mentioned, we have accelerated depreciation which lowers our capital base. We tried to do that several times under traditional rate of return regulations because it increased short term expense, that was not allowed, even though obviously the long term benefit was there. So, you know, we have done a number of things in the marketplace to increase those earnings. And, thank goodness, we have, especially, as we find ourselves now having to completely rebuild our circuit switch network into a package switch network. You know, when you look at our stock prices, not increased since 1998, even though we have increased our earnings, clearly, financial markets are expecting the kinds of earnings. I noticed last night on--no matter which business channel you turned to last night--the topic was the AT&T/Media One combination approved yesterday by the FCC. And quickly following that was all the analysts saying that the market is not giving much rift to the cable and wire line companies because the emphasis nowadays by the investors is on the wireless side of the business and that our ability to raise funds to rebuild our networks, whether it is cable or wire line, into this package switch network is going to be a very difficult task without dilution to our earnings. And you see companies setting up wireless tracking stocks just to create a mechanism to be able to raise money to build these new networks and update networks. And so, you know, have we earned better, yes; are we earning at a point where the financial markets are willing for us to--to help us finance the kinds of network upgrades, it is looks very doubtful. And so, you know, I think the earnings have been commensurate. If you go back and look at our performance against the S&P 500--it is pretty simple to do, you go into CNNFN, you type in BellSouth, you pull up a three year trend, overlay the S&P 500 graph on that and you find that we have only maintained pace with the S&P 500 over the last three years. We have not out-paced the S&P 500, we run counter cyclical to the NASDAC on those same charts. You can overlay the NASDAC over that same time period. NASDAC goes up and we go down. And so, clearly investors are expecting--investors are expecting rate of returns that we are earning and perhaps even higher.

Q And as you said, to receive this capability of earning better, you were to take some risks?

A Correct.

Q Did BellSouth support the competition--the idea of competition and help push for the 1996 legislation, maybe not necessarily in that form but--I know everybody had give and takes?

A Certainly. It became clear to us that the only way that we were going to have an opportunity to participate in the interLATA market was by having some legislation that broke the dam that we found ourselves behind in the court system. And so, yes, we helped draft that and push for that kind of legislation. You know, I think even in 1996 no one foresaw that--the value of data networks and what was going to happen in the data network market. Clearly, the real value in the interLATA market, while it is to be a full service provider and have a voice piece in your package, it brings very little value, just that piece brings very little value itself to the company. The real value is going to be to be able to provide the interLATA data piece. So, yes, we did see the need that we were going to have to have a competitive framework before we were going to get the opportunity to grow our business in the areas where the growth is coming from.

Q You are asking this Commission to eliminate, if I understand correctly, the productivity factor and instead allow you to deploy broadband in rural areas. Does broadband technology allow for data services?

A It is necessary--the kinds of speeds that broadband brings to make data services viable, yeah, I would say that you need to get to a broadband network.

Q And this area is growing, as you previously mentioned?

A That is where the market opportunity is, yes.

Q And that's where competition is going to be. What percentage of your territory already has broadband capability?

A Well, broadband comes in a number of different forms. A T-1 service could be considered to be broadband, and we sell T-1 services all across the state. Certainly, the Kentucky Information Highway, which we have put in place with a frame relay networks and the ATM network is a broadband capability and we deliver that through our partnerships with the independent companies and Cincinnati Bell and GTE to all the counties in Kentucky. So, we do have some form of broadband capability. Now, that serves primarily a restricted market that is out there today and T-1 services certainly aren't the kind of broadband capability that a residence can make access of. The kinds of high speed services that we typically are looking at today in the market to deliver to the mass market we offer only in Louisville. Let me correct that, we do have a partnership with Darwin Networks where we have deployed digital subscriber line service in Frankfort, Bowling Green and Pikeville on a trial basis. So, we have begun to look at the market opportunity outside of Louisville through that partnership.

Q Aside from what you are proposing to do in this filing, do you all have any plans to put broadband any place else since you already have that source?

A Presently we do not. The business plans as we see them today, and I think it is being reinforced by what we are running into in Frankfort, Bowling Green and Pikeville, the business plans and the demand that is there in the marketplace today wouldn't support us or any other provider going out there and putting a broadband capability, or in this case, digital subscriber line service in those markets.

Q This isn't what you are doing in Lexington or attempting to do, I can't remember if you got your--

A Right now we are deploying primarily data services over T-1 capability in the Lexington market. We do not have digital subscriber line service deployed in Lexington.

Q Why should you be given incentives to invest in new technology and services? Wouldn't it be to your advantage and to the customers you want to keep and hopefully draw in, to invest?

A As I said, the business plans presently, if you try to do a business case on deploying this broadband technology outside of a very dense market, it doesn't prove in. You know, I think we are going to have to--we are going to have to do some very creative marketing to even hope to begin to take advantage of the kind of deployment we are offering. And yet, when you talk to the policy folks on the economic development side in the Governor's office, Aldona Valicenti, and those folks in the Information Technology Cabinet, they have clearly laid out a path of what their vision is for Kentucky. And that requires to deploy broadband capability and that is why we--our first example of how we would deploy looks at the KCTCS sites and the Kentucky Rural Economic Development Act sites as the first targets of where we would deploy this service, because I think it is going to take a public/private partnership and their help, and their pushing along with us. Again, one of these creative marketing kinds of things to make this investment pay off for Kentucky. Will it pay off for BellSouth in the short run, there isn't any way that is going to happen; will it pay off for Kentucky big time short run and long run, I think Kentucky has got to do it to position itself. I'd like to add that, for example, if you look at Georgia, the Georgia legislature down there just passed some tax credits that effectively gives us the opportunity to recover the costs of this kind of deployment out in rural Georgia. There was a bill that was put together in the Kentucky legislature, it didn't go very far, to incent this kind of investment. So, I think if we are going to sit here for another two years and wait for the legislature to come back into session, that is not a very good alternative. I think, again, the folks in the Governor's Office, Doug Robinson, Aldona Valicenti, and those folks would tell you the opportunity is going to pass Kentucky by unless we act pretty quickly. And so, you know, we see this as an opportunity to rechannel the gains in our productivity instead of into rate reductions which, as the audit points out, are anti-competitive, let's rechannel those into this kind of opportunity for doing broadband deployment. And that's an important focus, we are not saying do away with productivity factor, I mean, that--that is the effect of what is happening here, but we are not saying give up capturing those productivity improvements. We are saying we are willing to share those productivity improvements but it ought to be in the manner of technology deployment. We feel that is important and the auditors that this

Commission hired felt that was important.

Q Have you already made any type of these investments in your multi-line business environment other than just in Louisville?

A Not outside of the Louisville market, no. Now, in that a multi-line business, a very large business, can take advantage of frame relay and ATM capabilities, you know, that is available to them. Quite frankly, most of our frame rely business though has been relegated to the Kentucky Information Highway and the participants of that highway, and that is the reason we have looked to broaden the Kentucky Information Highway capability for the kinds of participants that can utilize that network. We are not seeing a lot of that activity outside of the Kentucky Information Highway in rural Kentucky.

Q I'm not quite sure because I don't totally understand this, but, from my understanding, when you all used to build your network it was done on what I'm going to call a peak hour, or your busiest hour of the day. You had to be able to cover that?

A It would be engineered on the busy hour, busy day, yes.

Q You are moving away from that and going into a package switched network?

A Yes.

Q Does this allow for more flexibility?

A It is a totally different type of traffic engineering that you do with a package network as opposed to a circuit switch network. Clearly, digital capability and package switched networks create a whole lot of flexibility because they can carry all kinds of traffic, whereas, clearly, the circuit switch network today can't carry the kinds of traffic that is required in the data markets.

Q That was my next question, it will carry more traffic then. So, if the network can handle more traffic, does that drive down the cost per subscriber?

A I don't know that you want to make the cost comparison per subscriber between a circuit switch capability and the packet switch capability. A packet switching capability carries with it a certain cost per packet of data. The fact that that particular unit might be cheaper than a minute of use on the network is like comparing apples and oranges and, you know, building a packet network with a certain broadband capability brings its own cost. It is clearly incremental cost over and above what we now have in equipping the circuit switch network. The fact is that right now we are faced with building our packet switch network with a high potential. You have got the 706 proceeding having over our head. The fact that we are probably going to have to settle on an open access basis and at TELRIC prices. All of that brings a lot more risk to BellSouth's decision to deploy packet based networks than it does the cable industry or other industries, wireless industries, who don't have to sell on an open access basis, apparently, and don't have to sell at TELRIC prices. So, our opportunity and the risk for the ILEC, for the RBOC, BellSouth to deploy a packet switch network carries a lot more risk than it does our competitors.

Q Are the costs associated, you said it is apples and oranges, but could you say if the cost associated with the circuit switch network is greater than what would be associated with the packet switch network

A I don't think that that is a viable comparison. They each have their own cost, they each provide a certain kind of service to customers and, clearly, we can carry voice traffic on a packet switch network probably more efficiently than we can carry it on a circuit switch network. I think I said that right, carry it more efficiently on a packet than a circuit switch network. But voice-- the voice traffic is really of no consequence in this market. It is the data traffic that is where we have to manage our business toward. And so, you know, we are stuck with a huge anchor of how we handle traditional voice traffic over that circuit switch network and you have got all that investment setting there. And the fact is in today's market we have got to get our packet switch network deployed, up and running, if we are going to be competitive, because we are already well above 75% of the traffic flowing over the telecommunications network is data and it won't be long before it is in the high 90s. And so, you know, the voice traffic is inconsequential. I think it is very interesting to note, for example, in the WorldCom-Sprint merger where the discussions now are to pull this thing off. Quite frankly, I think they have pulled an excellent Brer Rabbit routine, don't drag me, you know, it looks like they are going to sell the long distance, the voice long distance piece in order to get the wireless piece of that business. So, you know, there is very little value in the voice market any more.

Q Could you explain to the Commission the technology that you want them to allow you to implement more rapidly than what you originally planned?

A Well, that is a very good point because I think the important thing for this Commission is that no one can say for certain what is going to be the best way to deploy broadband services over the next two to five year planning horizon. We have done our analysis and put on the table that if you were to deploy ADSL to the 31 counties and the wire centers that we have used as an example, and we have built the case based on that deployment, but we don't know that a wireless application--two years from now that a certain wireless application or perhaps a satellite application for delivering broadband might not be the more efficient way. What we are committing to this Commission is regardless of what that technology is, is that by the end of year 2002 we will have broadband capability in our wire centers that serve 75% of the access lines in this state. At this point in time I would venture to say that is probably going to be ADSL service. But I don't think the Commission ought to lock itself into a particular technology deployment or a particular time frame or a particular central office, I think what they ought to do is require a commitment that we reach a certain level and then let us work with Economic Development people--Cabinet with the KCTCS folks, find out--and find out which of the right central offices, the right counties to be in, and then let us choose the right technology at that given point in time. But we are committing to start deploying digital subscriber line service this year. As soon as this Commission approves this case we will spend up to four million dollars this year alone and that we will deploy in 31 counties by the end of the year 2002.

Q This probably goes once again against my lack of understanding, but it sounds to me like you are trying to raise the rates for voice service to your residential customers, yet have them pay for data services. But you said voice services--

A Well, I think, clearly, the public policy initiatives in this coun--in the United States, and the FCC has just dealt with that in the CALLS proposal, everyone knows that the circuit switch 1FR service is below its cost and that there are subsidies in the rate structure in both access and business services that are helping to pay for our universal service and to help pay the cost of those--the difference between the pricing cost in that market. And so, you know, what we are asking this Commission to do--because by law the Commission has to deal with Universal Service Funding issues and has to deal with how do you make--how do you entice competition into rural Kentucky, and you have to do that by shifting the subsidies out of the rates and creating the opportunity for any provider going into those markets to have an opportunity to share in that subsidy--so, what we are asking this Commission to do is to deal with the universal funding issues in a little different manner than a line item charge. And to--the plan we have put on the table we think would be a gradual transition of shifting cost to the local loop, as the FCC dealt with in the CALLS order, and it would do it on a gradual basis and at a lesser amount. We are willing to risk keeping in our rate structure in our competitive rates, we are willing to risk, if this Commission will take that risk with us, leading a certain level there so that the increase in rates to residential customers will be much less than it would be if this

Commission has to deal with USF on a line item basis.

Q Since you started talking about USF, I'll skip ahead a few minutes, a few questions. You are proposing to increase your residential rates and, from my understanding, to forego collecting from USF, but there hasn't been any order issued stating what you would collect or even if you would collect yet from this Commission?

A Well, I think the Commission did a preliminary order and if you look at the--if you just make a run at the synthesis model that synthesis model would say that there is potentially 90 to 100 million dollar fund here in Kentucky. If those monies would be collected on a line item against the ILEC revenues, you are looking at something above $4 and change. If you decide to collect that from the revenue base of all providers in the state you are looking at something above $2 and change. So, you know, I think just a preliminary look, and the Commission in their order said, this is what we see, is there a more creative way to deal with this. I think the auditor looked at some of these issues when they spent six months with us and came up with a framework--defined a framework. We built on that framework in this plan and that framework has been confirmed with the CALLS order. So, I think it is the appropriate--I think it is an appropriate approach.

Q But we've seen the USF change between the time they issued their order, just what the FCC lowered was substantial, so it could possibly change even from their order?

A Well, I think you also have to look at whatever that might be. Let's say it is only a $1.50 or a $1 when that USF line item goes in, the present plan would say at that particular point in time BellSouth could begin increasing residential rates at the rate of 10%. Our plan doesn't do that. Our plan has a minimal rebalance of 10% in four of our rate groups, 85 cents in our Louisville rate group, which is a much smaller percentage. And, so, you know, I think our plan handles it correctly.

Q Let's get back to your call centers. What exactly are your call centers going to be built for?
A Our call centers?
Q Didn't you propose to build some call centers in your proposal or did I dream that?
A I don't think so.
Q I guess maybe at the informal conference, or in something I read, it talked about another thing that you all proposed was putting before it Economic Development was call centers. Did I misread that?
A No. We do have an economic development tariff as part of this package which would look at the same locations and the same plans that the Kentucky Rural Economic Development Act looks at and for those companies we would have 10% discounts on their rates and waiving of installation charges to try and entice companies to locate by lowering their communication bill in Kentucky. Certainly, that has some value, in this plan, and we do have an economic development tariff. Now, what we are seeing is that I think the

opportunity for call centers, clearly, the KREDA Act entices businesses to locate here that are going to do a certain amount of business out of the state and call centers clearly fall into that realm. And, so, call centers have been an attractive business that the Economic Development folks have been able to incent to come to rural Kentucky. We want to help them with that.

Q Maybe that is what--and I misunderstood where you were coming from. On page ten of your testimony you talk about an adjustment to address subsidy, to get prices more in line with cost. But this is by your BellSouth calculation on what cost is, isn't it?

A I think if you use the FCC synthesis model which, you know, I think by any stretch of the imagination it is a TELRIC forward looking cost, it doesn't include any of our embedded cost. Even if you just use that, clearly, 1FR rates are below cost, especially after you go through your deaveraging--when you look at the deaverage requirement.

Q If I read the audit report correctly, it was on page 138 of the audit report, you say that even if you get a rate increase you will freeze rates, but then in your proposal that you filed it didn't say anything about freezing rates. Was there a change of mind or am I reading the audit report wrong?

A I don't know, let me look at page 138 and see maybe where you are talking about. Can you direct me to where the wording might be? It starts on page 137 is--is there a-- recommendation number two is about the rebalancing. The paragraph there on page 138 would be the first full paragraph on its own. During our discussions with the auditors they were researching what would be some potential trades and how would this plan work if we put a plan together. And we offered up, in the spirit of kind of a quasi negotiation, the kinds of things that we might be interested in doing, and that is what they put in the audit report are the, you know, some potential. You know, I think what we have said in our rebalances is that we would do these first two years and then rates would be allowed to increase at the rate of inflation. That is what is in our plan.

Q Let's assume that I agree residential rates should increase slightly. Don't you think maybe it might be a better idea to freeze them after a couple of years until we get a grasp on what is happening instead of just letting you raise them to inflation since you are employing technology that could possibly lower rates?

A I think in this plan the most important thing are the principles of the fact that productivity factor no longer serves its purpose. I think the FCC dealt with the productivity factor in recognizing it for the ruse that it is and saying, look, it is a transitional mechanism that works to lower rates. You know, they lost in the courts that it had any basis on total factor productivity basis and now they don't have to go back and defend that. But that is an important principal that the productivity factor and the way it is handled in the formula and the way we use it in the baskets is really no longer applicable. I think another principal of rebalance is important. I think access charge reductions, getting down, getting access charges down to the .0055 level is an important target. And then dealing with USF, and we think we have got a better way to deal with USF than kind of what is going on around the country. I think those four principles are important. How you go about implementing those four principles can be cut a number of different ways. We have put one plan on the table, we have tried to engage parties in this case in discussions about what is it that you want, what is it that you need to meet your needs and we think we have achieved that. You know, those are the kinds of things that we would have been happy to discuss with the Commission Staff at the informal conference or with you in settlement conferences. You know, I don't want to get in the position of negotiating here on the stand. I will say Vantage Consulting has, in their testimony, put in another way you could cut this thing. The principles are important and how you go about implementing this, whether you do a two year rebalance or a three year rebalance, and then you freeze rates for a year or you let them go at inflation, you know, there is a number of ways you could cut this thing. We think we have got a very effective way to go at it, and it meets four areas that we thought were very important to this Commission: Deal with USF, get broadband deployment, have stable rates and high quality service, and get access reductions. We felt that in looking at Commission orders, talking with the auditors, those were four important things that this plan does and we put one way to do it on the table.

Q So, you obviously don't think that since technology seems to be--the cost of technology seems to be decreasing that the fairest way for the residential rates would be to have a cost study scrutinized before rates are written?

CHAIRMAN HELTON:

Written?

Q --are raised.

A You know, how much more are we going to look at costs? I mean, we have had cost dockets galore and the Commission has got another one that it has to go through this fall on UNE prices. There isn't anybody in the industry any more that is willing to say that residential rates aren't below cost. I mean, the FCC has recognized it, I mean, that is just a fact of life that we are going to have to deal with. You know, why delay further? I think the CALLS order has an interesting paragraph in it on page 12. It is paragraph 27 and--in that order--and what they point out is it says, "The Commission"--the FCC--"not permit itself be gridlocked into inactivity by endeavoring to find precise solutions to each component of this complex set of problems. It is preferable and more reasonable to take several steps in the right direction, even if incomplete, than to remain frozen with indecision because a perfect ultimate solution remains outside our grasp." I mean, how much more studying do we need to do? The 1FR rates are below cost, there is subsidy in our rate structure, we need to get access charges down, and we've got a better way of doing it in this plan than utilizing the USF methodologies that are out there floating around. And we think the Commission should get on with it.

Q Is a switch just one cost?

A I'm sorry?

Q Like, if you are going to buy a switch, is that just a cost?

A Switch--a switch certainly has a capital expenditure component with it, but there is lots of expenses that go into maintaining and operating a switch and depreciation and all the rest that goes with it. Every dollar of capital we put in carries at a minimum about a 25 cents carrying charge.

Q If you buy a switch, does that include vertical services?

A Not necessarily. There is right to use fees that go on top of that, depending upon which package of vertical services you put into it. So, the switch itself isn't necessarily the sole factor.

Q If a CLEC purchases a switch from you under-- with UNE prices, doesn't that include the vertical service? Or am I misunderstanding?

A No, presently I think there is, and the Commission will clear this up in its cost docket, I think we would say that there ought to be some incremental increase to the port charge for a given set of package of vertical services. It could be argued that today the port charge does include the features, the vertical services that come with the switch.

Q Is it correct that the UNE services that you filed with this filing are the lowest of any UNE services you have filed

A I don't know, Mr. Rausch could probably answer that better than I can. They are lower, they are lower than the set of deaveraged UNEs that are in the stipulation. We are proposing a lower set of non-recurring charges, both on interim basis until the Commission can have their cost docket. The audit pointed out that our UNE charges in some areas seemed a little high, as did our non-recurring charges. And being responsive to that audit and, again, bringing some value, we were willing to accept lower rates to try to get this plan approved. And, so, we have offered a set of lower rates in the interim which we thought would benefit the CLECs until the Commission can go through the cost docket this year.

Q And do I remember from the informal conference that you thought when they went through the cost docket they may even be lower, or am I dreaming?

A I wouldn't venture a guess as to what the Commission might do after everybody puts on their proof.

Q Do you think the CLEC should pay something toward non-recurring UNE costs then?

A Certainly.

Q You know, as I'm saying, and, once again, this might be a lack of understanding--

A Let it be noted I did answer yes to that question.

Q I know and I'm so proud. By lowering access and getting rid of the NTSRR, does that mean the IXCs aren't paying--are paying less and less towards being able to use your network?

A Well, the price they would pay would be less, but I think that it is a matter of getting non-traffic sensitive costs off of the access charge and put on the loop side, the end user. The FCC in its Order lays out lots of reasons why that should happen. I have to tell you that there are competitive alternatives, it is in our best interest also to get those rates down so that we can keep our network attractive and keep as much traffic as we can on our network. So, we would like a level playing field with our competitors. And getting access charges down and getting subsidies out of those rates, getting rid of this non-traffic sensitive cost out of those rates is important.

Q You said to get the most traffic out of your network, then how are they paying to use your network?

A They will still pay access charges to use the network.

Q I pretty much thought the goal was to get it down to virtually nothing?

A Well, the non-traffic sensitive element, which is clearly a subsidy element, I mean, it is defined that way as a subsidy element, that would be taken to zero. But they would still pay an appropriate rate for access services. And the other issue is to avoid arbitrage in this marketplace. We need to continue to move access charges toward interconnect rates so that someone is competitively neutral in that decision. We don't want interexchange carriers buying services from a CLEC paying--and getting the opportunity to arbitrage interconnect rates because there is a big difference between that and access charges. And, so, in this area of access charges we are seeing the same thing. I think it is a very important point in this case, the FCC pricing policies, whether it is on access charges, whether it is on UNE rates, they form kind of the gravity, economic gravity in this market. That is the protection in this market and that is where prices, that is kind of the gravity where everything is going to go to. So, you know, that is--we think that .0055 is the appropriate access charge, the right market rate to pay.

Q As we have seen in the last year the USF charges have decreased and I realize they are going to go up again because of this CALLS proposal but it has nothing to do with the inputs, just that they are increasing the pot. By raising the residential rates in lieu of USF, aren't you changing something permanent that could possibly be flexible?

A Well, our proposal doesn't even come close to getting it up to the level. In fact, if you just look at the last run of the synthesis model and if it does generate between a 90 and 100 million dollar fund, BellSouth would net out of that fund around $32 million. Our proposal rebalances rates over a two year period of 24 million and, so, there is still 8 million left in the rate structure that we are willing to risk out there in the marketplace as part of this trade off. So, you know, there is still a lot of room. So, even if the Commission at some point in the future decided, well, you know, the USF should have come down, we would still be under the level. We are leaving some money on the table in this USF situation.

Q But by doing it the way you propose that means none of your business customers are paying anything towards USF; isn't that true?

A No. Business customers also--if we get access charges down to the .005 level, we have taken care of the non-traffic sensitive piece there and there is still $8 million net difference between our proposal, and that means that businesses are paying eight million dollars somewhere in their rates toward USF. If you are just looking at the TELRIC forward-looking cost model, that is not to mention our embedded cost situation, you know, I think in all of this debate everyone has just decided that embedded cost don't play a factor and that is just something that is out there at risk in the marketplace, and that is kind of where it is coming out. But even in a forward looking

TELRIC model, we are leaving $8 million on the table in this proposal.

Q As we established earlier, you haven't seen the FCC's transcend telephone service report that was issued in March of 2000 but at the beginning of its universal service section it reads, "High cost support enables areas with very high costs to recover some of these costs from the support mechanisms leaving less costs to be recovered through state rates. In this manner the high cost support mechanisms are intended to hold down local rates and, thereby, further one of the most important goals of federal and state regulations, the preservation of universal service telephone service." Do you believe this statement to be true?

A Yes. And the CALLS proposal still has over $600,000,000 in high cost funds that is targeted in high cost areas. Clearly, you know, I--we are not going to begin to take care of the subsidy--some subsidy shifts somewhere that is supporting local rates. I mean, we don't get near cost with the proposal that we have got on the table. When you deaverage UNEs and you look at what the cost of providing service to some of these rural wire centers versus the 11.17 plus the two 10% increases we are proposing, I mean, they won't even come close. So, I think that there still needs to be subsidy support. The FCC has set it up where that subsidy support is portable. Our plan leaves a mechanism open where it can be portable, and there will continue to be subsidy on universal service still in the structures.

Q It depends on what you read on whether this CALLS proposal is so wonderful or not. But one way--either way no matter what you read BellSouth will probably receive more money from the FCC under the USF fund money?

A There is a $2.1 billion reduction that is part of this plan and, so, it is subject to check, but my feeling is that there is less money following the CALLS proposal coming to the companies than there was before.

Q Even though they have increased it to $650,000,000 from, what, three hundred and something?

A I'm probably going to have to let Mr. Rausch talk with you about the actual flows before and after from the high cost support basis. But keeping in mind that that high cost fund of $600,000,000 is a pittance. I mean, it is--it really doesn't--it is just a small portion of this whole plan.

Q Do you consider telephone a luxury item now days or a necessity?

A I can't imagine anybody wanting to be without communications. I think that depends on the individual. We know that there are some people--that there is probably three to four percent of people in our society that don't want a telephone. So for them it is not a necessity. I can't imagine being without communication services, three or four of them at any given time.

Q Okay. Here is the hard question. This is what it is all about. You have customers that don't qualify for Lifeline assistance, and because they can't afford it they don't make a lot of long distance calls, so most of these access charges aren't helping them any. And some companies are charging minimum fees, I understand AT&T says its cost proposal is going to drop theirs, but I don't know if that requires everybody else to or not. They don't have a computer, they don't have vertical services, and from what I'm told from the people I talk to it is because they can't afford it. I've also been told that they are afraid that if their phone bill keeps going up that they are going to have to be a luxury item and no longer a necessity. You know, with the cost proposal this passing, from my understanding, the participants are now, so I'm going to drop the minimum fee, but the SLC is going up to the point that they are increasing Lifeline to help cover it. But it doesn't appear that it is going to be helping these POTS customers any. Do you have any ideas on what could be done to help these POTS? customers?

A Well, today if you qualify for Lifeline, of course, you can get up to $10.50 and that will go up a little bit for those subscribers to take care of the $3.50 to the $4.35 increase of the SLC. As you have pointed out, the PICC charges and the minimum usage charges that today flow through to those customers are being offset and the amount of money that even your basis POTS customer will save will be less even though the SLC is going up, those other charges coming off, it is still a savings to those customers. Affordability is an interesting issue and we have done several studies of affordability. Probably the one that comes to mind is when Jim Sharpe was still on the Commission and we used the University of Kentucky Economics Department to help us do an affordability study and we found some very interesting things about affordability. People would say that they couldn't afford telephone service yet they had cable TV, and would tell you that they were going to have to take their telephone out. I mean, affordability is a very relative term. I can't hardly believe that basis telephone service under a Lifeline plan where you can get $10.50 off and the rate we charge is--in rural Kentucky, for example, is around $13. And that has increased dramatically in the last couple of years, the telephone service has become more and more affordable. In fact, that has been backed up by the fact that penetration has increased. In Kentucky we have gone from mid 80s to the 90s in penetration of households. Also, from affordability standpoint, if you look at age, income, and education, it varies across that realm. An older person who makes a poverty level--the older population of poverty level has a much higher penetration of telephone service than do young mobile people at that same income level. So, affordability is a very relative term. I think telephone service is very affordable. Our plan doesn't change that equation. In fact, our plan, if the Commission by law has to deal with USF, our plan is a better way and a more affordable way to deal with it than a line item on their bill, plus it creates a lot less customers being upset over a line item on their bill. And, so, I think we have got a very interesting and unique way of dealing with it and it does not change the affordability equation.

MS. CHEUVRONT:

I'll start sending my complaints to you.

That's all I have.

CHAIRMAN HELTON:

Ms. Dougherty?

MS. DOUGHERTY:

Thank you.

CROSS EXAMINATION

BY MS. DOUGHERTY:

Q Good morning.

A Good morning.

Q Under the current Price Regulation Plan there have been productivity adjustments; how often are those made?

A Once a year.

Q The date is July 1, correct?

A We file them July 1, effective August 1.

Q We have got another one coming up here shortly, right?

A Depends on when the Commission approves the plan.

Q Okay. At those productivity adjustment times, since the plans inception, how much

money has been returned to the customers? If you don't know exactly you can give me some ball park.
A I'd really rather not guess, I think we've got the number here in the room, Amy, if Steve or Jim one --I think we can get that number for you here very quickly.
Q Has money been returned, if I can use that phrase, at each adjustment period?
A Yes, it has.
Q And who has benefited from those monies?
A All citizens. I mean, if you lower business rates, you lower access charges, the benefits of that flow to all of the citizens in Kentucky. I think I can give you that number, I just remembered where I had it.
Q Thank you.
A The first one was 3,200,000, the second was 6,400,000, the third was 6,400,000.
Q Have there been four?
A I'm trying to look at this last one. I don't see the--I'm going to have to check on the last one, I don't know what it was.
Q Would you accept, subject to check, that it

was over seven million?

A Sure.

Q And for this proposed change to your Price Regulation Plan you are suggesting that instead of these adjustment periods, or adjustment monies, that the Commission instead allow you to deploy advanced services; is that accurate?

A I think there is a number of quid pro quos. Let me go back just a minute, Amy, just let me correct something. I see now the line, the non-competitive basket, I guess, where this productivity formula was operating, the first one was 3,078,000, 4,669,000, 5,539,000 and the last one was 7,847,000. So, those are the four. And those have been based on the low inflation rates that we have experienced over the last three or four years. If you consider inflation is going up, the opportunity for those kinds of levels to come down is pretty high. And I think whether or not we would sustain 1.8 rate of inflation like we have had, I think is questionable. But besides just the capital commitment for the infrastructure deployment there is lots of expenses that go with that, like, we don't know yet what kind of marketing expense we are going to have to go through, what kind of partnerships we are going to have to do, and to incent those partnerships with ISPs to sell RADSL product out there, I think it is clear we are probably going to have to come to this Commission and ask them to go to the FCC with us to do some kind of trial and how we can enhance and get ISPs to work with us out there to sell this ADSL service. So, you have got that situation, we have got the economic development tariff in this package which brings some value with it. We have got to lower UNE package, which also represents a rate reduction over the present status quo. You know, I think there is a number of value creation opportunities in this package other than just the infrastructure deployment. Clearly, that is the biggest one.

Q Over the last four years there has essentially been approximately $19 million returned to your customers through this

productivity adjustment; is that accurate?
A Yes.
Q Of this 19, how much has been in access reductions, just generally, do you know?
A No, I don't have that, but, again, I think we can probably get that for you, today.
Q A sizable portion, though, correct?
A Yes, it has, because we've asked the Commission to deviate from the plan rules in order to do a cross-basket pricing and to target access charges.
Q And what other reductions have been made
A There have been some, certainly, some business reductions in the 1FB rates, we dropping hunting rates, also, would be some other examples.
Q Okay, thank you. You mentioned under the Attorney General's cross that you were committing over the next year, if the Commission adopts this plan, to $4 million deployment of advanced services?
A Yes, that would be $4 million in the next six months. The following year we would spend another seven million and the following year another four or five million. So, to reach

those 31 offices in the next 30 months, we will spend capital expenditures of around 15 to 16 million or incremental dollars.

Q Does this 19 million that has been returned over the current plan, in your opinion, compare favorably to the 15 to 16 million you are proposing for the coming years?

A Well, I think it would compare favorably to the potential of what would happen in the future. The 15 million, as I say, the most recent calculations are carrying charges around 25%. So, the 15 to 16 million creates around $4 million a year in carrying charges, just on the capital expenditure alone. And, so, over the same four year period you would be looking at something--some $16 million would have been returned. So, it would be $3 million short from, I guess, we came up 19 million, yeah, we would have been $3 million short if you want to do a dollar for dollar kind of analysis here. So, it would have been a tad short under that kind of analysis. But that would--you would be ignoring the other value opportunities that we have got in this plan. We are not saying that our deployment is the only quid pro quo for this situation. We think there is other value opportunities in this plan and I think it opens up a potential that we could perhaps do more deployment. We would be more than willing to meet with this Commission, down the road, and look at how the business plans have worked and look at the deployment and see how we are doing and see whether there is other opportunities. I think one of the beauties of this plan is that we work with you all every day, day in and day out, and if at any time this plan is not producing what you think is a fair and equitable production, given this--I mean, we can always be back in this hearing room. And so, you know, it is not like--to me it is not like we come in and we do the deal and we walk out and go away and you don't see us for three years, and que selá, selá, you know. We are here, we work with you every day. If this plan is not producing exactly what we say it is going to produce, then we know that this is the ultimate place that we have to face.

Q So, is it your testimony that the access charges, the access rates are basically where they need to be for the foreseeable future if this plan is adopted?

A It looks, you know, when you look at the CALLS proposal it looks like the industry and everyone is agreeing that .0055 looks to be a good end gain for about five years and kind of see what the market is doing after that.

Q Is that rate that you mentioned of .0055 based on some agreed target or where does that come from? Why is that the number?

A Well, you know, I think it is a product of some gives and takes and looking at what all the industry felt was an appropriate combination of elements in access charges as getting to be toward cost based. I don't think AT&T and WorldCom would agree that it is cost based, that maybe there is still some more to go. On the other hand, I think we would say it has got to have some market value in it and I think it has been a product of negotiation over several years to arrive at that level.

Q Do you know what the current access rate is of that equivalent charge?

A Yes. it seems to me that it is--
Q Would you accept .008?
A No. With the NTSRRR in there it is much higher than that. If we eliminate NTSRRR it is .008, it takes about $14.5 million to do that, to get the--
Q To eliminate the NTS?
A Yes. And then you would be at a .008 rate level.
Q How much more does it take to reduce it to .0055 as you proposed?
A Around $2.5 million more. So, you are around $16 to $17 million it takes to get rid of--to get down to the .0055 level.
Q Back to the broadband deployment proposal a little bit. You have stated that you will deploy in 31 counties and covering 75% of the customers. Is that 75% of your--BellSouth customers in this state--
A Yes.
Q --or 75% of--
A Yes, we will serve wire centers, we will have broadband capability in wire centers that serve 75% of our customers.

Q Your customers?

A Yes.

Q You state at page five of your testimony that infrastructure commitment proposal places broadband capabilities in the markets that would not normally support the deployment of these services?

A Correct.

Q If the market won't support those services, why should they be deployed there?

A I hope it is a chicken and an egg situation. I don't think anybody knows what the rural market is going to produce. You know, we think in our--if we do this right with Economic Development folks and deploy these places where they are trying to entice businesses to come and that kind of effort, and that, for example, the KCTCS, there was just a recent article in <u>Business First</u> where KCTCS has joined with SISCO, there will be a press conference tomorrow, as a matter of fact, to do technology training in sites all across the state, all of which we have got covered with this deployment. The students that will be attending and going through that--I think there is going to be things that create the demand and as long as we figure out how to tap that demand, again, ours is a wholesale product, we are going to have to find ISPs and create an attractive package that will entice ISPs and create a business plan for them that they will join and partner with us in selling this product out there. I think that--you know, I think quite frankly it is a gamble. Why at any given time did somebody think we needed to do rural electrification of the country. Clearly, it wouldn't have supported private investment at the time but, I mean, look what it produced. And so, I think that is what everybody foresees for broadband deployment is--it is being deployed in places like North Carolina and Georgia because of various incentive packages or what have you. If Kentucky is going to be able to maintain its capability to draw businesses, create the educational opportunities, we are going to have to keep pace. You know, I don't know what the outcome will be. I think it has got very high risks. And the key is that you are not going to see COVAD or Blue Star or anybody else going there. There may be some municipals that for--that for the lack of anybody else coming under a kind of cooperative kind of effort will try to do it. I don't know if they will be able to keep up with the technology and the kind of expertise that it is going to keep to keep that kind of network together. But if BellSouth doesn't do it who is going to do it?

Q Is BellSouth able to do it because other customers outside of that given area are supporting the project? I mean, is that a form of subsidy?

A I don't think I could argue with you on that. Clearly, if we are saying let's capture some of this productivity effect and channel it toward a broadband deployment and see what that does for the economic development opportunities for the citizens of Kentucky, then that is productivity sharing that maybe could have gone in a different direction in terms of lowering some business rates. And I think that to me one of the objectives of this Commission is to be pro-competitive. You continue to cut the margins out of business rates and cut the margins--there are no margins in residence rates but even lower them even more. I mean, it is not a pro-competitive situation. And so, you know, what is a better way to capture that productivity sharing? But I couldn't argue with you that it is a form of subsidy.

Q So, the markets that you refer to that I quoted was the private capital market wouldn't support investment in that kind of region for that use but you are hoping that the Commission's order to do so will be enough of an incentive and you can use your broad customer base to support that in conjunction with some public partnerships; is that accurate?

A I think it is. I think it is going to take a lot of work on all of our parts to make this work for Kentucky and, you know, I--I don't know that we have a choice. I mean, if you talk to Aldona Valicenti and that group of folks, they would tell you we don't have a choice.

Q Your current plan, I'm sorry, your proposed plan, does not contain a lot of specifics about the broadband deployment, but you just testified here today about the four million for first year, seven, five and four million for the next years. Is this an actual commitment that you are making to the Commission in that these investments will be shown to the Commission each year at these levels?

A Certainly. Now, again, let's say in year three--what we are saying if we are going to deploy ADSL services in the counties that are left, it would take $5 million. But if I can find some partnership with SISCO and they are willing to put it out there for free through some partnership with us, I would come back and say to the Commission I don't intend to spend $5 million, I've found another way to do it. Now, at that point we might be able to engage in some discussions, well, you know

we feel like we'd like to see you do some productivity sharing here and we haven't gotten our fair share. We are open to those kinds of discussions. Do we maybe move beyond those 31 counties then and push that envelope in the market even a little further than that kind of opportunity. But I think part of the beauty of the Price Regulation Plan and this Transitional Regulation Plan is it incents us to do those kinds of things. My bet is that I will be coming to you in the year 2002 and showing you we are spending the five million.

Q Is it accurate that BellSouth is deploying now these advanced services where markets will support them?

A Certainly where we think the markets will support them, we think there is an opportunity in the business case where you have got the density. You know, I think Sony deployed Beta because they thought they had the markets that would support it too. Whether ADSL wins out over cable modems, whether it is an MMDS application, whether it is a satellite or wireless application supplants ADSL on the market. Interestingly enough ADSL has kind of found a new life for ISDN because of some relationships there and how it is networked and provided. So, I mean, it is hard to say.

Q Do you know how much BellSouth is currently spending in Kentucky for capital deployment of advanced services?

A Let me spend a minute here. I want to say that the--that this year we will spend around 2.7 million in our base plan, not including the four million we are committing over and above for the first 10 or so DSLAMS we put in this year. We plan to spend one million next year in the Louisville market, and in year three it looks like we plan on spending about nine million.

Q So, the money that you quoted to me earlier are all in excess of that; correct?

A Yes. So, our total deployment ends up being something in the range of 27 million of which 15 of it will be outside of Louisville.

Q Okay. On page 11 of your testimony, line 24, you mentioned that the objective of this approach is to improve the technology and economic development position of the state. As opposed to punitive and arbitrary rate reductions associated with the current productivity offset, do you think that the Commission has penalized BellSouth because these rate reductions have been done in accordance with the current plan?

A I do have a change in my testimony that I'd like to make. I think to continue it on a going forward basis it does take on kind of a, we think you are earning too well, we just want the money, and they are--if you carry the present plan to its ultimate, let's just take the Louisville market, I think an argument could be made that everything in the Louisville market, except perhaps the 1FR, is competitive now. With UNE platform, the capabilities of our competitors, and, so, you eventually in the next--over the next two years in the Louisville market everything moves out of basket one. You are left with the productivity factor acting on 1FR rates, saying we are going to continue lowering 1FR rates. This seems to be arbitrary and doesn't make a lot of sense in this marketplace, and it doesn't match a pro competitive stance. And so, no, I wouldn't say there have been punitive in the past, but on a going-forward basis I think they take on that aspect.

Q You referenced that to continue with the current productivity offset would be saying you are earning too much and we need the money back. How is it--is your proposal for this advanced deployment in areas where, arguably, a private capital market would not support it are not the same thing, not saying you are earning enough that we want you to make some policy choices with this money?

A I think it creates opportunity. Whether we can capitalize on that opportunity or not remains to be seen and it seems to be the right public policy objective. I think it is important as a resident of Kentucky that we take a shot at getting broadband out there and seeing what we can do for--whether it is going to do for in the market. And it has got risk associated with it. I see this as being a different nature than just doing rate reductions on competitive services and below cost services.

Q But isn't what we are talking about really essentially a rate design issue, to use the term from years gone by, we are both looking at the industry years gone by and used to do rate cases, you would figure out your revenue requirement and then when you had excess monies you'd figure out a rate design for how you were going to lower your rates. I mean, aren't we talking really about the same thing, it is just a policy decision about whether they come from access and business lines in the past or advanced service deployment in the future?

A You know, I think--I'm going to say yes, and the FCC has clearly laid out that a productivity factor, or what they are now calling a transitional element, is a rate design rate of return, you know, kind of issue. We are going to drive prices down using this element until they get to a certain level and then the element goes away. So, you know, I guess to a certain degree to continue with a transitional element in our plan that drives prices down is a traditional rate of return kind of philosophy. Letting us capture some of our--letting us channel some of our productivity gains in that effort into broadband deployment is a different policy direction, and that is why I think that is appropriate.

Q Do you think that there are still areas of your rates in which prices could be driven down?

A Certainly. Yes, as I say, just on the basis of the synthesis cost model we are leaving $8 million in our--probably in our business rate someplace. We are willing to risk that in the market as part of our--again, you know, we are talking about what is the quid pro quo here if you want to get down to a dollar for dollar kind of mechanism. But, clearly, that is a big risk, us leaving eight million dollars out there in the rates that if customers come in and use the UNE platform at UNE rates, TELRIC rates, and our business rates, hunting, for example, or Touch-Tone for business services are driving up the effect of price, then that is subject to loss.

Q On page two of your testimony you state that the proposed Transition Plan is more pro competitive and provides pricing protection for those customers with limited alternatives. Could you please explain how the proposed plan contains more pricing protection for customers with these limited alternatives than the current price plan does?

A Well, first of all, the USF is dealt with in a different manner. And so, their rates--we don't think their rates go up as much under our plan as they do if our plan is not put into effect and the Commission has to deal with USF. It is a gradual rebalance rather than a one time line item. The present plan calls for 10% annual increase opportunity, the plan that we are proposing here drops it to rate of inflation after this rebalance is done. And, so, that is a much lower potential increase for those customers than the present plan would have in it. And as we talked about before, there might be other ways to cut that rebalance and what you do with rates there, but the principle is important. And, so, those are some ways I think that there is more price protection in the present--in the proposed Transition Regulation Plan than there is in the status quo.

Q But in the current plan, residential rates are frozen until there is a universal service plan. So, I mean, with the frozen rates certainly that is more protection than what you've got on Transitional Plan, is it not?

A Well, what that would say is this Commission never plans on complying with the 1996 Act in dealing with explicit and implicit subsidies and not going to do Universal service. I mean, I would agree with you, if this Commission says I'm not going to do universal service, I'm not pro competitive, I don't care if there is a line item on the bill and

I don't want broadband deployment, our plan doesn't bring anything to the table. If the Commission wants to accomplish those things, our plan gives you a way to do that.

CHAIRMAN HELTON:

Ms. Dougherty, we are going to take a break right now.

MR. MERSHON:

Thank you Madam Chairman.

(OFF THE RECORD)

CHAIRMAN HELTON:

Ready Mr. Gerwing?

A Yes.

CHAIRMAN HELTON:

Ms. Dougherty.

Q Thank you. Do you agree that the trigger point for having any residential rate increase under your current Price Cap Plan has not occurred?

A I think a case could be made that when the Commission implemented a Lifeline Plan that that was the trigger point. You know, it is not clear when you go back and read the initial orders and the Commission was talking about universal service protection, when we implement universal service, and at that time universal service consisted of a Lifeline. It was really kind of the concept. And, so, I think a case could be made. Now, we have decided it is not worth pushing that question, but I wouldn't want to categorically say that the trigger has not occurred. It seems to me that it is very clear that when the Commission implements USF, deals with it, then that trigger certainly has occurred, but I don't want to categorically say it hasn't yet.

Q Do you think that a case could also be made that there shouldn't be any residential rate increases until the high cost fund is implemented?

A I go back to are we going to delay, how long are we going to wait, when do you start the transition? The longer you wait the quicker it needs to be handled. Why not step into this thing on a transition basis? You know, we have put one plan on the table. Vantage has proposed perhaps some changes to that plan, you know, if you do the rebalance over two years, you do it over three years, do you do 10% this year and 5 and 5, you know? I think there is a number of ways you can cut this thing, but it strikes me that a gradual rebalance to something that we have got to face, inevitably, is the best approach. And the company is willing to risk some things to incent the process to get on with let's take a shot at it to try to move the thing along. So, you know, we certainly prefer action over delay.

Q You would agree with me in Case 97-074, you last proposed a residential rate increase to the Commission, they rejected that increase at that time; correct?

A Yes, and my understanding was based on that there wasn't clear understanding of what the cost nature was and that there was some feeling we needed to wait until some cost work was completed.

Q If that is the case, has the cost work been completed now so that you think the Commission should feel confident in moving forward with a residential rate increase at this time?

A It seems clear to me that the Commission has decided on a cost model. And when you utilize that cost model to look at the nature of cost in the residential market that there is a clear picture today that rates--that 1FR rates are below cost. And that, to get rid of subsidy, some kind of rebalance or USF line item has to be dealt with.

Q Let's talk about some cost issues. On page four of your testimony you have descried the two new objectives of the Transition Plan.

A Yes.

Q Number six is to permit BellSouth Kentucky retail rates to move toward incremental cost or market price. Have you determined the incremental cost for all of your tariff services?

A No, we have not.

Q Given that, how can the Commission be assured of accomplishing this goal?

A I don't know that the Commission will ever be assured that it has ultimately accomplished this goal. I think it is always going to be a moving target. Are residential rates today below cost? Seems to me even on a TELRIC synthesis cost model forward-looking methodology, yes, they are. Does the rebalance that we are proposing get them anywhere close to the--what is going on in those cost dockets and looking at this model, no, it doesn't. And so, I don't--you know, I think the auditors looked at the five objectives and said there is two more things that ought to happen to complete what the process is. One of those is the Commission ought to start a gradual rebalance, minimal rebalance, and certainly that is what this is. Will we ever fully accomplish item number six, I don't think so. And you all, as you said, you all have done this for a long time now, too, and to go through and try to do incremental cost studies on everyone of our products, it is, you know, it is kind of like the brass ring here.

Q What do you mean by market price, how is that going to be determined by you? How should it be determined?

A Again, I think market price would be a moving target. It is just something that you weigh decisions against. It is an objective that you weigh your decisions against. And you look out and you say, okay, what generally are competitors charging out there and I think you get a feel for a market price. As competition comes on and, you know, the one that comes immediately to mind, it is probably the most pressing on us, our primary rate interface services that we sell to ISPs. Our competitor seem to be selling that for around anywhere from two to four hundred dollars. Our price typically is a $1,000 or $1100. It seems the market price, and in determining that market price with PRI gets into the reciprocal compensation issue. That market price is someplace in there. You know, I think that is just one product. I think market price is a moving target, something that you always have to weigh on each individual case by case decision, how close are we. It strikes me that what forms market price for 1FR services is kind of determined by the UNE pricing philosophies and how that comes out. If a competitor can come in--a competitor is going to come into rural Kentucky and they are going to weigh what is the deaverage UNE platform versus what is resale--rate minus resale discount and they are going to choose. And then they will go out in the market based on the choice of one of those, put some kind of margin or markup on it that they want to be in the business for, and that will form the market price for 1FR service in that category. So, again, I think it is on a case by case basis. It is an objective, it is something out there to weigh your decisions against.

Q I'd like to talk about cost studies with you for a moment. In the response to the Attorney General's question number 7 you stated that there had not been any recent cost-of-service studies done. But then you relied upon the results of the BCPM model filed in Administrative 360 and said that that was the statewide average of $39.48; is that accurate?

A Yes, it is.

Q Is the average cost per line in the BCPM comparable to the basic rates as suggested or must additional revenues be included to have comparability?

A I mean, you know, this is the age old argument of how we set up the USF fund. Now, we maintain that universal service supports basic services and you ought to look at the revenues associated with basic services and weigh that against the cost. And that vertical services and the other factors ought not play a role in determining what kind of support you need to support basic services. There are others that disagree with that and say that providing basic service brings the market opportunities to sell these other services with them. So, you know, our answer--BellSouth's answer to that is that you should only consider the revenues for basic services, when comparing it against basic service costs to determine what support level is there.

Q In the May 1998 Order in Admin 360, did the Commission adopt the BCPM?

A It strikes me that you adopted the synthesis cost model but I'm not sure about that. Mr.

Rausch, I think, can answer those kind of details about the cost models.

Q Has the FCC continued to examine the appropriate cost model for a national USF?

A It strikes me that they are still looking at various kinds of inputs and that kind of thing and did not make that kind of final determination. It just goes on and on and on.

Q You would agree with me that this Commission adopted the HAI version, 5.0(A), for USF determinations; correct?

A At that point, but, again, I'd let Mr. Rausch speak to the cost models. It strikes me that you have also asked for input about the synthesis model, but I'm not certain about that.

Q If you want Mr. Rausch to answer this question that's fine, too. The latest of FCC models that were adopted, do these support your observations that rural rates are still below costs?

A Yes.

Q You have mentioned the Commission's cost docket that is pending, Administrative 382.

Why wouldn't it be better for the cost to be determined and examined in that docket prior to the changes that you have proposed here today?

A You know, again, how long does the search go on for the ultimate answer. I think we know enough today to know the timing of renewal of the plan, we filed the plan back in December that was filed following a six month audit ordered by this Commission. It embodies the record from that audit, the recommendations from that audit, it embodies and is reinforced by the recent FCC CALLS decision, it moves ahead with reducing access charges, it moves ahead rapidly with deployment of broadband capabilities. We know that 1FR rates are below cost to a greater extent than we are even off--that we are even making up with this. I see no reason why to wait. If broadband deployment is important, if reducing access charges is important, if getting our--keeping our pricing on a pro competitive basis is important, then we ought to go ahead and move ahead. Status quo and delay just puts off the benefits. I mean, that--and that is what the FCC said in the CALLS proposal. You know, everybody--you go --these same people brought up--folks brought up these series of questions and the FCC kept knocking them down saying we are delaying the benefits of some of this--of these proposals, we are delaying the benefits and why do that, and, so, let's get on with it. That was their opinion and I think that's where we are.

Q Let's talk a little bit more about your capital investment. How much capital investment has been deployed in Kentucky annually for the last three years; do you have that figure?

A No, I don't. I can tell you it has been between $140 and $160 million.

Q What types of investments have been deployed?

A It ranges all the way from POTS, basic line, outside plant, fiber, circuit, switch, data, it is all levels of telecommunications services.

Q What is your current capital budget?

A For the year 2000?

Q Yes.

A It is probably going to be in the--the budget itself is probably in the $130 million range. But I think given the last forecast I saw where access lines are down from last year but they are running ahead of forecast, and, so, we will probably over spend that budget some.

Q How much of this $130 million deployment accounts were broadband?

A It is what I mentioned before.

Q The 2.7 million

A Let me confirm for you. Yes, for the year 2000 2.7 million. And we will be adding, as I said, we will be adding 3.8 million to that in this last six months if the Commission approves the order, approves the plan.

Q You talk about the general assembly and some of the work done there, was there a bill proposed to expand local EAS, extended area service?

A It seemed to me we faced several efforts in the legislature this year to deal with that,

yes.

Q Are there other states that BellSouth has been required to provide county-wide or similar calling scope type plans?

A Yes, we have county-wide service in Tennessee and Georgia.

Q What would you think of the idea of investing substantial level of capital to achieve county-wide calling in Kentucky?

A Well, first of all, we do have even broader than county-wide calling in Kentucky. Our area calling service plans target communities of interest, very often that is a county-wide kind of situation, sometimes it is not. I think the beauty of our plan is that we look at communities and we target community of interest, those are the kind of plans we put in. So, we do have a county-wide service. To go to a flat rated EAS and spend capital to do that is a much bigger waste and brings no value to the consumers. They think it might, I mean, if you listen to a legislator and at least on the surface they think it brings a lot of value, but it wouldn't--I don't think--I think it brings even less value than the potential of our broadband deployment, that would be a total waste of infrastructure. I think would we be willing to sit down and talk about, you know, if customers have particular needs to call a county seat and is there a way to do that, through a rate structure kind of approach as opposed to doing capital investment, making a plan available for customers on an optional basis as opposed to flat rate mandate across all customers, we are certainly willing to sit down and talk about those kind of plans. You know, if our customers are demanding those kind of services, we want to figure out how to address them. For the most part over the years we have been able to do that through our area calling service efforts. And, you know, if we need to focus those a little more, at little different price levels, we are willing to talk about that. But to just--to put capital out there to deal with county-wide plans and the level of expense that would take would be--I think would be a huge mistake.

Q Okay.

A You know, some of the county-wide issue has been precipitated because of LATA boundary problems. Hopefully, we are within 18 months where the LATA boundary problem goes away. And so, there are solutions, there are rate solutions and market solutions on the horizon that would say to spend money on infrastructure deployment for that purpose would be a real waste.

Q The 18 months you referenced, is that BellSouth's projection for meeting the standards of Section 271 in Kentucky?

A That would be a real outside date. In talking with legislators I don't try to be too optimistic. You know, the present schedule is that the Florida test would be finished by November, that the cost docket would be wrapped up this year and, hopefully, we would be back talking with this Commission in 96-608 the first quarter of next year and would get a decision sometime later. So, I mean, it could be as early as 12 months, but I don't want to mislead a legislator as we are

trying to talk to them in terms of what the potential solutions are. So, I've been using an 18 month period as an outside date for when we could put some kind of plan on the table to deal with some of the LATA wide--LATA situations in counties.
Q There is some federal legislation pending so called the Data LATA Bill. What about the effects of that on your proposal here; are there any?
A On the discussions we are having about county-wide voice?
Q No, just on the Transition Plan?
A No. You know, it--the interLATA data relief would allow us to do data services across LATA boundaries without--before we--outside of the 271 issue and that really doesn't have anything to do with what you are doing down at the wire center level of deploying broadband services. It does enhance your broadband capability because you can be a full service provider to your largest customers that require interLATA data capability. But it really doesn't have much

to do with changing the business case on deploying of broadband in rural environment.

Q And if that federal legislation is enacted, would BellSouth still pursue 271-type checklist?

A Oh, absolutely. I mean, we, to be a full service provider, we have to be able to carry the interLATA voice. I don't know that it brings--it certainly doesn't bring the value to the table that the interLATA data market does, but you need to be able to offer the full package. And, you know, we fully intend to continue with our 271 efforts to open our local markets. That is a separate issue. We are committed to opening our local markets and we think we have done a good job in doing that.

Q And would the enactment of that federal legislation affect the time frame in which you would seek to meet the 271 checklist in Kentucky?

A No. We are on track to do that based on the time schedule that I told you, and if that bill were to pass tomorrow we would stay on

the same track and, hopefully, accelerate it.
Q Let's talk a little bit about the last general assembly's enactment of a sales tax on access charges. Effective June 1, 2000, ILECs in the state were required to begin assessing a 6% tax on services rendered reflecting in Accounts 5082, 5083, and 5084.
A Uh-huh.
Q Do you assume these additional costs will be absorbed or passed on to the ultimate consumer? Do you have any knowledge of that?
A I have to assume that they will be passed on to the ultimate consumer. Now, keep in mind, you know, what is happening here is that while--well, and part of this is January of 2001 access charges begin on the interstate SLC. You know, in that that they are offsetting the SLC--in that they are offsetting reductions from the PICC and in that access charges are moving from the non-traffic sensitive and switched elements over to the SLC elements, some of this would be a wash to the customer, but any increased cost are ultimately going to be passed on to the

consumer.

Q Let's talk about mirroring access charges for a moment. We have had lots of discussions over the last four years about how this should be done and referenced those in some previous Commission Orders. Does BellSouth have any suggestions about how we might better approach this issue in the future?

A Well, it is certainly one thing is clearly changing with our proposal, reducing--taking the NCSR element to zero and, basically, doing away with it. Today when we mirror and there is reductions that at the interstate level shift over to the SLC or SLC is shifted to the PICC or other non-traffic sensitive elements, we shifted those to the NTSRRR fund. In the future if--what we would propose is to continue mirroring in the access basket. That's the reason that our categories or baskets that we set up, we kept an access basket, so it is clear we continue mirroring interstate charges. And on a going forward basis if the .0055 is reduced and the FCC increases the SLC to make up for the reduction of the .0055, where in the intrastate arena we would have shifted that to an NTSRRR element, that element would be gone. And, so, that is just another further give up, I guess you might say, or change in the way the access charges are calculated today. So, I think mirroring has worked pretty well and easy for us. I mean, it has been administratively easy and we would propose that we continue the mirroring concept.

Q With the elimination as you propose it of NTS where is it--is it BellSouth's proposal, then, that the--any amounts of money that are not mirrored by current charges just be absorbed by BellSouth or where will they be reflected?

A You know, our commitment in this settlement is that we would not grow the NTSRRR in the same manner that we have grown it in the past. So, yes, there would be some absorption beyond that .0055 level. That has been a bone of contention between us and interexchange carriers, obviously, because of the rulings you all have had to make and the cases you had on it. We are willing to try to clear that up. We think this plan is that important, that is the reason we tried to get that in the settlement.

Q If the Commission accepts the reduction of the access charges as you have proposed, what do you propose for toll rates for BellSouth? Would there be any effect?

A Our toll rates are in our competitive basket. We try to--that means we can--we respond to the market. If we lower access charges and our competitors lower their toll rates, if we are going to be responsive to the market, we would have to lower ours. There is no relationship between our toll rates and access reductions that we give to interexchange carriers except for the effect out there in the marketplace. And we have done our toll reductions through packages, area calling service expansions, those kinds of things.

Q Do you have any--scratch that. You talked at some length with the Attorney General about earning and I'd like to carry on just a little bit more there. On page 13 of your testimony you state that under the PRP, the Price Regulation Plan, profitability was measured by a rate of--probably by return on equity and that is not a viable regulatory measure since the objectives of the plan were to promote innovative competitive opportunities while still providing quality service in non-competitive services. Does BellSouth derive a large portion of its revenues from non-competitive services where the market cannot set the rates?

A I'm sorry, Amy, did you say page 13, my testimony must be different pages or something, my page 13 is all about service objectives.

Q I'm sorry I think I got something mixed up here. This is not your question.

A I'd be glad to take a shot at it if you'd like. It sounded like an interesting one.

Q That's all right. You talked about your healthy earnings and you did so with the Attorney General. Do you foresee that as continuing in the future?

A Well, I guess the first thing I would quibble with you is over the use of the term healthy. You know, I don't think the financial markets think they are so healthy. They are not real enamored with our business plans right now. And so, I'd first quibble about that term. I guess, secondly, it strikes me that after price regulations, certainly under transitional regulations, have we earned better than we did before; yes, we have. But it strikes me that earnings ought not be a consideration in this kind of case. Having said that, I think if you look at our most recent quarterly report, we have probably shouldered and, you know--can we sustain the kind of growth we have had, clearly, we have--clearly, our--we have probably taken all the advantage we can of reduction of cost through employee head count. In fact, we have reversed that, now we are hiring employees. We have taken the advantage of getting our capital base down through accelerated depreciation. That is probably leveling off. Items like additional lines, even our own ADSL product cannibalizes additional lines and so over this time period we have had tremendous growth in additional lines. That is slowing down. You know, there is just lots of indicators out there that say we have got our work cut out for us to maintain an earnings level that is attractive in the financial markets. You know, I would quibble over the term healthy and to me it strikes me that earnings--what does that have to do with what we are talking about, you know. You have incented us to do those kinds of things, that's the purpose of the plan, and we have done them.

Q So, is it your testimony that the Commission should not consider your earnings in terms of deciding whether now would be an appropriate time for a residential rate increase?

A You know, first of all, the residential rate increase is revenue--it is a revenue neutral item. It really--any of the--I'm going to go back to the question you didn't ask me a little bit here, most everything that we have done in terms of improving our earnings level commensurate with the market requirements has been done outside the non-competitive basket. It has been on other items and other ways we have managed our business. And so--and the residential rate increase is to deal with universal service. It is revenue neutral, it has nothing to do with increasing revenues to our company. And, yes, I don't think the Commission should take into account at all our performance under price regulations from a financial standpoint in determining whether this is the appropriate thing to do. I mean, underlying your question shouldn't we absorb USF? There is lots of reasons on why that shouldn't happen. That is a very non-competitive, anti-competitive issue. It is not portable. There are lots of reasons why we shouldn't just be required to absorb the subsidies that are out there in the rate structure.

Q Are you suggesting, then, that if the Commission felt that your earnings were overly healthy, I know you won't like that term, that there should be no action taken by the Commission regarding that matter?

A I really don't see how you deal with USF or broadband deployment or pro-competitive, I don't see how you deal with any of those things in the context of how we have performed financially. To me, there is a total disconnect there between those items. The Commission could decide today--it is just in the context of price regulation I don't make the connection. The Commission needs to move on USF broadband deployment, getting our pricing rebalanced in a pro-competitive manner regardless of what we have earned.

Q We talked some already about your plan for substituting this rate increase for USF and that there would be no line item or no identified universal service high cost portion for your customers. How will that affect the portability of the Universal Service Fund for other competitors that may compete against you?

A Yeah. We have made the commitment that as competitors come into our market and meet the universal service criteria of the way they provide service and if they have the right to draw from Universal Service Funds, that we would pay our share of--into a fund that they could then draw from. And, so, a competitor could come in, serve customers in one of our high cost areas and get the same support level that we would have gotten for those customers, and BellSouth would pay in its share to support that competitor coming in. And so, portability implies a competitor has access to the funds the same way BellSouth would and under our plan that continues.

Q Let's talk about the basket service proposed in your Transition Plan. According to the audit report there may not be a basis for redefining the existing three service categories. Why did you choose to change those now, to propose changing those now?

A We tried to come up with a plan that was--that dealt with all of the complex issues. And I think for the last two years the majority of what this Commission has had to deal with BellSouth has been over wholesale issues. And, so, we just felt--and, also, if a productivity factor is no longer--there is no formula, that is the whole purpose of the categories of baskets under the present plan is to define how you are going to do price changes in those categories. The Transition Regulatory Plan moves away from that and, so, if there is no productivity formula working on a particular basket, then the basket really has no meaning. The present baskets have no meaning in terms of how this Commission regulates us by wholesale, retail and access. And, so, we just felt that that was a better line up to focus the debate on a going-forward basis and that we had a plan that was all inclusive. I would tell you that we came up with that after we sat down and looked at the audit, we thought about the four objectives that we think this Commission is interested in, looking at the objectives of the price regulation, we said this seems to be a better plan. So, we really never--it was after the audit that we--as we were putting this plan together that we came up with these categories. We think it is a better way. Again, there is lots of ways you could cut this and if the Commission felt that there were too many changes it is something we could live with, as long as the principles that the auditors found and we think are important stay in place: Rebalance, get rid of the productivity factor, deal with USF.

Q Let's talk about these baskets in more detail. You have three proposed; correct?

A Yes.

Q You mentioned access. Are there additional changes or is that still basket number two under the current plan?

A It is the same basket as basket number two.

Q With no other changes, with no changes?

A Right. That way we don't get confused on this mirroring thing. We are still proposing that that basket would operate in conjunction with what happens in the interstate market.

Q Okay. So, the way that basket two services or the access basket is regulated under the Transition Plan, as you proposed, is identical with no changes to the way it is regulated under the current Price Cap Plan?

A It mirrors interstate.

Q What about the retail basket, how does that differ from the category one services now?

A Well, we feel that the controlling factor on retail prices on a going-forward basis are basically the UNE pricing philosophies at the FCC. As I said, that kind of forms the gravity base for where prices can go. It is already operating in, say, like, the Louisville market where we, in our rebalance, we only proposed 85 cent increase in the Louisville market because when you sit--when you look at what we think where the UNE platform will come out, our pricing philosophies are to try to get our retail rates minus the resale discount equal to the UNE platform rates, so that a competitor is competitively neutral on how they approach us. So, we feel that the UNE rates are forming that control over that retail basket and that there is no productivity formula working on that basket any more. We pull 1FR rates out and deal with them separately, 1FR and if the Commission wants on single line business rates, we would pull those out and deal with them separately. But the control on the retail market is--are the UNE rates that the FCC puts into--and this Commission puts into effect.

Q You talked about the UNE pricing as the control, does that mean under your proposal that the Commission would set the UNE prices under Admin 382 and that would be the maximum on a per service basis for this? I'm not sure of the translation and I wanted you to explain it?

A It forms the effective market cap. I mean, if we try to raise prices much above that platform, we just continue to increase margins and open more to competition. And, so, its reliance on--it is relying on the market to control the prices in that basket. For example, how can--we can't--if we go try to raise vertical service rates and they are included in the port charge there is only so much you can do with that before you open the door to more competitors coming in and taking your business. So, they form a very effective control. And that is keeping in mind that we are pulling 1FR out to deal with--the 1FR and the single line business to deal with that on a separate basis.

Q You have talked about wholesale basket, is that your industrial category?

A Yes, it is.

Q And what is in the industrial category?

A It would be anything we sell on a wholesale basis. It is the UNE platforms, the unbundled network elements, those kinds of items.

Q Looking at your proposed tariff and you have four items listed in there, Lifeline--I'm wondering why--well, you have Lifeline resale discount, UNEs that are not tariffed, and the USF fund. Why is Lifeline in your industrial category?

A Well, to us it is a category of price that lays out very specifically, as do the other prices, nothing changes until the Commission does cost studies and there is no pricing

rule outside of cost study support. And it kind of fits in that category better.
Q Because it is not market driven, is that the reason?
A Primarily, yes. All the prices in the industrial category are subject to very specific Commission action.
Q Is that why you don't have pricing rules associated with that basket in the proposed tariff?
A The pricing rules are the cost--the pricing rules are the action of the Commission, in effect.
Q In your proposed tariff what did you mean by not--the UNEs that are not tariffed? I'm looking at--I don't know if you have the proposed tariff in front of you but I'm looking at the 9th revision to page four.
A I think I do. And, so, you are just asking me that one line that says unbundled network elements that are not tariffed?
Q Yes, what does that refer to?
A Well, you know, to me that is UNEs that are determined maybe through arbitrations,

arbitration through contract, as an example. We will--obviously, we are--we will propose in our 96-608 our--we will propose a SGAT some place along the line, however the Commission determines to handle that thing. And, so, that will be--that will have a tariffed set of UNEs in it that someone who doesn't want to use a contract or arbitration will have access to, as opposed to other UNEs which will be set by this Commission through arbitration or whatever.

Q Okay. Under your current plan the categories are broken up by service and the unbundled network elements hasn't really been categorized; is that accurate?

A That's accurate.

Q So, you are really changing the whole definition of a category from a service to everything you have that has a price tag on it; is that accurate? Or how is this changing?

A It's the more--it is set up more by the particular market that it serves, whether it is a retail wholesale or the IXC market. It is set up by markets so the Commission can look at--I mean, again, it is just a comprehensive plan that says here is the regulatory paradigm this company is operating under. And it lays out very specifically, by market, how that market pricing is done. In the retail market it will be done--the company will be free to change prices based on the presumptable validity definitions in the tariff and in the TRP tariff. And what the Commission is relying there are UNE prices to control what we do in that market, except for the 1FR which is pulled out and has it own rules. The wholesale basket, it is done by Commission action through--we can't change a rate unless we come to the Commission and have cost studies to support that change in the rate. And the access basket it is controlled by mirroring at the interstate level. And, so, each market has a very specific set of rules of how the prices are going to work in that basket.

Q Is it accurate to say that your changing of the categories in this tariff, that you are proposing for the Commission, has as one of its goals to eliminate a distinction between a resale market and a UNE team market, any pricing distinctions?

A Not specifically, no. That is not a goal we have set up. I mean, we--

Q I misunderstood you, I thought earlier you had mentioned that. I'm still trying to understand the statement that you made about the retail market being controlled by the UNE prices?

A Well, again, if the UNE platform rate turns out to be $10 for a loop and a $1.20 for a port, and a certain amount for usage, and that totals up on average to, say, $14, we obviously in a--like a business rate, which right now in Louisville, say, is $31, we obviously can't raise that to $40 without opening that--I mean, there is some level of control there, a competitor is going to go to the UNE basket, going to go to the UNE platform to provide that service and be able to undercut our price substantially. And, so, there is a market control there that is--our retail rate is limited by the market control of what our competitors can purchase a UNE for and, obviously, those two can't get too far out of balance. Our pricing goals, again, are to move our retail rates minus the resale discount, to get that as close as possible to what the UNE rate, that UNE platform rate is, so that a competitor isn't incented to leave our network or is--to either way, that we are not losing money either way on the situation. It is a comparable decision for the competitor.

Q So, the price control that the UNEs set for these retail services is one that is just a market reality, not something that the Commission itself would be monitoring?

A Correct, exactly. And I think, you know, again, if that process doesn't work, the Commission always has the opportunity to pull us back in and say something is not working right in the market, we've got to fix this.

Q Under your proposed Transition Plan BellSouth has full discretion to set all of--to set the rates, terms and conditions for all services except the residential market that we talked about and the access market, is that accurate--and these industrial that are set by Commission Order specifically?

A Right. Yes.

Q So, everything else there is no external control on the price?

A Well, no. Again, we would file tariffs with presumptive validity approval the day after we file them. The Commission could always set a docket and pull us in for some kind of case or study or determination about a particular price if they think we have gone too far. I think a good example is on the directory assistance pricing, I think it is the directory assistance pricing that is going on in the state. That is, basically, a competitive situation. Companies are out there setting the rates, yet the Commission has said wait a minute we want to take a relook at this thing. Something is not working in the market the way we would like for it to, everybody come in and talk to us about it. The Commission has always got that right.

Q Your proposed tariff describes one of these exceptions to what I was referring to as "certain residential services." What all does that include? It's the 1FR.

A Yes.

Q Anything else?

A I mentioned single line businesses, the Commission may want to consider that also and I think we could work with the Commission on that but, basically, just the residential rates.

Q So, the phrase in your proposed tariff "certain residential services" actually refers to 1FR?

A Yes.

Q And nothing else?

A Nothing else is coming to mind right now. We have elim--you know, the Touch-Tone has been rolled into the rate and everything, that is all that comes to mind right now.

Q So, for all of the services that you offer with the exception of 1FR, the services contained in the access category, and these four listed items of Lifeline, Universal Service Fund, UNE set in arbitrated cases and resale discount, you would--you are proposing that your tariffs come in on one days presumptive notice?

A Correct. And then the Commission always has the opportunity to open up a case on them. And if there is some term and condition, the other situation--the presumptive validity clause works really basically on price. If there is some term and condition that the Commission doesn't feel is appropriate, the Commission could still suspend. The real purpose of presumptive validity, we have had several cases in which we filed tariffs for some competitive service, our competitor was able to use the regulatory process through-- to create a delay, the Commission ultimately decided with BellSouth but we lost six months in the market while that process was going on, all over some price situation. Presumptive validity would say we would come in file on a certain price and if the Commission didn't find any problem with the terms and conditions the tariff would go into effect and we would go on with the price. If the Commission wanted to investigate it they always would have the retroactive capability back to the date of the tariff filing to make some correction to it. So, it is not like-- you know, it really is on the market side where presumptive validity works, on the regulatory side the controls and checks are still there, albeit some of it on a retroactive basis if the Commission found that the price for some reason didn't work. Or if there is a term and condition, then the service doesn't go into effect. The Commission could say, oh, we have some problem here with some term and condition and we are suspending for further investigation.

Q Based on your testimony right now, then, I assume you would be changing the proposed tariff to eliminate the phrase terms and conditions from this full discretion or you are describing somehow the presumptive validity?

A Maybe I--let me--are you looking at the new TRP tariff?

Q Yes, and maybe I haven't captured the right spot on here but I'm looking at the first

revised, page three?
A Do you know what line, I'm sorry.
Q I was looking at the description of the retail service category.
A Okay, uh-huh.
Q But now that I've backed up two pages looking at page two under your description of the presumed validity, maybe this describes what you have testified to today. Let me ask it this way. The testimony that you have given today regarding presumed validity of your tariffs was intended to reflect your proposal as contained in A36.1.3(b)(5); correct?
A Yes.
Q We don't have too much further to go, you might be happy about that. I'm looking at your attachment two, the price out for the vertical services.
A Yes.
Q There is a column entitled Target Price. How did you determine that price?
A Our product managers do an analysis of the market of what they think they can sell that product for in the marketplace. The main

thing they do is weigh the value of the individual offering versus our package pricing. And, so, it is really a function of analysis that our product managers do for each of these products as to what they think it will sell for in the market and what value it brings to our package prices.

Q Is it based on a cost study or just on some market analysis?

A It is based on market analysis. Obviously, we do cost studies for the services, too, I mean, they are aware of that because they can't price something below incremental--long range incremental cost. But it really is a market analysis based on, I guess, what you would say is the elasticity of the product, what we think we want to be in the market for, what it sells for, versus what market share we are willing to give up at that price.

Q I'd like to talk with you about the possibility of some alternatives to your proposed plan here. What would you think of the notion if the Commission implemented no residential rate increases but maybe allowed those services to change with inflation, as an option to your plan?

A You know, it is difficult to negotiate from the stand without looking at a total package of gives and takes as we go forward in a case.

Q Well, let me ask it hypothetically?

A It strikes me that the Commission has to deal with USF funding somehow. And to increase residential rates at the rate of inflation doesn't deal with the subsidy issue very effectively. That is just off the top of my head.

Q How does the absence of a line item, as you propose, on the bill, achieve the objective of having explicit subsidies?

A Well, implicit subsidies are in the competitive rates. When you move implicit subsidies and you raise the price of the item that is be subsidized, it is no longer a subsidy. And, so, it strikes me that if you are going to keep a subsidy you have to make it explicit so that those people paying the subsidy know they are paying a subsidy. But if you are raising the rate of the product that is being subsidized, it is no longer a subsidy. So, you have dealt with the implicit explicit situation. Ideally you would get rid of all implicit subsidies and each product and service would be sustained at a price above its own cost, at or above its own cost, and you would have no subsidies and you would have dealt with implicit and explicit situations. It strikes me that you need to worry about whether a subsidy is explicit when somebody is paying in their rate some price to cover the cost of some other product. Now, on the other side, you have got the $8 million that is left. I guess at this particular point in time we are willing to test whether that $8 million is indeed a market rate or whether it is still a subsidy. Obviously, if we lose the business very quickly because that $8 million is there, we rolled the dice the wrong way.

Q What would you think of transitioning to the rate increase that you have proposed here on, say, a four year plan rather than a two year plan. Does that affect any of your answers?

A As I've said, this thing could be cut a number of different ways. I think one of the recommendations of the audit is to figure out how in the process we can have more of these kinds of discussions with all parties involved. We would have been glad to discuss those kinds of things. I think it could have been cut several different ways. If this Commission decided they wanted to spread this out over four years and we had come upon some settlement agreement that kind of approached it that way, there might have been a basis for that. Again, it is hard to--when you give up here and you take over there, you know, to do that now is difficult. If the Commission issued an order that said rather than two year we are going to spread this over four years, would we appeal it? I think we'd have to look at the Order in whole and there is a chance that we would accept it.

Q Tell me briefly what your proposal is for Lifeline in this Transition Plan? Does it change?

A We have not proposed any change to our Lifeline methodologies in this plan. We would--you know, I've not--I don't recall when the CALLS proposal, they are obviously letting their--the share that the federal fund pays of the 10.50, looks like it is going to climb. We were required--the state was required to put so much in in order to get that full effect of the 10.50. Now, if they are letting it climb where we don't have to put any more in, then I guess we are all going to be happy. If to get the additional amount we have got to go up half of that or something, then we will deal with that. I don't read that into the CALLS proposal. It appears to me that the FCC is just saying we are going to--for whatever the states contributing today, and I forget what that 5.25 or whatever it is, that we will let the 10.50 rise another 80 cents, whatever it is, to go from 3.50 to 4.35, we are going to absorb that for those Lifeline participants and we will pass that on to our customers, obviously.

Q Is this the only effect you see that the CALLS proposal brings to Kentucky at this time?

A Well, no, I mean, under the present plan we would mirror down and NTSRRR would go up, because that is what they have done, they have shifted to another non-traffic sensitive element.

Q For the access reductions involved?

A For the access reductions. So, there would be an affect so that our intrastate switched access rate would be .0055 but the NTSRRR would be larger. Now, under our proposal we wipe all that out through the rebalance.

Q Under this proposal, then, the NTS rate would obviously not be absorbing this increase?

A Well, it does to the tune of two and a half million. What we have--in effect, what we have done with our proposal is of the 24 million, we propose to take 16 1/2 of that, 14 for the present NTSRRR and the other 2 1/2 million it takes to go from .008 down to .0055. That is what we would do with $16.5

million. So, in effect, I guess you could say the NTSRRR does absorb it and then we reduce it to zero.

Q And you mentioned that this is revenue neutral, what would be--where would you be absorbing this, through the residential increase?

A Yes. The residence rates go up $24 million over a two year period, 16.5 goes to access, the additional 7.5 goes to various business rates, Touch-Tone and Hunting, and, so, that there is no new money to the company in this proposal.

Q And CALLS will not effect this in Kentucky?

A Well, that's where the 16.5 million comes from. It gets our rate to the .0055 rate, same as the CALLS proposal.

Q When you propose this, you proposed it as though the CALLS had been approved; is that right? You had already accounted for the effect of CALLS?

A We agree in the settlement that regardless of what level CALLS went to, in the state, we would go to .0055 level. It just--now, it turned out that that happened to be the right level.

Q Okay, thank you. Have any other states renewed your price cap plans or modified them?

A We were the first state to come up for review and, clearly, the first state that had an audit. Several states have now extended the plans, Louisiana and North Carolina come to mind. Those two plans have been extended, they didn't go through a renewal, I guess you might say.

Q Are you familiar with the Louisiana plan?

A Yes, I am.

Q Did it involve a commitment of a billion dollars on the part of BellSouth in capital investment?

A There was a statement that over four years BellSouth would invest one billion dollars in Louisiana. That did include a portion of incremental investment for broadband deployment that is commensurate with our commitment on a broadband deployment. You would say a similar kind of process if you were to look at four years in Kentucky, we invest--we would be investing some $600 to $700 million is comparable to their one billion, recognize their size is larger. That would be a comparable kind of number for Kentucky and we are there. And, so, the one billion was not a broadband deployment investment, it was a look at what their capital expenditure budget process would be over four years. It did include some incremental amount commensurate with ours for broadband deployment. The--I think it is important to note that both North Carolina and Louisiana where those plans were extended the North Carolina transitional element--I don't even call it a productivity factor any more--the transitional element is 2%, which is basically equal to the rate of inflation. And in Louisiana it is 2.5%, which is, again, basically equal to the rate of inflation. So, you know, the Commission and the companies there found the basis to extend those plans with those kinds of transitional elements in them. I don't--they don't have the comprehensive as approach, they are still facing the USF issues down there, and over in North Carolina too.

Q So, is it your testimony this morning that the Kentucky Commission, if it accepts your proposed plan, is getting as good as or better a deal as Louisiana or North Carolina?

A I'm not going to speak for the other states. I think this is a fair deal for Kentucky and it is one that promotes economic development in Kentucky. We don't want to--I don't engage in whether it is better than some other commission.

Q Is it as good as?

A Certainly.

Q Do you know whether BellSouth provided customer notice of the proposed rate increases? I know you provided notice of today's hearing.

A We did when we filed our original plan in accordance with the way we are supposed to do it, yes, there were notices of that.

Q Notices published in the paper and so on? If you need to check on that and let me know, that is fine.

A No, yes, I remember now. Because the present plan allows for 10% rate increase, and this proposal is that or less, we felt that the regulatory--it was in line with the regulatory paradigm that is there today and we did not--we did not advertise a rate increase or an increase in residential rates.
Q But the current plan doesn't allow for the 10% until there is a universal service plan. I know we discussed that, but there is arguably--arguably it is not provided for under the current plan.
A In that we are taking care of the universal service issue with this proposal, it strikes me that we are there, because we are saying that this resolves the universal service issue in Kentucky. So, it is included in the plan.
Q We talked at some length about your broadband commitment, how much money would it take to reach 100% deployment instead of the 75 you proposed by 2002?
A We have not done that analysis. We could do that analysis and provide it to the

Commission.

Q Okay, please do.

A Okay. You know, again, not knowing how the market is going to respond, you are going to get to a lot of wire centers which aren't going to be a player in either KCTCS or the KREDA or economic--or kind of on the economic development horizon right now. It would seem to me the Commission would want to see how we do in the marketplace with this proposal. I'm not saying that we wouldn't certainly be willing, over the next year and a half or two years, to come back to the Commission and say here is where we are and have discussions about whether we ought to go further, and there is clearly a framework for doing that. I would caution about requiring a commitment to do 100% broadband deployment. To me you get toward the same thing as the--that we had in Tennessee when the Commission ordered a full 100% ISDN deployment. It may not be the right technology, it may not be the way the market wants to go. I'm not saying that we are not going to get there and that we should have discussions with this Commission about where we are after we have done this initial one, and I think there is a framework for exploring those things. But that would be my only caution. Other than that, we will provide you the data.

Q And including some time frame that the projected amount covers--

A Okay.

Q --reaching 100%. Could you also give us a better sense in a post hearing filing of the priorities for where you would think the deployment should occur? I guess exchange by exchange, county by county, some sense of the priorities there?

A For the 100% as well as--I mean, the 75% we have 31 counties we can give you today.

Q That would be fine.

A Yeah, okay, yeah, we have got that, I could tell you right now exactly the 31 counties that we would propose to go into. We tried to do a good even spread across eastern and western Kentucky and central Kentucky, so we have got that list.

Q You could just file that after the hearing, that will be fine.
A Okay.
Q I have one last line of questions for you and it involves your service objectives.
A Okay.
Q Could you tell me just in general how Kentucky service objectives and reporting requirements compare with other states in BellSouth's territory, if you know?
A It has been so long since I've looked at that I'm just not sure. I know we have some similar kinds of things--in some states it is--you know, they focus pretty much on the speed of access to repair, the held application commitment within five days, the out of service cleared within a certain number of hours, that is probably a pretty common focus. Most of those service objectives came out of some old NARUC standards that are older than we are. And, so, there is a good chance that they are similar in some of the states, but we can give you a matrix that looks at service

objectives on a state by state basis if you would like.

Q That's fine, you can file that as well. On page 13 of your testimony, lines 5 to 11, you discuss time intervals for clearing trouble reports?

A Right.

Q How is it that increasing a time interval from 24 hours to 36 hours, as you propose, would be more efficient?

A Well, what happens today, let's say a customer calls in by ten o'clock. In order to meet the present service objection we have to clear that out of service condition by ten o'clock tomorrow morning. Very often we find ourselves routing an employee past service problems just to get over to the location to clear something by ten o'clock the next day. And what we have found is that customer satisfaction, especially in the residential market, is driven by can you clear my service the next day, clear my service problem by the next day, as opposed to can you clear it by ten o'clock tomorrow morning. And, so, we pick up some efficiencies by having a full next day to clear a customers problem and it gives us better routing capabilities of our employees. So, we are not on that days particular work we are not trying to route by a given time of when the report came in the day before. And so, since we are not affecting customer satisfaction by getting next day approval, and that is really what we are after here, and I think we will demonstrate to the auditors that issue, that by going to a 36 hour interval it gives you a complete next day to clear a trouble. I will offer, probably my lawyer is going to kill me, yesterday as we talked through some of these issues if the wording was you would clear it by the next day, that would--I think that would work as well as 36 hours. But that is what we are after there.

Q Do you believe that a 12 hour difference in restoration of service would always be negligible to a customer?

A It certainly is not to a business customer and the market really drives--certainly, when we try to clear business troubles out of service within four hours. The primary thing that we are aiming at here is the residential market. You know, I think if there is any perceived protection of responsiveness that this Commission wants to have it is over the residence market, because the business customer is being taken care of, you can rest assured of that. But, in the residence market, if there was to be some perceived protection, we detect no incremental customer dissatisfaction if we can give them that we will clear your service tomorrow, as opposed to by a certain time tomorrow.

Q And if a particular customer, residential customer, did have a specific need or request, do you attempt to meet that and you are just asking today that the Commission change this so it won't affect your compliance with Commission regulations?

A Correct. For the most part we try to--if the customer presents a situation--for example, we give morning and afternoon appointments, for example. So, we try to--we do try to meet the customers needs in that area.

Q Turn to page 14 of your testimony. Is page 14 a list of service objectives that you are proposing to eliminate?

A No, would propose to keep items one, seven and eight. We would be eliminating--it is a list of the present service objectives. We would keep one, seven and eight, and we are proposing that two, three, four, five, six and nine no longer have any relevance in today's marketplace and that we would no longer have to report those.

Q Okay, let's go through these quickly one by one.

A Okay.

Q Item one, the percent of request for regular service filled within five working days unless requested later.

A Right.

Q You are keeping that and there is no change to the compliance standard?

A Correct.

Q Item two, the percent of request for regular regrades within 30 days unless requested later.

You are proposing that that be eliminated; is that accurate?

A Yes. And the reason being is that we are down to about two two-party services left and we have got orders written on them. I mean, in all practical purposes, that was eliminated. It can't ever be missed again because two party service is gone. We are waiting for these two customers to decide and then we are going to have a big celebration.

Q There is no circumstance, then, according to your belief that this regrade could be useful?

A No.

Q On number three, the percent of telephone calls receiving dial tone within three seconds, you are proposing that be eliminated?

A Yes, in the digital world--I mean, when was the last time you picked up a phone and you didn't have dial tone by the time you got it to your ear? I mean, it has not been missed in ten years, it is just not meaningful in today's environment. And we go to quite a bit of trouble to have to keep up with and track all of our wire centers and make sure that we are--just to report the fact that we are not missing it.

Q So, technology advances in the digital world render this standard meaningless; is that your testimony?

A Yes, it is.

Q On--why is item four no longer meaningful? It is the experience blockaging due to busy conditions

A Well, again, you know we just don't--it is not missed. It takes a lot of effort and time and trouble to report the thing but, again, in a digital world with fiber self-healing rings, it is just not an issue any more. I think before we did diversity--you know, it really comes down to a measure of diversity and we have got full diversity now and, so, it is just not an issue any more.

Q Item five, the percent of telephone calls offered to toll connecting or interexchange trunks encountering an all trunks busy condition, you want that eliminated?

A Yes, same reasoning. I mean, you know, if we even came close to missing that I think the interexchange carriers would be--I mean, it is just not an issue any more.

Q Have you done any studies to show how much it costs you to measure these?

A No, nothing formal. You know, I just know that they tell us that there are some--as we change out some--as we work in our digital offices sometimes we have to make some generic changes to them and things, to keep up with the reporting. It has obviously taken some man power time to do it, you know, to give you the actual number that we are hitting on it. And, again, if you look back over the last ten years, I mean, we have never missed it.

Q What about number six, the average speed of answer time for operator assisted calls; is that proposed for elimination

A Yes, it is. You know, it is a competitive service, the--again, we are always under the objective, it is something we are having to spend time to record, we would like to see it eliminated. I mean--

Q Do you know if you have missed this at any time?
A We have not.
Q Numbers seven and eight, the average speed of answering time for calls to repair service and the percent of out of service troubles cleared within 24 hours are ones that you propose to keep?
A Except for number eight we would like to change that to 36.
Q That's the 36 hour?
A Correct.
Q But that would be the only change for the measurement of those two?
A Yes.
Q And then the last one, the average rate of customer trouble reports per 100 access lines, you are proposing to eliminate that?
A We would like to. I have to tell you that I can tell you at any given time what our trouble report rate is and so, if the Commission wanted to keep that one, I mean, we've always made it, we run around two or three every month. If the Commission wants

us to keep that one, it is not a slit my wrist kind of situation. I mean, we know what the number is and that is a little bit easier to report than some of the rest because we are generating the information.
Q So, you propose that you would continue generating that information even if you didn't have to report it to the Commission?
A Yes, we use it internally.
Q But the rest of the items that you would like to eliminate you would not continue to track; is that correct?
A That's correct.

VICE CHAIRMAN HOLMES:

Are there new standards for the digital aid like to allow these now or are new standards being created because of digital technology?

A There are and hear the Commission's emphasis is going to jump to our service quality measurements in the industrial or wholesale market. And you will have to deal with those in the 271 case and certainly you are dealing with now new arbitration cases. I mean, that goes to the crux of how well we provide CLEC trunks, interconnecting trunks, and those kinds of things. And, so, there is a whole new gamut of service objectives that deal with the new environment that will be reported to the Commission on a monthly basis.

Q There has been some thought that you might have had a higher percentage of some of these numbers then recently because of your personnel drops. And I think the auditors mentioned that some of your service standards had slipped a little bit because of your force reduction. Has that been corrected or do you disagree with the statement in the first place?

A No, we demonstrate to the auditors right up front that in late 1998, like our out of service, we were having trouble hitting that.

Q So, you were actually having trouble meeting the standard?

A We did in 1998 and what we did was we started hiring service technicians and we are not-- you know, I'm not going to say we are not missing an occasional wire center because it is just a weather related kind of thing, that if you get some severe storms you are going to miss this. Or if there is a cable cut you are going to miss this one, occasionally, not for the state but in a given wire center or a particular situation. But that was the one that we were having problem hitting in late `98 and it was primarily a force situation. We went a little further in force reductions than we should have to maintain the quality of service. We demonstrate to the auditors, for example, in January and February 1999 we hired 120 service technicians. And had we not been able to demonstrate that I think we would have had a severe audit finding but we were able to show them that and we cleared that out.

Q And is that the number nine that you are talking about?

A No, we didn't get close to number nine, missing number nine, I'm talking about number eight.

Q I'm sorry, okay.

A The out of service cleared within 24 hours.

Q Okay. And had that been 36 hours rather than

24 would you have still missed it?

A I think there is a good chance, I don't believe I could tell you that we would have made it in that time frame.

Q In that time frame. My last question for you is whether you have any insight to give us about your proposal for its transitioning from the current price cap plan to your proposed Transition Plan if the Commission accepts that. Do you see that as kind of a flash-cut thing or there would be some progress, some slower implementation process?

A No, I think we are ready to move on the situation. I think we could put the rate increase in and drop the access charges immediately. We are ready to roll out $4 million worth of ADSL equipment into Kentucky. We have already initiated discussions with the Economic Development Cabinet and Aldona Valicenti to make sure that we are going to deploy in the right central offices. We are starting our discussions with Darwin about what we are going to do about those three wire centers they are in. So, we are ready to move and implement this thing as soon as the Commission gives us approval.

MS. DOUGHERTY:

I have nothing further.

COMMISSIONER GILLIS:

I just have one short one that I want to follow up on. Broadband deployment, you just mentioned talking with Economic Development, the other ISP people, how did you come up with the 30 or 31 counties that you are talking about deploying the broadband?

A We felt like to be a meaningful commitment we wanted to get into central offices that served at least 75% of the access lines, that was our first cut. And then we started looking at various mixes of wire centers trying to do east, central, and west Kentucky, a good spread. Then we overlaid that with the KREDA, which counties are involved in the KREDA, and looked at KCTCS sites, and our team kind of combined all of that and that came out to be the counties that we talked about.

COMMISSIONER GILLIS:

So, did you think that you do have a possibility of getting several users or there is a market in these 31 counties that you can reach?

A We would hope that--you know, I feel like we are going to have to figure out some creative way to get with the ISPs and working with Economic Development. But, yes, we hope we can do something with this investment that we don't just throw it out there and it sets idle, that's for sure.

COMMISSIONER GILLIS:

I guess that's really my question, Fred, is that when ADSL is put out in the counties, what information or how is it marketed in the counties so that they know that it is available?

A You know, we--I think we will put together a marketing plan and certainly we will share that with the Commission. It is going to--I think it is going to have to be working with the ISPs, we will probably have to maybe look at doing some direct mail, getting the word out to the schools. It is going to take some creative marketing efforts. I think we have a really good chance to show that perhaps this market has been underestimated and we'd like to go to work on that. And we will have to do that and we will have to put together a marketing plan and we'd be glad to share that with the Commission and get like Amanda Hale's input into our educational efforts and that kind of thing.

CHAIRMAN HELTON:

There was a question that I also had because you did mention primarily the ISPs and it seems like you were depending upon them to do the marketing. In looking at these 31 areas, are there already ISPs or other people who would do some marketing in addition to BellSouth?

A Hopefully so, especially--yeah, I think we are going to have to exploit and we are going to have to look and see what all help we can get from the areas, like the school systems, for example. And, certainly, this KCTCS thing with CISCO, trying to meet with those folks and ride that I think would be very important.

CHAIRMAN HELTON:

We will reconvene at 1:30.

(OFF THE RECORD)

CHAIRMAN HELTON:

Mr. Gerwing, Ms. Dougherty asked you some questions about the interLATA data bill and I'm not interested in that federal piece of legislation, I'm interested in a couple of the others that are related to broadband deployment in rural areas and, especially, since this is part of your alls plan. How do you think either the tax incentive federal legislation or the separate fund that will be set up for rural broadband deployment, if either of those passed what would--and this plan or this portion of the plan for broadband deployment were approved by this Commission, how would we then go back and make sure that you are not getting double coverage for that?

A Well, certainly, if either of those pieces of legislation go through, we would sit down and reassess this deployment plan with the Commission and review what it does to the business case. So often on a tax--what we see on a tax incentive thing, private companies like the RBOCs who weren't able to typically get that kind of money. And, so, I think we just have to wait and see what those bills do, but I would commit to you that we would be willing to come back and sit down, certainly, through a series of conferences or work shops and talk through this deployment again as it relates to whatever legislation might pass and how it affects what we are doing and whether it would give us an opportunity to enhance this plan vis-a-vis what we might do under that point--under those pieces of legislation.

CHAIRMAN HELTON:

And you also mentioned that Kentucky being able to attract call centers as a result of the infrastructure that we have present in this state and use that as an example of--and we have attracted several and that has resulted in employment, and particularly in rural areas where we needed them to be located. But can you give us some other examples of the types of businesses or industries that you see this broadband deployment might help Kentucky attract?

A Well, I think one thing there is a new e.commerce center that is popping up in

Louisville and they have got several clients already. There is a new business that just opened up there that warehouses data applications. I'm not sure exactly how that works, but they have--there was an article in Business First the other day where they show how they can provide services to web hosting companies and that kind of thing by warehousing data bases and things like that for them. I don't think we begin to know yet the kinds of companies--it is clear those kinds of companies have to have access to broadband capability and its speed is a lot greater than ADSL. And so, you know, I think that it is--those are some of the kinds of companies I think we would like to see come to rural Kentucky. I think things like this KCTCS partnership with CISCO where you actually get employees trained to do network infrastructure and understand broadband deployment, how to set up networks and that kind of thing, that are going to be out in some of these communities augmenting their business life at their home environment where they can do that kind of thing from home, too, to create industries. I think that is another example. Again, Aldona Valicenti and Doug Robinson, all those folks, they have got a whole litany of people they are talking to and ideas and ways to approach this, but they need that infrastructure there to begin to carry on those discussions out in the marketplaces they work in.

CHAIRMAN HELTON:

And in your discussions with Economic Development, did they have any game plan, for example, I'm think of there is a couple that located in Maysville that are from that area, but Harvard graduates, and they have brought their business there because they can do it because of the technology available. Has anybody indicated either from the CIO's office or from Economic Development that they see that they have any game plan to take advantage of Kentucky's better life style to attract people if we get this broadband deployment out into areas where they might want to locate?

A They have several strategic long range plan kinds of documents that I think do just that. Show cost of living, the work force, and its a matter of getting that work force trained, but the availability of work force, the opportunity is there, the work ethic. Once you get those kind of folks trained and Kentucky presents a unique labor pool, they go on at great lengths about those opportunities. Some of the tougher issues that you couldn't find in maybe some of the other locations, Kentucky brings to the table, if we can just get the infrastructure and the education aspect of it dealt with.

CHAIRMAN HELTON:

Ms. Dougherty covered a couple of different alternatives that you all might consider and we might consider as we look at this plan and then the consultant also had some alternatives. I was just wondering if there was any consideration given, especially since you stressed some gradual action versus delay, and we all know that through litigation and the FCC and all of the delays that we have had in there that we are not at the point where we thought we would be at--when the

Telecommunications Act was passed. In thinking about something gradual versus delaying, was there any thought to looking at the rate groups and perhaps making a suggestion that some rate groups might see an increase and others not?

A Well, we do get to some differential in that the first four rate groups would be getting a 10% increase and rate group five would only be getting and 85 cent increase on about a $17.55 base, today. So, there is--you know, we are trying and certainly in our business rates we have closed that differential where we have reduced--I'm kind of going in the opposite direction--reduced some rate groups more than we have reduced others to try to swing that cost relationship, cost price relationship, back to be more in line.

CHAIRMAN HELTON:

But until we get the high cost fund in place, was there any consideration other than the differential between the rate groups that perhaps saying at this time this rate group should not see any increase versus just seeing a smaller increase?

A We looked at the cost relationship to the present price and in trying to generate through the rebalance enough to take care of some business reductions on hunting and Touch-Tone and to take care of the NTSRRR we had to do fairly much the way--the 10% level, recognize the 10% level in rate groups one through four over two years, plus the 85 cent one time rate increase for Louisville subscribers is what generates the $24 million. So, to start backing away from that you then you start backing away from the opportunities of, you know, how are we going to address these needs. Can it be stretched over more time than two years, well, that is something the Commission might want to consider. But as far as saying there shouldn't be any rate increase for a particular rate group, we probably came closest to that with Louisville and felt that we needed to do at least the 85 cent level in order to accomplishing the pricing objectives that we were trying to get at.

CHAIRMAN HELTON:

Other than stretching the increases out for a longer period of time or decreasing the percentage or tying it to inflation, is there any other index that you can think of that increases could be tied to that--other than inflation or a set percentage?

A Nothing would come to mind right now as to have any more legitimacy for how you are going to go about doing this. Like I said, we really looked at what are the pricing objectives we really need to get accomplished in the market; the first priority being access reductions, and that says you need to do $16.5 million, roughly. You know, beyond that we said, well, certainly our Business Hunting rates are obviously contain a lot of subsidy. You get that capability through the UNE elements today. There is very little economic reason that can sustain that price out there in the market and it is one that our competitors leverage against us quite often. And so, it obviously is a subsidy element, we felt we needed to address that. And Touch-Tone the same, Touch-Tone rates in business services, when you buy the port you get the Touch-Tone capability. So, that seemed to be another one. You know, now, maybe in response to what you are saying that you deal with the access and I think that is absolutely critical that we deal with the access. Beyond that, do we want to have some discussions further with the Commission after we deal with the access piece in this first year, and perhaps do a little bit of rebalance the second year to take care of that, or maybe deal with the Hunting and then talk about the Touch-Tone later to see how the market responds. All of those things I think would be open to consideration. But I guess I emphasize that we think that the access piece is absolutely critical and it also, in taking care of the access piece and a little bit of these business rates, then we think we can deal with that subscriber line issue on USF, also.

CHAIRMAN HELTON:

Thank you. Do you have a question?

VICE CHAIRMAN HOLMES:

Yes, Mr. Gerwing, will the projected rate increase bring any of the wire centers closer to costing--closer to the cost, specifically the loop. Or where do we stand at that point?

A I would think that there--that if you consider your cost definition to be your deaverage UNE platform once we get it--if that is a measure or if you look at deaverage using the synthesis model from the FCC, Louisville is getting pretty close. The problem we run into in some, you could have a census track in, say, Owensboro where we are pretty close perhaps because the density looks very similar and if a given censur track attractive as it might look into a Louisville market, as far as if you went to the census track level. As long as you stay at the wire center level Louisville is probably the only one we are getting close to.

VICE CHAIRMAN HOLMES:

But once you get--what you are proposing was implemented and that 85 cents, then we are getting close to a cost?

A Well, I definitely think once you get to a deaveraged UNE platform in Louisville and we will start to see more activity in the residence market for that--to me they are going to--again, we don't know how--until we see where we come out with this cost docket this year, but it is pretty easy to see that it looks like the Louisville UNE platform would be a better alternative than a resale discount, for example, off of the present 1FR. And partially because when you are in the resale market you are also paying those SLC charges. The reseller is responsible for the SLC charges, recovering those from the end user. And, so, as opposed to when they buy the UNE platform, they don't pay the SLC. It is not a--it doesn't come with the package. So, when you start putting the SLC charges on either the 1FR, the residence, or the business line, then the UNE platform, especially in the Louisville market, starts to look real attractive.

VICE CHAIRMAN HOLMES:

Do you potentially see some greater forms of competition that could possibly occur?

A I would think you would see that.

VICE CHAIRMAN HOLMES:

In your discussions about deployment of broadband in rural areas, are there discussions as well about deploying broadband in economic depressed urban areas, or is it already deployed there? Or is Louisville the only one?

A You know, in our urban area, really, Louisville is the only one that I think has specific areas of the city that I think you could--as opposed to saying looking at Owensboro if you get the primary central office there you have covered the whole city. In Louisville it is a little bit different situation and we did deploy one of the first central offices we deployed was geographic area that I think would normally be considered economically depressed, and that would be our 26 Street office, 77. It has a judicial subscriber line system in it. One of the--there is a new effort, a new development down in that--that is served out of that wire center where they --where the Cotter and Line Homes project, they have leveled that and they are putting up a whole new effort at trying to draw mixed income, various mixed income levels, into various types of housing in a community atmosphere. And we wanted to commit to them that we could provide broadband services in that community and, so, we purposely targeted the 26 Street Office for that reason. So--and we are getting pretty close to where most of the offices in Louisville, given the deployments we have got for Louisville, we should--we would fill up Louisville by the end of the year 2002.

VICE CHAIRMAN HOLMES:

So, I guess part of the deployment of broadband--could we expect to see it in those types of similar areas and other communities, such as Bowling Green?

A Certainly, and, you know, we can certainly get more granular once we decide that this is a particular county we want--and wire center that we want to go into to make sure that we are spreading that opportunity. I think that is a worthwhile goal.

VICE CHAIRMAN HOLMES:

I guess after hearing your testimony, if I understand it, there are basically four objectives that will enhance, one is the broadband, rate rebalancing, that you view is necessary, access

charge reductions and the USF portion; is that correct?
A   Yes.
VICE CHAIRMAN HOLMES:
And within the framework of that are you saying that if we maintain those four objectives we might be able to--decide to alter one and rate rebalancing to maintain those four objectives necessary to offer this plan and to make this work?
A   I think it is a comprehensive solution. There are several ways you could go at doing those over various time frames, but I think focusing on how we get to the four objectives is the critical factor.
VICE CHAIRMAN HOLMES:
Are there provisions for--at some intervals in the plan for review?
A   It seems to me there is a natural review date out there, the five years once the CALLS proposal has to be looked at.
VICE CHAIRMAN HOLMES:
I mean, some interim steps in there?
A   There is really nothing set in the plan, you know,

if within 24 months the Commission wanted us to come back in and report on this broadband deployment, review kind of where pricing is at the end of a rebalance, for example, you know, we are certainly open to that, even annual reports or whatever the Commission needs from that perspective.

VICE CHAIRMAN HOLMES:

So, you would be open to review?

A Yes, we think we are better served by communication rather than not, so--

VICE CHAIRMAN HOLMES:

Let me ask you this, from a digital service quality standard, if we eliminate the other standards are you going to replace those with digital service quality, or wait until the process is completed in Georgia and Florida?

A We do propose a set of service quality measurements that could be adopted in this plan in our negotiations with the interexchange carriers who are also CLECs. They felt that--they didn't feel like they wanted to sign on to a settlement that would acquiesce that those were the correct service quality measurements. And so, what we did in the settlement was agree that we wouldn't push those through this plan, that we would let those go in through individual arbitrations. You know, if the Commission wants to adopt those, they are certainly there to adopt at this particular point in time. If you want to deal with them through your arbitration process, we are willing to live with that too.

VICE CHAIRMAN HOLMES:

In the interim?

A Certainly, certainly.

VICE CHAIRMAN HOLMES:

That's all the questions I have.

CHAIRMAN HELTON:

Just to follow up on that because I was interested in the trouble reports since you do have to have those for internal use. You would obviously recognize that the Commission can also use those for--to look at other carriers and see how they stack up.

A Sure.

CHAIRMAN HELTON:

Are there others--are there others that we should be considering that, you know, especially since we don't have the digital ones yet, unless we adopt them in this case, are there ones that particularly we should be focusing on because of competition, to make sure that you keep the standard up and make sure that we have a way of measuring other carriers against your performance, that you can think of?

A Not in this particular list. I think the SQMs that we propose do exactly that, set up the basis. For example, there is no retail analog to an interconnection trunk. So, you know, certainly, monitoring, as opposed to a retail analog you set a benchmark on, what kind of performance you expect to see over an interconnection trunk. And we ought to be willing to report that, and, so, that is the kind of thing--I don't--in this particular list that we are saying move away from, I don't see any particular benefit of those to the wholesale environment.

CHAIRMAN HELTON:

Redirect?

MR. KITCHINGS:

Yes, ma'am. Thank you.

REDIRECT EXAMINATION

BY MR. KITCHINGS:

Q Mr. Gerwing, do you recall a question this morning from Ms. Cheuvront about the notion of raising residential rates to voice customers in order to pay for data services?

A Yes.

Q Isn't BellSouth's plan, rate rebalancing plan, revenue neutral?

A It is revenue neutral, yes.

Q So, is there any way that this residential rate increase could fund the data broadband roll out?

A No, because there is an offsetting rate reduction for every dollar we raised through the rebalance.

MR. KITCHINGS:

That's all, Chairman Helton, thank you.

CHAIRMAN HELTON:

Ms. Cheuvront?

RECROSS EXAMINATION

BY MS. CHEUVRONT:

Q But you are using--in your current plan could the productivity factor be used to keep residential rates either lower or as they are? I realize it hasn't been, it has gone to lower business rates and access, but is it possible that the Commission could have used it for that?

A It is possible that it could have been used for that. As you say, that has not been the experience and probably not on the near term horizon under the status quo plan.

Q But if that is a possibility and you are going to take that possibility to pay for broadband, wouldn't--couldn't the residential rate payers be seen as paying for it?

A I don't think so because I don't think the potential--you know, it is terms--it is a measure of probability of a residential rate decrease. It seems to me it would be very poor public policy to lower residential

rates, the 1FR, any more than it is.
Q Well, I'm not talking about even lowering them, right now I'm talking about keeping them the same.
A Well, even in terms, then, I think you have to talk about what are the obligations of the--under the Universal Service Fund issues. And I don't see how those rates are going to stay the same whether we deal with those now or we have to deal with it a year from now. Those rates are not going to stay the same. In a competitive market prices move toward cost. An observation that obviously a lot of people fail to make to the legislators that passed that bill and, so, I mean, that--those rates are going to--there is going to be economic pressure to move those rates toward cost. I think it is a stretch to say that the--that utilizing capturing our productivity efficiencies and rechanneling those into broadband deployment opportunities which probably is going to create jobs, going to create employment opportunities, going to create tax base, all of those things are

going to help add more societal welfare than the potential probability that there might have been a residential rate--holding rates constant or rate decrease. That, you know, if you did a decision tree analysis on that the probability of that consumer welfare is nil, as opposed to the probability of some consumer welfare from the other path, other decision path, of doing broadband deployment and the opportunities that brings to Kentucky. And, so, I think if you look--step back from just what are we doing to the 1FR and you look at it from a societal welfare economic viewpoint, our plan delivers a lot more societal welfare than does the opposite path.

Q Did I understand you correctly on one of your responses of the question from staff was when you run the--so many tests, I don't know which one--I'm assuming it is the UNE test, you only take the base rates because you don't believe any vertical services or anything else that comes in that should be included in that; am I correct?

A That was a discussion on Universal Service

Fund. The original model looked at cost and then the issue was which revenue are you going to include to determine what the support level ought to be from cost to the revenue. We maintain that the revenues ought to be based on basic services and that you ought not look at vertical service revenues. Opposition to that said no, you should include vertical service revenues and see what the average revenue per customer is, then determine what the support level ought to be. There is differences in the industry on how to use that. As I recall, and Mr. Rausch can speak to this better than I can, but as I recall, where the FCC has now gone is they have abandoned that revenue argument and discussion, they have gone to, okay, is it at 100% national average of cost, is it a 135%, and we will fund any cost over 135% through Universal Service Fund. They have gone to that kind of cost level variation as opposed to even discussing revenue. I think they saw that argument was going nowhere.

Q So, when you--but when you run whatever the test was you ran, was it the UNE test or whatever was used, the BC--

A The BCPM.

Q --PM. Is that the same as when we are talking about the UNE test?

A No. The benchmark cost proxy model--

Q Did you use vertical services when you ran that test to determine if your residential rates are up to that cost? Am I being clear?

A No, the BCPM model determines what a particular cost of serving a given wire center on the--that the model would produce. And, so, then if you are going to use that to say, okay, now are rates above or below cost, I guess it is still open to argument to go in and say what is the 1FR rate in comparison to that cost? Or should you look at a whole stack of revenues on top of that to determine whether revenues are equal to or above cost in that wire center. The way we looked when we using the BCPM model by either--even if you used that analysis you still have a lot of wire centers that were below cost even using the $31 FCC determined average revenue per customer. I think it was $31. We still had a lot of wire centers and you still created, as I recall in Kentucky, that in running the BCPM cost model, or maybe it was when the Hatfield 5.0, whatever it was, ended up producing around $110,000,000 fund in Kentucky, utilizing even the $31 FCC revenue benchmark. But I'll have to tell you, at that point I am way over my head, and Mr. Rausch could deal with these issues.

Q You think you are over your head.

A Mr. Rausch could deal with these issues even better, but that is my recollection of where we were.

Q You were talking about Louisiana and North Carolina.

A Yes.

Q They approved your Price Cap Plan?

A They extended the Price Cap Plans.

Q Or extended the Price Cap Plans.

A Yes.

Q Was there any type of rate rebalancing in--to extend that plan or is it the rates as--

A Neither of those plans dealt with the USF issues at this particular time.

Q So, what they have in the audit report on rates is pretty much what it still is, or are you not familiar with it?

A You know, I don't know. It is accurate as of when the audit report was done, but if there has been any rate changes in those states since then, I don't know the answer to that. I'd say it is probably still pretty close. But I'm confident there has been some business changes in some states, so I don't know about the business rates, the residential rates are probably still pretty close.

MS. CHEUVRONT:

I don't have anything further. Thank you Mr. Gerwing.

CHAIRMAN HELTON:

Ms. Dougherty?

MS. DOUGHERTY:

Nothing further.

CHAIRMAN HELTON:

Thank you Mr. Gerwing.

MR. MERSHON:

I call Mr. Rausch.

(WITNESS DULY SWORN)

The witness, STEPHEN D. RAUSCH, having first been duly sworn, testified as follows:

DIRECT EXAMINATION

BY MR. MERSHON:

Q Please state your name and address for the record?

A My name is Stephen D. Rausch, my business address is 601 West Chestnut Street, Louisville, Kentucky.

Q By whom are you employed and in what capacity?

A I'm employed by BellSouth Telecommunications and I'm the Manager in the Regulatory Department in Kentucky.

Q Mr. Rausch, did you cause to be filed in this docket testimony consisting of seven pages?

A I did.

Q Do you have any additions or corrections to that testimony at this time?

A I do not.

Q If I were to ask you these questions today, would your answers be the same?

A Yes, they would.

MR. MERSHON:

I move the introduction of Mr. Rausch's testimony into the record?

CHAIRMAN HELTON:

So ordered.

MR. MERSHON:

And he is available for cross.

CHAIRMAN HELTON:

Attorney General?

MS. CHEUVRONT:

Thank you.

CROSS EXAMINATION

BY MS. CHEUVRONT:

Q I just have a couple that you have already heard because they were referred to you, so you had all lunch time to practice on the answer.

A That's all we did.

Q That's all you did, I'm sure. If I recall the UNE rates are lower on this filing than any previous filing. Do you know the difference between the first UNE filing and this filing, the difference in how much they are?

A What other UNE filing are you referring to?

Q I mean, the first time we talked about UNEs and the one you filed in this proposal. I believe in the testimony and I know at the informal conference you all were talking about them being lower?

A Okay.

Q I'm just trying to get an idea of how much they continue to go down?

A I understand. In Administrative Case 382 there was a settlement of all the parties and a certain set of deaveraged UNE rates were filed. And in this proposal we have put forward a set of deaveraged UNE rates that are, in fact, lower than the ones in that settlement stipulation. There are different--there is a different methodology at work in the way those rates were calculated and also the model has been updated. The initial rates were based on the October run of the synthesis model and the rates that we put forward in this case are based on the January run of the synthesis model. So, there are methodological differences and those are primarily responsible for the rates going down. And they are the lowest rates, the rates that we put forward here are the lowest rates that have been put forward.

Q So, there is a possibility that when we continue 382 they could go lower?

A That's a possibility, yes.

Q I asked Mr. Gerwing and he referred it to you that the CALLS proposal, that now since the Universal Service Fund is almost doubling, does that mean BellSouth will receive more from the--more of the universal fund from the feds than the--I can't remember what it was that you got previously, just a few months ago it seems like?

A The high cost considerations that the FCC went through using the ACPM, the synthesis model, resulted in payment to BellSouth for Kentucky. And that amount was reduced from the October to the January run from $12 million down to something a little over a million dollars. The CALLS--and that's still there and won't change--the CALLS proposal includes a $650 million Universal Service Fund that's additional subsidy inherent in access rates. It doesn't have anything to do with high cost, basically. And that is a national number. So, a portion of that will, in fact, flow to BellSouth, but it will flow to BellSouth from subscribers, not from interexchange carriers or from any funds for something there is a--the CALLS proposal includes an increase to the subscriber line charge and then there is a universal service line item that is estimated to be something in the other of 36 cents where those Universal Service Fund amounts will be collected. And then the CALLS proposal includes how that money is to be spent to reduce carrier common line or reduce multi-line business PICCs or treated as multi-line business SLCs as we go through the five year progression of the cost plan. What will happen is we will charge 36 cents to individual subscribers, that money will be put into a fund and then that fund will be distributed out to the recipients based upon formulas in the CALLS plan. BellSouth is a recipient of some of those funds. That money

is then used to reduce either carrier common line or multi-line business, SLCs or PICCs.
Q So, the original which just went to eight states, you are saying this new amount will go to everybody?
A It doesn't go to everybody. There are payers and recipients, I don't know those details, I do know that BellSouth is a recipient, but there will be some LECs that are net payers. But it is a function of how much implicit subsidy they still had in their access rate structure. It is not a high cost evaluation, it is a function of implicit subsidies remaining in the access structure. And the high cost fund--there are three funds: Schools and libraries and rural health care, high cost, and now there is this $615 million fund that deals strictly with the implicit subsidies in interstate access charges.

MS. CHEUVRONT:

So, it has taken me about four years to get a little more knowledge on USF, maybe in four years I'll have more knowledge on this CALLS, too. That's all I have. Thank you.

CHAIRMAN HELTON:

Ms. Dougherty.

MS. DOUGHERTY:

Thank you.

CROSS EXAMINATION

BY MS. DOUGHERTY:

Q Could you tell us about what the Commission could expect in the July 1, 2000, filing under the current Price Cap Plan assuming that no final order is issued in this case prior to that time?

A Well, I can get you in the ball park, I think.

Q That's what I was asking for.

A The proposal that we have in front of you, of course, would supplant that, but assuming--given your hypothetical that there is no order before then and there would be something that told us to go ahead and operate under the existing plan, I guess our expectation of inflation is in the neighborhood of 2%, and, so, you wind up with approximately a 2% reduction, somewhere in the neighborhood of $6 to $7 million. And then the mirroring requirement for the CALLS plan which will be implemented in July, we expect that the impact of that would be roughly equivalent to what we have in the rebalance, that there would be some puts and takes there. The access charges would go--the switched access charges would go down, but non-traffic sensitive revenue requirement would likely go up. Whether those would be revenue neutral or not, I'm not sure yet. And I haven't seen the CALLS proposal that was just issued or just approved, and, so, I don't know what actual interstate CALLS rates will result from the approval of the CALLS plan and how that would be mirrored in the intrastate tariff.

Q Given the $6 or $7 million that you are estimating, where would BellSouth propose to make the reductions?

A Well, in light of our objective to focus on access charges and our commitment in the settlement stipulation, I think we would probably request deviation again to apply that reduction to non-traffic sensitive revenue requirement.

Q In your proposal the access rate drops to

.055, is that originating or terminating or applied to both of them?

A Both.

Q Both. You talked about a total of $2.5 million reduction, is that on--which end is that, one or both?

A Well, that is what it takes to get both ends to .055, given that both ends are today at .008 and the non-traffic sensitive revenue requirement only applies on the terminating side. So, it is a bigger reduction on the terminating side but only that is because where NTS is applied.

Q Okay, thanks for that clarification. BellSouth currently imputes access revenues to itself based on the Commission's Order in Administrative 323; correct?

A That's correct.

Q With your proposal to eliminate the NTS and reduce access charges, how would this imputation be affected?

A Well, the imputation requirements in 323 exclude non-traffic sensitive revenue requirement collected in the manner in which we collect it. So, NTS doesn't affect imputation. The reduction in the switched access rates would cause the imputation level to fall to .055, essentially. And it is pretty high today, it is like a nickel. So, two ends of switched and billing and collections, which is what is imputed, would maybe take us into the two cent category for imputation rate. I don't know the billing and collections piece any more so I'm guessing, but in that neighborhood.

Q Your testimony includes an adjustment for a reduction in the UNE loop rates; is that accurate?

A Yes.

Q Are these deaveraged UNE loop rates the same rates that have already been adopted on an interim basis in Admin 382?

A Well, they are not the same.

Q They are not the same rates, but the same--we are talking about the same charges; correct? That you are proposing to lower the rates here?

A Yes, the rate that is deaveraged is the UNE loop rate which we feel is the only rate that really should be deaveraged from the UNE perspective, the loop that--rates that are associated with loops or loop related services. So, for instance, the port charges not deaveraged nor is transport or the other elements of unbundled--the other prices associated with other unbundled network elements, it is just the loop.

Q The rate you are proposing for this UNE loop is lower than the rate in the stipulation that the Commission adopted on an interim basis in 382; is that correct?

A That's correct. And that--there is a chart, I believe, in my testimony of that. On page three of my testimony the rates in the stipulation are 14.79 for zone one, 27.68 for zone two, and 47.78 for zone three, and those rates change respectively to 13.54, 19.73, and 28.27.

Q Why are you proposing this reduction to UNE loop rate in this proceeding when the Commission has a pending case for UNE loop rates and other UNE charges and why not make the reduction in the case that is pending?

A Well, it is basically a matter of consistency. These are the UNE loop rates that we use to create the UNE package that we use to develop the size of the Universal Service Fund by comparing revenues to the UNE package. So, since these are the rates that were used these rates are most consistent with the theoretical basis that we feel should be used for deaveraging the unbundled network elements that some roll up of our rate groups in major metro, minor metro, rural kinds of zones for a UNE deaveraging. So, the rates are lower than those in the stipulation, they are the rates that we used to calculate the Universal Service Fund and they are more consistent with the methodology that we subscribe, so we felt like we should put them forward on an interim basis until the matter is resolved in 382. But we are not foreclosing debate on methodology in 382. There are people who are proposing other methodologies.

Q Okay. I wanted to talk with you for a moment about the impact of your propose for the USF. In your original December 17, 1999, filing in this proceeding you determined an intrastate fund of approximately 25 million, and given revisions by the FCC that amount is now 32 million; is my understanding correct?

A Correct.

Q How are these amounts determined?

A Well, the methodology for determining them is essentially the same, but the numbers have changed from two perspectives. The UNE package changed because the synthesis model was updated and that is what results in--the UNE rates that we used in the original proposal were based on the Commission's 382 Order and the density zone based thresholds that the Commission had put forward in that Order. The--and, so, we used the synthesis model from October and those density based thresholds to establish the UNE zones. That generated a UNE price which was part of the UNE package. Then we compared that UNE package to revenues available in those wire centers and the difference rolled into the

Universal Service Fund. The synthesis model was then updated and we changed the way that the wire centers are combined into UNE zones. So, this proposal now uses rate groups, not density zones, to establish the UNE zones. That generated these UNE loop prices. That changed the price for the UNE package, and we also updated the revenues, by wire center. So, all the numbers changed. And, as a result of that, we went from a $24 million fund to a $32 million fund.

Q Could you provide a work sheet showing the development of this revised $32 million amount?

A Sure.

Q You have estimated the fund size using the HCPM to be $61 million and an estimated contribution by BellSouth customers of $33 million for the net gain of $28 million if USF is implemented; is that accurate?

A That's correct.

Q Could you provide a determination of these numbers and what they are based on?

A Yes. Now, or later or--

Q If you can describe it now that is fine. I had a work sheet in mind if that would be preferable.

A Okay. $61 million is just the synthesis model, the HCPM model output for BellSouth. The total fund is, like, $91 million for the state when you include GTE and Cincinnati Bell. So, that is where that number comes from. There is a report produced by the FCC that discusses intrastate revenues for telecommunications companies and I think in the comments that we filed in Administrative Case 360 there is a reference to those numbers that result in a 6.1% assessment percentage, $1.4 billion--almost $1.5 billion and a $91 million fund that gives you about a 6.1% assessment methodology. If you apply that 6.1% back to BellSouth's revenues, you get the offset of the $33 million. So, $61 million minus $33 million gives you the $28 million. But I can put that all on a piece of paper.

Q Okay. So, we talked about the proposal that you filed in December as revised at $32 million and then this amount of $28 million under the HCPM, could you explain how these relate?

A Well, the--again, the 24 versus 32 is a similar rationale with a different set of arithmetic. The $28 million number is a different rationale. As Fred mentioned earlier, that the original discussions of how you would size the Universal Service Fund were based on revenue benchmarks. And with the federal high cost determination and the synthesis model, the FCC changed to a cost benchmark. So, the rationale change that is involved in the numbers is the $28 million number based on the $61 million fund using the cost benchmark and then offset by the fact that we would have to contribute--BellSouth would have to contribute some to that fund. And, so, the net of that amount would be--the net receipts we would get would be 28 million. I think the point that we tried to make here was that these numbers are not so precise that we are not really talking about the same kind or single level of fund and, so, the $24 million number that is on the table in the rebalance is, we consider, enough at this point to move on, because we can model this thing to death. And every time you run the model you will probably get a little different number, and every time you tweak an input you will get a little different number, and is it worth the difference to continue to run these exercises. And, essentially, we are saying no, we don't think so. We think the rebalance proposal is adequate so let's move forward.

Q So, essentially, BellSouth is agreeing to absorb the difference between the amount of calculated USF and the amount you are seeking to rebalance your rates?

A It is an absorption risk because if that number is right, then there is some implicit subsidy left in the rate structure and that might be competed away. That number might not be right, so, yes, there is some absorption risk involved in this process, yes.

Q By characterizing this as a risk, are you conceding that none of the calculations for USF that we talked about today are final?

A Well, I'm concerned that they will ever be final, personally. But, clearly, there--you know, the FCC is not done yet with the high cost model, apparently. They are continuing to evaluate access line inputs and what have you and they are talking about updating it quarterly. So, I'm not sure the word final is in their vocabulary.

MS. DOUGHERTY:

I have nothing further.

CHAIRMAN HELTON:

Redirect? Does anyone have anything further? Mr. Gillis? Thank you Mr. Rausch.

MR. MERSHON:

I'd just like to ask the witness if he is clear on what he is to produce?

A Yes.

MR. MERSHON:

I was not totally clear on that second or third one?

A I need to produce the numbers that came up with the $32 million number and also the backup for the $28 million number in 360 comments; is that correct?

MS. DOUGHERTY:

That's correct.

CHAIRMAN HELTON:

Mr. Mershon, I forgot to ask Mr. Gerwing, but you said you have a list of those 31 counties and I would like to have a copy of that to look at.

MR. MERSHON:

Sure.

CHAIRMAN HELTON:

Not immediately but before the hearing is over today.

MR. MERSHON:

We'll get the list.

MR. KITCHINGS:

BellSouth doesn't have any other witnesses.

CHAIRMAN HELTON:

Ms. Cheuvront? We do have Mr. Drabenski?

MS. DOUGHERTY:

Yes, we do. Would yoy like to take the stand sir?

MR. MERSHON:

Madam Chairman, while the witness is coming, BellSouth would propose that the order of cross be the Attorney--either the Commission or the Attorney General and then BellSouth because it would help us determine whether we really have anything left for this witness.

MS. DOUGHERTY:

I can volunteer to cross-examine first, if you even want to characterize what I'm going to do as cross-examination.

(WITNESS DULY SWORN)

The witness, WALTER P. DRABENSKI, having first been duly sworn, testified as follows:

DIRECT EXAMINATION

BY MS. DOUGHERTY:

Q For the record would you state your name sir?
A It is Walter Drabenski.
Q Thank you. And what position or role have you had in this proceeding?
A As President of Vantage Consulting, we were the firm that did the audit of the PRP during 1999.
Q And has that audit been made a part of the record of this proceeding?

A Yes, it has.

Q On or about May 4, 2000, did you cause to be filed in this proceeding Vantage Consulting, Inc.'s, testimony?

A Yes, I did.

Q And was that testimony an effort on the part of all of the auditors of this case?

A We had five senior consultants who worked on the project, each contributed to the testimony, and I will try to answer the questions. Mr. Fowler, Mark Fowler is with me, I'll defer to him on the ones I'm not comfortable with but I'll make every effort.

Q At the time that the audit report was produced there were a couple of corrections made to the report, do you know whether all of those corrections have been filed into the record?

A I was under the impression that the corrections, which one chart that was mislabeled was included in everybody's distribution before it went out the door.

Q Do you have any changes to your testimony or to the audit report that has been filed?

A No.

Q I'd like to ask you some questions, as I referenced before, they are not exactly in the nature of cross-examination since you are a witness hired by the Commission.

A Okay.

Q You made several recommendations in your report and in your testimony and I wondered one of them referred to the need for better communication. What--between BellSouth and the Commission--what particularly did you have in mind or what recommendations do you have?

A Well, the entire series of issues in telecommunications that are before the Commission and the FCC and all of the utilities involved, they are so complex, so difficult to understand, as I think we have learned this morning and this afternoon, that it was our view that work shops or attempts to make sure that everybody was on the same educational level regarding types of models being used, the impact of various efforts at the federal level and ultimate at the state level. If that kind of communication could take place in a forum other than an official on the record forum, all the parties would be better prepared and better able to formulate strategies on a going-forward basis without doing any formats such as this where perhaps best solutions aren't put forth in the initial proposals.

Q You recommend eliminating the productivity factor determination, is that true?

A That is correct.

Q Why do you think elimination of this adjustment is appropriate in the current time frame?

A I think the report goes into some detail as to the FCC's CALLS report in discussing what value the productivity factor had. It was-- it served its purpose when initially put in place, so we are driving rates down to where they need to be. We discovered what we thought were a few problematic issues with using the productivity factor. First of all, you are depending on a number that is developed from a model that was never intended for being prospective--to be used on a prospective basis. It varies from jurisdiction to jurisdiction. The results of it are never known until some months after the time period is completed and then the way it was designed the implementation or the use of the revenues that dropped out from it were going toward rate reductions, which are somewhat counter productive, to try to stimulate competition. We went back and forth and--when we talked about getting rid of the productivity factor what we really mean is that we are looking at a better way to use the revenues that BellSouth generates through its improvements of productivity. I think we have seen that BellSouth is very capable of being innovative and bringing money to the bottom line when they are given an opportunity. What we hope is we come up with a method where those dollars were first known on a more definitive basis before hand and then used in a manner that brings more to the ratepayers in the state.

Q Is it your opinion that the use of the productivity adjustment money in the past four years has not been an effective way to increase the competitive market with the reduction of access charges then?

A Well, I think if the money had been used to reduce residential rates it would have been a disincentive to increasing competition, because as Mr. Gerwing indicated, virtually every indicator out there says that residential rates are lower than what they need to be to instill some competition. Now, the Commission, wisely, I think, allowed the company to use the money to reduce access charges and that helped. But on a going-forward basis I think the access charges will be resolved and then the question was what do you do with the benefits of this productivity increases and we were sort of in a quandary. And that's why when after the meeting with the Economic Development people we thought there might be a better way of utilizing those revenues.

Q Did you review BellSouth's rates and tariff structure to the extent that you feel

comfortable telling the Commission that there aren't additional rates that BellSouth is charging that should be reduced rather than the incentive plan of capitol deployment?
A We clearly did not study rates to the degree that you would for a rate case. We did not look at any comprehensive current model results that would have told us where there was subsidies and where there weren't. I think Mr. Gerwing indicated this morning that even BellSouth today can't tell you what the exact level of subsidies are because they are just reaching some decisions as to what models to use and what inputs to include in them. I think what we saw from BellSouth in Kentucky, what we saw based on our understanding of the rest of the BellSouth system, in the industry in general, is that it was very likely that the residential rates, at least, were being subsidized. Whether the business rates were over subsidizing this is something we didn't go into any real detailed analysis on.
Q Your audit report recommends the elimination

or the phase out of the TFP. BellSouth has proposed that it be eliminated on a flash-cut basis. Do you believe that phasing it out would be more appropriate in the current climate?

A We vacillated a bit ourselves. I think if you read our report and what some of the recommendations were and then read the testimony as of a month ago, initially we suggested that it could be cut out in the year 2000. I think based on what we are seeing, given that it is now June, it will be some period of time before we get a decision, given that the CALLS proposal has some rate increases, we are beginning to believe that perhaps a phase out is a better solution. The proposed transition rate plan that BellSouth provided in response to our audit did not have a lot of definition in it regarding the amount of dollars that would be used for infrastructure enhancement, for example, and only today in Mr. Gerwing's testimony that we learned what some of the real dollars are. I think even there there is some question as to what the net dollars would be. So, when we posed our testimony we tried to perhaps take a little harder position on when the rates increases for residential should go into effect and when the productivity factor should be phased out. And I think at this point we have got a little bit better idea but there are still some numbers that you probably need to better understand before you could come up with something that was certainly neutral on an overall basis.

Q How might the Commission go about phasing out the TFP if it chose to do that? Would you suggest just a lowering the percentage rates or how would that phase out work in your mind?

A Let me make something clear. Part of what is being--part of the quid pro quo is the transition plan basically says we will give you a fixed amount of money for infrastructure replacement, for reduction of access fees in lieu of the service fund. If the plan went on, the amount of money that the productivity factor produces each year is dependent upon inflation, you can see that over the last three years it varied from three million to seven million. Each of those years you didn't know how much money was going to be available because of the inflation rate ultimately dictated that. So, part of what is being offered here is a fixed, known, defined benefit versus an unknown benefit that will accrue based on what future inflation is going to be. So, I think that needs to be factored in when you look at how you phase things out. You know, we are halfway through the year 2000. I think people can probably come up with a reasonable estimate for this year. There is certainly a lot of speculation as to what inflation is going to be over the next couple of years and the feds certainly doesn't-- seems to have ideas that it is going to go up and I'm trying to keep driving it down. So, I think in the final calculations the Commissioners need to make an assessment of how valuable it is to have a known benefit that is promised to you that is going to be ruled out as opposed to some unknown benefit that is going to be based upon the national inflation rate.

Q Do you see the benefit of such deployment proposal then as opposed to the inflation factor that is unknown to be that the Commission can determine a set value ahead of time?

A Well, I think largely yes. It is certainly easier based on the numbers that have been provided. You have to make some leaps of faith as to what that is worth in real dollars on a rate of return basis, I guess, to find out what you are really getting. But it is certainly easier to come up with some sense of the value of that than it is to sit and say, well, we may get something but it all depends on what inflation. Secondly, if you look at it in a more macro basis, you look at what is the leverage of what you get out of infrastructure enhancement as opposed to some minimal--let's say we reduce business rates. Do you really see a macroeconomic impact to the state because interest rates--

interest business rates go down by a couple of percent; probably not.

Q How can the Commission be assured that the money that is deployed in broadband capital investment would not have been deployed anyway? How is it that the Commission can actually get its hands on the benefit that is going to accrue to Kentucky from this plan?

A I think Mr. Gerwing mentioned the company's business plan. And all companies, in particular those that are competitive, they look to the potential profit before they begin to deploy capital. To date I don't think there has been a widespread effort in the areas that are being emphasized to deploy capital for broadband initiatives. So, I feel comfortable that the company is saying we are going to spend money that we wouldn't ordinarily spend. To what degree that changes over the next couple of years as technology costs come down and uses utilization increase, it is hard to speculate. And I think the need to revisit the issue and the amount of money and how it is being spent in terms of technology is probably appropriate. I think there was some discussion about, you know, every couple of years coming back to look to see whether--are you in the right places, is the type of technology appropriate, the number of dollars being spent are appropriate, comparing them to other states, probably is the best way to resolve that. But at this point in time you have to simply look at it from a business man standpoint and the answer is without some type of incentive companies aren't going to invest in those areas because there is no potential return.

Q On page four of your testimony you mention the effort that has been made to move forward with the limited rate rebalancing. Do you have any recommendations with regard to the proposed rebalance made by BellSouth?

A As management consultants it really pains us to ever suggest rates should increase. We tend to look for ways to reduce cost, reduce operating expenses and keep rates low. By the same token when you look at the industry and you start talking about competition, rate rebalancing is probably both necessary to stimulate competition and probably will be required as the FCC moves along with some of its other initiatives. So, what we have struggled with between our original proposal and what we put in the testimony, I guess on page 12 or 13, was whether the rate rebalancing should be done over two years, should it be done over three or four years, should you delay it a little bit because of potential increases to bills that ratepayers will see due to the CALLS proposal, I don't have a real good answer there. I think how much--how quickly it goes depends on what the company is willing to give on the other side of the equation.

Q On the deployment side?

A On the deployment side, certainly the access fee reduction, and I think Mr. Gerwing indicated that the estimate the Universal Service Fund risk that they are talking is based on some current projects and whether those numbers will change up or down in the future, whether their risk is higher or less may be better defined.

Q You had been concerned about the quantification of the benefit of the deployment broadband and it hadn't been specified. You've heard the testimony this morning about the amounts to be spent over the next few years above that which had been budgeted. Does that allay your concerns? Or do you think that the Commission actually needs more detail about the deployment

A I think additional detail that could potentially be available is useful. And there is perhaps two side to the equation. What the company is saying is that we are willing to spend this incremental money in areas that we ordinarily would not invest, and that's quid pro quo. To simply take that number and assume that that is the benefit, I think is not quite correct, because there will, of course, be revenue generated by those who take advantage of the broadband. So, you have to net that out. So, when you talk about--what was the total 19 million or

some number in that range of potential investment--I'm not sure that you can simply look at that as the total number. You need to ask what that means in net dollars. I would suggest that perhaps the company can provide some indication of what their business plans suggest revenue would be.
Q Is there any way that you could help the Commission to get a handle on whether the proposal by BellSouth to change its Price Cap Plan and the benefits that would accrue to Kentucky from that proposal are equal to or better than the current plan or the benefits that have already been derived? I mean, are we talking apples and apples or is there anyway to know?
A From what I heard today I think we are pretty close. I don't think--if the numbers that will be invested for broadband, in fact, are incremental numbers and the timing is done and the typical benefits to the state accrue, I think it is a very good deal for the state. I think as a number of people suggested earlier, since BellSouth really doesn't know what the exact cost is going to be,

they are estimating cost based on today's technology. Tomorrow's technology or today's technology tomorrow may be less expensive or may be different and I'm not sure you want to give up some hard dollars or some potentially hard dollars that would have accrued through the productivity factor for some soft dollars that may, in fact, not be the same numbers if the cost for implementation go down in the future. So, it is-- again, I think that is why this needs to be done with some expectation that there is a review, and if it turns out that the cost for implementation was much less or the revenue that is being received is significantly more than the business plan originally estimated, then you need to revisit it and bring it back to the table.

Q Your testimony describes how profitability as measured by return on equity is not a viable regulatory measure under the Price Regulation Plan. What would you propose this Commission base its decisions regarding these rates to determine fair, just, and reasonable rates if it doesn't use any rate of return analysis?

A Well, when you go to a Price Regulation Plan what you are giving up is rate of return as the primary measure of a utility's success as a utility. In fact, the type of rates of return in the increases to a certain degree prove that the program worked, that the company took the initiative, did all the things to become profitable and competitive, which will ultimate drive their cost down as more and more of their products are moved to the competitive side of the business. Ultimately you are looking for reliability and quality of service, those can be measured. You know, we talked a little bit about service standards and reliability and they need to be changed, I think some new ones need to be incorporated, but as you go to a more and more competitive market environment, you are going to end up with market based prices which are really what you are ultimately looking for. And that is going to be--that is going to drive their profitability where it needs to be, or it will end up where it is based on their ability as a business to be successful.

Q Is it your view that the Commission should not then even consider the fact that, as you stated in your testimony, the return on equity as approximately 35% now and that that shouldn't even be considered when evaluating whether to have this rate rebalancing, whether there is a need for it or anything of that nature?

A Well, let me just back up. The 35% that is in our testimony is intended to show a trend. That is not rate of return on equity that would be used for any kind of regulatory basis. We used that operating income, if you were doing it on a regulatory basis you would probably go towards more net income which would take into account a number of other things, it would be lower. I think the company comes up with about 29% versus our 35%. Needless to say, the curve certainly shows that the company has been extremely successful in the last four years in improving their profitability. Now, to get to the question, yes, I think the Commission should be aware that BellSouth can be extremely innovative and extremely successful when the right carrots are put in front of them, and that is what has occurred. And, to that degree, I think there is no reason why the Commission shouldn't continue to push BellSouth to provide its customers with as much as possible and have to work hard to achieve the profitability they think they need to achieve. So, that is why when you look at our testimony on page 13, we took a much tougher position regarding rate reductions than what was in our original report. It was largely because--well, partly because we didn't have a good definition of the numbers and, secondly, because I think BellSouth has demonstrated that they can be a very innovative and successful company when pushed.

Q Does that innovation and success maybe lead you to think that this Commission should not need to be in a position to raise the residential rates?

A Well, you would still run into a quandary. It is real easy for all of us to sit here and say, well, great, they are profitable and we don't need to raise residential rates. All you do is put off rate rebalancing for another couple of years. I think the real issue is how do you raise residential--how do you achieve rate rebalancing? Do you do it slowly over a couple of years, do you do it in a couple of 10% increases in certain rate groups? My own--our professional opinion is that you should really work toward a rate rebalancing. We included it as an additional objective because I think it will stimulate competition faster and it will take away some potential rate shock two or three years down the road. The company proposed it be done over two years, I think I would look at what period of time you want the extension of the PRP or TRP, or whatever you want to call it from now on, to go, and maybe look at, you know, a longer period of time, recognizing, of course, that the more you stretch it out, the fewer dollars that the company is getting up front for access charge reduction and Universal Service Fund.

Q What are the consequences, as you see it, for this Commission not rebalancing rates or are there any?

A Probably rate shock three or four years down the road. Instead of a 20% rate increase over two or three or four years now, end up with perhaps 20% or more in the future from a pure rate standpoint. Secondly, you are not going to see any competition in the residential area, at least in the existing type of services, as long as you have that kind of an imbalance.

Q Do you think there would be any effect in the long run on the incentive to invest in our state if rates aren't rebalanced?

A I think there will be an impact in the long run of other CLECs to invest in infrastructure that will serve residential customers, except in the places where, you know, Louisville perhaps where there is a great enough density and it is close enough that they can be profitable.

Q But you would agree that to the extent that the Commission delays this inevitable, if it

is inevitable, rate increase, there is benefit to those that aren't paying that rate?
A Absolutely.
Q Did your consulting group look at the entire telephone company market in Kentucky in reaching a recommendation?
A We looked at recent actions and activities of some of the other large telephone companies. We didn't do a comprehensive study of all the rates or all of the utilities, and I recognize that there is fairly broad range of types of plans and programs in place there.
Q Do you have any sense, based on your analysis done for this proceeding, whether rebalancing rates for only BellSouth would have any effect on other incumbent carriers in Kentucky?
A I don't know, Mark may have a better sense of looking at some of the rate comparisons in more depth than I did, so maybe you can hold off your question.
Q Okay. I'll take that up with him. One of your recommendations was to not redefine the

baskets, or at least you were questioning BellSouth's redefinition of the service baskets. What is your--have your thoughts changed on that or what is your recommendation?

A A little bit, yes, they have somewhat. When the response of our audit came out initially we were surprised to see BellSouth proposed a complete new definition of their baskets because during the audit there was never any discussion of that. There had never been any petitions by the--by BellSouth to move products from one basket to the other. And, in fact, we made a recommendation suggesting that they reassess whether items in each basket were appropriate. So, we were rather surprised and didn't see an overwhelming reason for it. Since that time we have had BellSouth put in some greater description of why they were proposing it and in reading the CALLS proposal we recognize that if you do away with the productivity factor it really doesn't matter, and if the baskets that are currently being proposed by BellSouth probably come a little bit closer to what the CALLS proposal would envision.

Q I believe that you also indicated that the presumptive validity of tariffs may not be necessary at this time; is that still your viewpoint?

A Well, I think we propose in our report that presumptive validity be included. We looked at all of the other states that BellSouth had PRPs in and every other state was part of the plan. It hadn't been a specific problem, to date, in Kentucky because there hadn't been any cost--there hadn't been any products moved into non-competitive--or competitive side with costs that somebody might have objected to. Our view, however, was that we didn't want to see an administrative nightmare occur where the company tried to change their cost to be competitive and competitors were using the regulatory process to slow it down. It is more of a housekeeping issue than anything. It hasn't been a problem to date but it would be nice to have it in there in the future.

Q You mentioned the two new objectives that you proposed. One is the movement toward incremental and market rates and the other is insuring that competition is not hindered by the plan. How did these objective fair during the last four years? Did you propose these because these were issues that were of concern or--

A Well, I think it was more a matter of updating the plan. The plan, PRP, as it was originally designed, was formulated in, I guess, in early 1995 when the plan went into effect in mid 1995, so it was before the `96 Telecommunications Act. With four years of hindsight and looking at what the objectives that were stated in the original plan we just felt that the plan was better served by adding these two--I don't think that we would say that these two objectives were hurt during the first four years of the plan, but on a going-forward basis we felt it would be enhanced.

Q Do you think that the current Price Regulation Plan has impeded competition in Kentucky?

A I think my answer would be no. And I say that because the company and the Commission wisely did not move money in the last two years, at least to reduce rates and widen the gap of rate balancing. And I'm hesitating on the answer because I think the advent of competition probably is more dependant on other factors than the Price Regulation Plan, technologies, consumer requirements and so on. So, it more a matter of the plan probably didn't stimulate competition a great deal but it didn't necessarily hurt it.
Q Do you think that the plan as proposed by BellSouth would stimulate competition more appropriately?
A It's an incremental improvement. Certainly, the rate rebalancing goes a long way towards taking some barriers to competition away. Again, I think the primary drivers for successful competition will come from outside the plan. It will be new technologies, new opportunities, changes in the economy itself.
Q Do you work generally in several different states or different regions of the country?

A Yes.

Q And have you seen any plans or recommendations by other Bell operating companies that you think this Commission should consider?

A I can't think of anything that I've seen right now, Mark may have a comment or two on that when he gets on. He is probably a little bit more familiar. We looked at and, I think, in our report included the PRPs we saw throughout the country, you know, and made a number of comments and observations on those. We seen a couple of changes, I think you mentioned Louisiana, what took place there. Quite frankly, I think a great deal has changed in the last week.

Q With the CALLS proposal?

A Absolutely. Louisiana probably was--made an appropriate decision to not take any real action other than to extend their plan when they had to make their decision a month or two ago. And today they are looking at a better defined arena to work in, so it makes a lot more sense to be more pro-active in going forward than perhaps Louisiana or was it North Carolina had been just a few months ago.

Q Are you aware of other states that have already rebalanced their rates and what kind of effect that has had?

A I know that it has been taking place, we've discussed it, I don't have the information at the tip of my fingers. Mark may be able to shed more light on that.

MS. DOUGHERTY:

That's all of my questions.

CHAIRMAN HELTON:

Attorney General.

CROSS EXAMINATION

BY MS. CHEUVRONT:

Q As usual most of my questions were covered, so let me get organized for a minute. On page 49 of your report you say that competition has come in the form of new products and services and I believe you just said that on the stand. Were you saying that BellSouth can't offer new products and services, or am I just misreading this statement?

A Let me refresh my memory.

Q Or reading too much into it?
A Page 49 under the subtitle Competitors?
Q Isn't it one, two, three, Regulation, Chapter 3 in your Audit Report?
A Right.
Q Yes.
A You said page 49?
Q Yeah.
A Well, the purpose of this section here was really--was an industry discussion of industry structural changes. And I think to answer your question, when you talk about new products and services, BellSouth, like any other company out there today, will base the implementation of new products and services on their business plan and whether they think they can make money. A lot of what we talked about this morning was their willingness to invest in regions of the state that might not ordinarily be profitable. But quid pro quo, so to speak, is that they will make the investment with much more risk towards potential profitability of that investment than they ordinarily would. Beyond that, I think, and, again, Mr. Gerwing said when we talked about those

products for broadband implementation, it may be different products than what are envisioned today. So, I think BellSouth is certainly willing to look at new products and services, but under today's environment they want to look at it when its got a reasonable prospect for profitability.

Q I just wanted to make it clear that you weren't saying that they weren't able?

A Oh, no, no.

Q And that's the way--as I said, in my mind that is the way I read it. I just wanted to make it clear that that is not what you were saying. You talked about there not being competition and the IXCs not entering the market, you--at first I thought you were saying it was just because of the rates but I think you went on and elaborated on it and it had a lot more to do with just the rates was not what was causing the lack of competition in Kentucky. But, then, I also heard you make mention--you do know on page 97 and 98 where you all have your little rate chart of all the BellSouth states--are you familiar with that?

A Yes.

Q Earlier this morning I believe you were here when Mr. Gerwing said there is competition in Florida and Georgia. As we see from your rate charts, Georgia has the third highest business rates and Florida has the lowest business rate with Kentucky being just next; on the residential side, Florida has the lowest residential rates. So, rates may really not have a lot to do with whether the IXCs want to come in or enter competition?

A Well, I think we better be careful of the timing here. You know, these rates were published rates, tariffs based on what we saw a year ago. The activities that have taken place in the last--and they probably went into effect a few years ago. So, you are comparing rates that may be three years old with the competition that has taken place in the last 12 months. I'm not sure what time frame Mr. Gerwing was referring to when he talked about those two states being the states with perhaps the greatest competition at this point. So, I just want to be careful, though, that we don't take some old numbers and try to reach a conclusion that there is no correlation between these numbers and where people--

Q He did say that he wasn't aware whether they had changed or not. Do you--from the way it sounds today the only states you work in are BellSouth states?

A No, no, no.

Q Okay.

A It is just that as part of this audit we took a very close look at all of the programs that BellSouth had in each of their states. So, we are much more familiar with those rates and programs than some of the other large utilities.

Q Just from knowledge from past work, are you aware of any other rates in non-BellSouth states or how they compare to rates being offered in other non-BellSouth states or companies?

A I've got all kinds of statistics and given rates.

Q Just general.

A Well, they are all over the place. I mean, depending on cost structure, levels of subsidies, what efforts have been taken. I think in Chapter 2 we looked at a lot of different programs and, again, here we were looking at Price Regulation Plans as opposed to basic, this wasn't a rate study by any means. So, the little bit that is in there about rates was sort of put in there to bring up a point. We didn't make any attempt to compare rates in Kentucky with the rest of the industry. That's pretty common information, there is a lot of data basis that have that out, you know, that type of information, I just haven't really looked at any of it in months, so I would be hazarding big time guesses.

Q Well, one of the things we commonly hear and you are probably the first person I've heard expand on why there is no competition in Kentucky is because our residential rates are so low and they need to get higher. And I was just curious on--if there is residential competition in other states how--you know, if they are that difference where you can compare, is that really what is causing competition not to be in Kentucky?

A It is really complex. In fact, Mark looked at an ILE--CLEC, I'm sorry, in Colorado and it was interesting because that CLEC basically had an exclusive franchise because nobody wanted to compete with him and I think it is written up in Chapter 3 or 4 of the report, it is a little discussion of it. Yeah, there is competition there. A CLEC came in and is providing local service to a small subdivision, fortunately it is the only competitor there, so it is a much more complex issue than simply what the rates are. Knowing whether there is subsidies, although the subsidies is probably the driving factor that would act as a barrier.

Q I don't--didn't hear you say--and if I remember reading in your audit report, and I think also in your testimony, you suggested an initial rate increase of not more than 10% and then today you basically said because maybe rate shock down the road, and then you thought freezing was a good idea. Do you still believe freezing is a good idea

A Well, the idea was to--when we were putting the report together, eight, nine months ago, we were toying with the idea of let's get some initial increases in, let's bring the residential rates a little bit closer to cost and then freeze them and see what the market is doing, whether there is any impacts. So, that is basically where we were coming from and, you know, I think the discussions today went to can you slow it down and do it over a longer period of time. Mr. Gerwing indicated you can skin the cat a lot of different ways and it is just a matter of what is most palatable at the time.

Q Well, do you still think that even though this was written eight or nine months ago that possibly freezing them to see what the market is doing may still be a good idea?

A I think we proposed going along, which is what the company's proposal is, rate increases for two years and then a rate freeze for the next two.

Q They proposed inflation, rate increase 10%

over two years and then increase it.

A Okay, well.

Q That's why I wanted to get your--

A I guess after a 10% increase 2% doesn't look bad.

Q It depends all of the other little surcharges you are putting on that bill, I guess.

A Right.

Q I just have one final question. I asked Mr. Gerwing this morning and it is basically just since you have knowledge from all over the state if maybe you have any ideas. As it appears from this alleged competition, it is only helping the low income and any large long distance user, an Internet user or anybody that wants advanced technology. And you even said--I can't remember if it was in the audit report, the testimony--that the POTs customers will not see any noticeable rate reductions because of competition. It appears from what I see and what I hear is, though it is not a rate, the bill is rising because of competition. Do you have any suggestions on what could possibly be done to help these POTs customers?

A I would refer back to the CALLS decision because that addressed that. In fact, some of the final changes that were made to that proposal were changes that took into account we are doing audits on the long distance side giving way with minimum bills and so on in order to give some rate relief to users of-- minimal users. I'm not real familiar with the exact structure here but the more you can make the bill variable for customers with minimal usage, the better it suits their spending habit, the usage habits.
Q I'm not that familiar with the CALLS proposal either, and the more I hear today the less I'm familiar with it. But from my naivety knowledge and from what I read on the consumer side, it sounds like that they took away something that was competitive, the long distance side. You could, you know, maybe go to another long distance user, some weren't charging minimum fees, some were, obviously, some were charging USF percentage, some flat fees, you don't even have to have a long distance user any more if you don't want to,

so that already eliminated that side. If you wanted to, if you actually shopped around and knew the right questions to ask and took a lot of what they took away there and put it on to the regular interstate field, so it seems like it may not necessarily have helped the POTs customers?

A No, I think you need to look a little deeper and I'm not an ex--I read it once and that was late last night, so I'm certainly not an expert. But my understanding, at least from the Executive Summary, is that a minimal usage customer who opts through AT&T or Sprint to take a plan with no minimum payment should see a monthly decrease in their overall bills. I'm generalizing but I think that is my recollection in reading that.

Q I know that is what it says but some of the charts I have seen--what I'm saying is this part was competitive that they took away. And they took--and they added it to something that is not competitive. So, if you had already worked and gotten the long distance part that they have taken away out of your bill, then it actually increased your bill some?

A I'm probably not a good witness on that.

MS. CHEUVRONT:

And I'm maybe not even stating it right.

So, I have no further questions.

CHAIRMAN HELTON:

Mr. Kitchings?

MR. KITCHINGS:

Yes, Chairman, thank you.

CROSS EXAMINATION

BY MR. KITCHINGS:

Q Good afternoon Mr. Drabenski, I'm Langley Kitchings with BellSouth and I do, in fact, I have just a few, very, very brief questions for you. I'd like to take you first to your testimony, I believe it is on page 13, you have made reference to it once or twice and I just want to make sure we are all together on this. This is the second bullet point on line 12. Are you with me?

A Yes.

Q In that statement you are not suggesting, are you, that a rate rebalance is not needed?

A No, I'm not.
Q You are, in fact, still in favor of a rate rebalance?
A Yes.
Q Isn't it true, Mr. Drabenski, that in your findings in the audit report and in your testimony you represent the--or agree that a total fact of productivity needs to be done away with?
A Yes.
Q And, in fact, you would also support the notion that a Universal Service Fund needs to be undertaken and properly done as soon as possible, wouldn't you?
A Making it general, I would agree with you.
Q And you are also familiar with BellSouth's broadband deployment offer in this PRP that we have put forth, aren't you?
A Correct.
Q And you would support that that is a good thing for the State of Kentucky and its associates, wouldn't you?
A I'd like to think we first proposed it.
Q Okay. So, I'm originally from Mississippi and we have a saying down there about

shelling down the corn, it is kind of getting to the bottom line. So, when we shell down the corn from all of this, is it fair to say that you support a rate rebalance?

A Yes.

Q You support the doing away with total factor productivity?

A In some manner, correct.

Q Okay. You support the broadband deployment?

A Yes.

Q And you support a Universal Service Fund?

A I believe the issue needs to be addressed, yes.

MR. KITCHINGS:

Thank you. I don't have anything further, Chairman. Thank you.

CHAIRMAN HELTON:

Ms. Dougherty?

MS. DOUGHERTY:

Nothing further.

CHAIRMAN HELTON:

Ms. Cheuvront?

MS. CHEUVRONT:

No.

CHAIRMAN HELTON:

Mr. Holmes?

VICE CHAIRMAN HOLMES:

I just have a question, you talk about the difficulty of getting at the same subsidies. How do you ever know what the exact amount of subsidy is or is there any way to determine--

A Well, first of all, you have to use some type of model to come up with an estimate. So, right off the bat you know you've got a wrong answer. Then if you want to get closer and closer to the right answer you have to go with finer and finer geographic areas so that you are beginning to match the actual cost investment with the users. And that becomes more and more complex, so you ultimately get down to, I believe, every call center having its own cost associated with it. And I mean at some point in time you could--you know, every house, depending on how many feet of wire they have, has a separate cost element. I think everybody agrees you certainly can't do it on a statewide basis because you know it is wrong. Even trying to do it on a politically geographic basis, counties, is wrong, because you have urban versus suburban.

VICE CHAIRMAN HOLMES:

Well, I guess what I'm getting at until we get competition we really won't know what the subsidies are.

A When you can get the market rates then you know what it is worth. And you can only get the market rates when you have competition.

CHAIRMAN HELTON:

Thank you Mr. Drabenski.

MS. DOUGHERTY:

We have just very few questions for Mr. Fowler.

(WITNESS DULY SWORN)

The witness, MARK FOWLER, having first been duly sworn, testified as follows:

DIRECT EXAMINATION

BY MS. DOUGHERTY:

Q Mr. Fowler, did you participate in the audit that has been made a part of this record?

A Yes, I did.

Q And in the testimony that has been filed approximately May 4, 2000?

A Yes, I did participate.

Q Do you have any experience to tell us what states, if any, have already rebalanced their rates and what effect that has had?

A Yes, I would like to address that. The problem with addressing it as a rebalance is rebalance by definition would mean that you had some implicit subsidy. Many states don't have the differential between the actual cost, or what we think are actual cost, and then the regulatory rate, in which case you don't have a rebalance issue per se. So, to just simply say are there states that have done a specific rate case, or rebalancing, is almost impossible to say. In fact, I don't know of any that called it that. There are in each rate case, particularly those that have come up recently, movements towards bringing rates towards market or cost, in fact, which could be called a rebalance. But are they called that specifically, not that I'm aware of.

Q And do you know what effect those rate changes in the states have made on the market?

A In the market particularly or are you speaking to residential or business or both?

Q Both.

A For the most part in the residential area there is very limited competition anywhere in the U.S. as a result of rates or anything else.

Q And what about the rate changes for the business?

A Rate changes on the business side, I think-- I'd say basically the same, that the competition is being driven by factors other than rate changes or the rate changes that have taken effect thus far.

Q So, is it your testimony that the rate rebalancing that is proposed here will not actually affect or bring about competition in the residential market?

A I would say it would not bring about competition, it removes--makes one step towards removing a hindrance to competition. And it moves rates towards the direction of where they need to be to be in a competitive environment, which is basically towards market where it is caused.

Q Do you have any opinion about the effect of the rate changes proposed by BellSouth in this proceeding that they might have--the effect they might have on other ILECs, that is, rebalancing Bell's rates but not rebalancing other ILECs rates?

A We did look at that particularly early on in particular with respect to Cincinnati Bell. And we, in fact, decided that to consider that in what we were doing was to place unnecessary shackles on us and what we were recommending to the Commission on a going-forward basis, for the simple reason that we had far better information than was the case in the rates during the rate setting for the other ILECs. So, we went forward and tried to, in fact, move forward on a clean slate without considering that.

Q I understand you are familiar with the CALLS Order that has recently been released from the FCC?

A As much as I could be reading it over the weekend, yes.

Q Can you tell us what the impact of that may be on

BellSouth's proposal from your view point?
A From my view point the impact is more at a high level and more philosophical in that the FCC in that Order is saying that we do not have a perfect order in this case but the time has come to move forward and remove implicit subsidies and make those subsidies explicit, and to make every effort possible to move towards a cost basis or a market cost. And it is time to stop, basically, haggling over these things and let's make a move forward. That any move forward is better than continued inactivity.
Q And from your view point as a management consultant, do you agree with that?
A Absolutely.
Q Is it your testimony that the FCC's adoption of the CALLS II proposal makes this plan, as proposed by BellSouth, more attractive for adoption in Kentucky?
A I think it lends additional credibility to making the kinds of moves that we proposed in the report, yes.
Q Does the plan as adopted by the FCC make

continuation of the current Price Cap Plan of BellSouth's more or less attractive?

A I think it makes it less attractive in that some of the uncertainty and the hindrances that were there and that let us, during our report, to even negotiate and haggle among ourselves as to what should be done are no longer there. The path is much clearer at this point as to where federal action is going and I think that says now the door is open for state regulators to take similar action.

MS. DOUGHERTY:

Thank you, Mr. Fowler. I have no more questions.

MR. KITCHINGS:

No questions.

CHAIRMAN HELTON:

Thank you Mr. Fowler. Are there any other matters? The transcripts will be ready on the 20; is that correct Vivian?

COURT REPORTER:

It will be filed on the 21st.

CHAIRMAN HELTON:

Be filed on the 21st. Do the parties wish to file post hearing briefs? Do you see the need for post hearing briefs?

MS. CHEUVRONT:

Unless you feel it is necessary, we don't.

CHAIRMAN HELTON:

Mr. Kitchings, Mr. Mershon?

MR. KITCHINGS:

I'll defer to Mr. Mershon on that one.

MR. MERSHON:

I think with where we stand now, if you don't think we will need to file a brief, I think we would like to look at the transcript. Like I say, right now we probably wouldn't, since Ann is not filing one I don't believe we need to add anything more to this.

CHAIRMAN HELTON:

So then--

MS. DOUGHERTY:

We had a couple of items that you all were going to produce.

MR. MERSHON:

Yes.

MS. DOUGHERTY:
Can you provide those? You don't need the transcript to provide those I assume?
MR. MERSHON:
No, we do not. Assuming that we have it down what exactly--what exactly you want us to file, and I'm pretty sure we do. So, can we have a couple of weeks to get those in?
MS. DOUGHERTY:
Well, that would make the case submitted on the 21st for the Commission's decision; correct?
CHAIRMAN HELTON:
Unless Mr. Mershon decides that--he did not preclude filing a brief, so unless he does that it would not be submitted on the 21st.
MS. DOUGHERTY:
Do you want to just let us know then?
MR. MERSHON:
Yes, we will let you know.
MS. DOUGHERTY:
Okay.
MR. MERSHON:
Right now we don't plan on filing a brief.

CHAIRMAN HELTON:

If there are no further matters, we are adjourned.

(OFF THE RECORD)

CERTIFICATE

STATE OF KENTUCKY)
COUNTY OF FRANKLIN)

I, VIVIAN A. LEWIS, a Notary Public in and for the state and county aforesaid, do hereby certify that the foregoing testimony was taken by me at the time and place and for the purpose previously stated in the caption; that the witnesses were duly sworn before giving testimony; that said testimony was first taken down in shorthand by me and later transcribed, under my direction, and that the foregoing is, to the best of my ability, a true, correct and complete record of all testimony in the above styled cause of action.

WITNESS my hand and seal of office at Frankfort, Kentucky, on this the 19th day of June, 2000.

VIVIAN A. LEWIS
Notary Public
Kentucky State-at-Large

My commission expires: 7-23-01

Vivian A. Lewis
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I, David Riley, Editor of the Kentucky New Era, paper of general circulation, printed and published at Hopkinsville, Kentucky, do solemnly swear that from my own personal knowledge, and reference to the files of said publication, a 6.00 inch advertisement for Legal Notice was inserted by Initiative Media/Bell South in the Kentucky New Era, May 24, 2000.

Dh Rly

Editor

Subscribed and sworn to before me this 1st day of June, 2000.

Sheryl B Ellis

Notary Public
Christian County, Kentucky

My commission expires 6/10/02

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10. Legal Notices

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E.C. Roberts, Jr.
President - Kentucky Division
BellSouth Telecommunications, Inc.

The Paducah Sun

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DATE: May 24, 2000

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**BellSouth Telecommunications, Inc.
Notice to Subscribers**

On December 17, 1999, BellSouth Telecommunications, Inc. filed an application to modify its Price Regulation Plan with the Kentucky Public Service Commission. The proposed modification included proposals to rebalance rates, reduce certain access rates charged to interexchange carriers, restructure the overall plan, focus future investments on broadband deployment to rural areas, and rename the plan. The Commission has established a docket, Case No. 99-434, to review the proposed modifications, and has scheduled a public hearing for June 6, 2000, at 9:00 a.m. EDT in Hearing Room 1 of the Commission's offices at 211 Sower Boulevard, Frankfort, Kentucky.

E.C. Roberts, Jr.
President –
Kentucky Division
BellSouth
Telecommunications, Inc.

INVITATION TO BID

The Marshall County Board of Education will receive bids for food, milk, bread and lunchroom supplies until 9:00 A.M. on Wed., Jun. 7, 2000 at the Superintendent's office, 86 High School Road, Benton, KY. Details and specifications may be obtained from the Superintendent's office. The Board reserves the right to reject any/all bids.

R.A.R.E. AUCTIONS R.A.R.E.

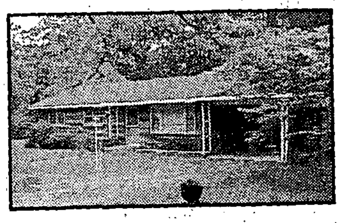
ABSOLUTE ESTATE AUCTION

**Sat., May 27th
10:07 A.M.
1562 Moors Camp Hwy.
• KY Lake Area**

LOCATION: Traveling Hwy. 68 East through Draffenville go 3 miles. Turn left onto Moors Camp Hwy. and go 1.5 miles. Auction on the right.

AT THE HOME OF THE LATE SHIELDS T. & JESSIE COLE

**1 to 3 Acres - 2 Tracts - Survey in Progress
Beautiful 1 Acre Home Site
Wooded 2 Acre Tract - Outstanding Building Site**



2 Tracts • 1103 Sq. Ft. Brick • 3 Bedroom • 1 Bath • Carport • Storage Buildings

Situated on a private 1 to 3 acre well located home site is this attractive 3 Bedroom, 1 Bath brick home. Lots of charm and an excellent floor plan including a 12.75 x 16 ft. Living Room; an 11 x 11.5 ft. Kitchen with breakfast counter, eye-level oven, counter top cooking; 12 x 10 ft. Dining Room that steps to the Patio/Carport. The Master Bedroom is 12.75 x 11 ft. Nearby is the 8 x 5 ft. tiled Full Bath. The other 2 Bedrooms are approx. 9 x 11 ft. each and the Utility Room is 11.5 x 6 ft. Other amenities include attractive, recently installed carpet, recent roof, new natural gas pack heating and cooling system, North Marshall water, 8.5 x 8.5 ft. Storage Room, 8 x 12 ft. storage building on skids and much more.

TERMS OF AUCTION: 15% deposit day of auction, balance within 30 days. A 10% buyers premium will be added to the final bid & included in the total contract price. Tracts offered separate and combined.

PERSONAL PROPERTY: 1 drawer Duncan Phyfe side table - cherry; Duncan Phyfe drop leaf dining table w/6 chairs; set of bookcase twin beds - 7 drawer dresser, 4 drawer chest; full size bookcase bed; chest & dresser; kitchen table w/4 chairs; 3 cushion couch; 2 recliners; 1-drawer end table; octagon end table; coffee table; 2 pedestal cherry desk; Singer sewing machine - cherry cabinet; pr bedroom lamps; table lamps; footstool; pr marble table lamps; prints; Zenith 26" color console theater; GE 4 head VCR; brass floor lamp; Sony audio - video control center; Sony CD player - 5 disc; Sony dual head tape deck; full bed; dresser; night stand; shelving; GE 26" color tv w/remote; Kenmore microwave; White Westinghouse refrigerator w/ice maker; recent Kenmore 80 series washer; Kenmore dryer; electric skillet; pressure cooker; flatware; set of stoneware canisters; Corning Ware; Proctor-Silex toaster; Dirt Devil vac; 2 flat irons; iron kettle; wall hangings; set of stoneware dishes; what nots; set of silver plate flatware; blender; mixer; pots & pans; books; novels; tv stand; much more!

GUNS: Browning - Belguim made 12 guage shotgun; Browning 40 cal. auto. pistol.

TERMS: Cash or check with proper ID.

**ROBERT ALEXANDER
REAL ESTATE & AUCTION CO.**
1860 Lone Oak Rd. Paducah, Ky. 42003
Phone (270) 554-5212
TOLL FREE 1-800-307-SOLD

R.A.R.E. AUCTIONS R.A.R.E.

113 SPECIAL NOTICE

MAXIMIZE your reach with your Sun Classified! Run the same line ad you're running in The Paducah Sun Classifieds for a FULL WEEK in EXTRA! and on SunSix Infonet for ... You'll find

113 SPECIAL NOTICE

2 EMPLOYMENT

224 DOMESTIC & CHILD CARE

AFFIDAVIT OF PUBLICATION

I, (name) Pat Meek ...., (title) Advertising Director

of (newspaper) Middlesboro Daily News ....

published at (city) Middlesboro .... (state) Kentucky

being duly sworn, state that (an advertisement was / advertisements were) published

for (account) Bell South ....

in said newspaper, as follows:

SIZE (indicate lines or inches)	DATES (month, day, year)
2 X 3	5-24-00

(Signed) Pat Meek ....

Newspaper Daily News ....

SWORN AND SUBSCRIBED to before me, a notary public, on this the ... 31 .... day

of ... May ...., A.D. 2000.

(SEAL)

Mary Katherine Gordon

Notary Public in and for

Bell .... County.

(State) Kentucky ....

My commission expires 3-14-02 .....

Inorganic contaminants, such as salts and metals, which can be naturally occurring or result from urban storm water runoff, industrial or domestic wastewater discharges, oil and gas production, mining, or farming.
Pesticides and herbicides, which may come from a variety of sources such as agriculture, storm water runoff and residential uses.
Organic chemical contaminants, including synthetic and volatile organic chemicals, which are by-products of industrial processes and petroleum production, and can come from gas stations, urban storm water runoff, and septic systems.
Radioactive contaminants which can be naturally occurring or the result of oil and gas production or mining.

In order to ensure that your water is safe to drink, EPA prescribes regulations that limit the amount of certain contaminants in water provided by water systems. FDA regulations establish limits for contaminants in bottled water which must provide the same protections for public health. Drinking water, including bottled water, may reasonably be expected to contain at least small amounts of some contaminants. The presence of contaminants does not necessarily indicate that water poses a health risk. More information about contaminants and potential health effects can be obtained by calling the Environmental Protection Agency's Safe Drinking Water Hotline at 1-800-426-4791.

Do I Need to Take Any Special Precautions?

Some people may be more vulnerable to contaminants in drinking water than the general population. Immuno-compromised persons such as persons with cancer undergoing chemotherapy, persons who have undergone organ transplants, people with HIV/AIDS or other immune system disorders, some elderly, and infants can be particularly at risk from infections. These people should seek advice about drinking water from their health care providers. EPA/CDC guidelines on appropriate means to lessen the risk of infection by Cryptosporidium and other microbial contaminants are available from the Safe Drinking Water Hotline at (800)-426-4791.

Este informe contiene informacion muy importante sobre su aqua beber. Traduzcalo o hable con alguien que lo entienda bien.

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President - Kentucky Division
BellSouth Telecommunications, Inc.

NOTICE OF BOND RELEASE

In accordance with KRS 350.093, notice is hereby given that King Coal Company, P.O. Box 157, Bardstown, Kentucky 40004, has applied for a Phase III Bond Release on Increment No. 4 of Permit No. 807-0102 which was last issued on may 16, 1996. Increment No. 4 covers an area of approximately 2.67 acres of surface area.

The permit area is approximately 0.5 miles North from KY 66's junction with Straight Creek Branch Road and located 0.5 miles Northwest of Straight Creek. The latitude is 36 deg. 54 min. 13 sec.. The longitude is 83 deg. 36 min. 00 sec..

The bond now in effect for Increment No 4 is a surety for $4,200 of which 100% of the original bond amount of $4,200 is to be included in this application for release.

Reclamation work performed included: The area was graded and seeded with vegetation being fully established. This work was completed in the Fall of 1994.

Written comments, objections and request for a public hearing or informal conference must be filed with the Director, Division of Field Services, #2 Hudson Hollow, Frankfort, Kentucky 40601 by July 7, 2000.

A public hearing on the application has been sched-

The total surety bond now in effect for the permit is 50,300 dollars of which approximately 100 percent is to be included in this application for Phase III bond release.
Reclamation work thus far performed includes: Backfilling and grading, seeding and mulching to establish proposed vegetative cover. The final seeding was completed Fall, 1995.
Results this far achieved: Vegetation has been established as outlined in the approved permit.
Written comments, objections and requests for a public hearing must be submitted to the Cabinet to: Director of Field Services, #2 Hudson Hollow Complex, Frankfort, KY 40601. Requests must be received by July 7, 2000.
A public hearing has been scheduled for 11:00 a.m. on July 10, 2000 at the Department for Surface Mining Reclamation and Enforcement's Middlesboro Regional Office, 1804 East Cumberland Avenue, Middlesboro, Kentucky 40965. This hearing shall be canceled if the cabinet does not receive a request in writing, for a public hearing by July 7, 2000.

NOTICE

PURSUANT TO SECTION 424.120 and 242.340 of Kentucky Revised Statutes, Notice to Creditors, Administration has been granted by the District Court of Bell County upon the following estate:
RALPH MAYES, JR.
Deceased 05-07-2000
DAVID & ODIE MAYES,
CO-ADMINISTRATORS.
304 SECOND ST.
PINEVILLE, KY 40977.
All persons having claims against the above estate are notified to present same to the fiduciary verified according to law, not later than November 20, 2000.

THE COURIER JOURNAL & LOUISVILLE TIMES
INCORPORATED

STATE OF KENTUCKY
County of Jefferson

Affidavit of Publication

I, Judy Reece of THE COURIER JOURNAL and LOUISVILLE TIMES COMPANY, clerk of THE COURIER JOURNAL, a newspaper of general circulation printed and published at Louisville, Kentucky, do solemnly swear that from my own personal knowledge, and 'reference to the files of said publication, the advertisement of:

LEGAL 105-PRICE REGULATION PLAN

was inserted in THE COURIER JOURNAL as follows:

Date	Lines
05/24/00	35

Judy Reece
(Signature of person making proof)

Subsci.,oed and sworn to before me 25TH day of MAY 2000

My comm. expires May 25, 2002

Jerri Allison
Jerri Allison (Notary Public)

THE COURIER-JOURNAL
WEDNESDAY,
MAY 24, 2000

Courier-Journal Classifie[ds]

REAL ESTATE • AUTOMOTIVE • HELP WANTED • MERCHANDISE • S

2000 at the Chenoweth Run Cemetery, Louisville, Kentucky. Arrangements by the TROSTEL, CHAPMAN, & CHRISTMAS FUNERAL HOME, New Carlisle, Ohio.

Legal Notices 105

BellSouth Telecommunications, Inc.
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E. C. Roberts, Jr.
President-
Kentucky Division
BellSouth
Telecommunications, Inc.

date indicated above. Late bids shall be returned unopened.
"Minority/Women/Handicapped Business Enterprises will be afforded full opportunity to submit bids in response to the advertisement and no Bidder will be discriminated against on the grounds of race, color, religion, sex, age, national origin or physical disabilities."
The Louisville Water Company reserves the right to accept the bid deemed by it to be in its best interest, not necessarily the lowest bid; the right to disqualify bids from bidders not deemed to be qualified; the right to disqualify bids deemed to be defective and the right to waive defects in bids where such defects are not deemed significant.

Cindy M. Kowalski
Infrastructure Support Services Manager

INVITATION TO BID

Bid Number/Title: 00-23/Portable Storage Building
Bid Opening Date: Wednesday, June 14, 2000
Material or Service: The Louisville Water Company is requesting bids for a portable storage building for the storage of flammable gases and welding gases.
For any questions relating to this Bid, contact the Buyer, Lynn Humphrey, (502) 569-0875.
Sealed bids for the material or service specified above shall be received in the Purchasing Department, 550 S. Third Street, Louisville, Kentucky 40202, up to 11:00 A.M., Local Time, on the date cited above. Specifications are on file and may be obtained in the Purchasing Department.
Bids received by the correct time and date shall be opened and bids shall be publicly read.
Bids must be in the actual possession of the Purchasing Department on or prior to the exact time and date indicated above. Late bids shall be returned unopened.
Minority/Women/Handicapped Business Enterprises will be afforded full opportunity to submit bids in response to the advertisement and no bidder will be discriminated against on the grounds of race, color, religion, sex, age, national origin or physical disabilities.
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Lynn Humphrey, Buyer

REQUEST FOR QUALIFICATIONS

The Warrick County Department of Economic Development seeks qualified consulting firm to provide detailed feasibility study regarding possible Ohio River Port Development. Respondent must have significant experience in categories of research contained within the study. These should include: at least five years experience in the operation or construction of riverport facilities; previous conduct of marketing studies and market analysis of the use of port facilities by manufacturers; previous conduct of economic studies related to port operation, construction or development; previous experience in engineering related to the construction of a port facility; and, a working knowledge of environmental issues relating to the development of a port facility and the permitting processes that impact such development. Factors that will also be considered include: knowledge and experience in the recruitment or site development of major industries; and, knowledge and experience in financing of port projects and development or use of incentives programs. Responses are due by 12:00 Noon on Friday, June 9th. To obtain a copy of the Request for Qualifications document, contact:

Gary L. Gentry or Brian Hasler
Warrick County Department of Economic Development
Post Office Box 875
Newburgh, IN 47629-0875
(812) 858-3555, Fax (812) 858-3558
E-mail bizinfo@warrick-edd.org
Homepage: www.warrick-edd.org

The ... Agency does not discriminate on the basis of race, color, national origin, sex, religion, age or disability in employment or the provision of services and provides, upon request, reasonable accommodation including auxiliary aids and services necessary to afford individuals with disabilities an equal opportunity to participate in all programs and activities.

INVITATION TO SUBMIT REQUESTS FOR EXPRESSION OF INTEREST (RFI) PROPOSALS

The Tourism Development Cabinet, Appalachian/Kentucky Artisans Gateway Center Authority, Inc., intends to pursue a contract to develop and operate restaurant/food service concessions at the soon-to-be-developed Kentucky Artisans Gateway Center in Berea, Kentucky.
As such, the Commonwealth announces that it will entertain expressions of interest from entities for potential private sector development of restaurant/food service concessions and operations at the soon-to-be-developed Kentucky Artisans Gateway Center. For additional information, interested parties may obtain a copy of the Request for Expressions of Interest (RFI) by contacting: Nancy E. Brownlee, State Properties Branch Manager, Division of Real Properties, Bush Building, 3rd Floor, 403 Wapping Street, Frankfort, KY 40601, Phone (502) 564-2600.
It should be understood that this solicitation is merely a request to determine interest in developing and operating restaurant/food service concessions at the soon-to-be-developed Kentucky Artisans Gateway Center in Berea, Kentucky, and in formulating any Request for Proposals that may result from this RFI. There will be no contracts awarded based on response to this solicitation. Unless identified as proprietary, any information gleaned from responses to this request may later be utilized in the preparation of Request for Proposals for the Kentucky Artisans Gateway Center.
In order to be considered, letters of interest must be received in the manner described in the Request for Expressions of Interest (RFI) no later than 4:00 p.m. EDST, Friday, June 30, 2000, the the Divison of Real Properties at the address listed above.

INVITATION TO BID

Bid Number/Title: 00-34/8 oz Water Bottles
Bid Opening Date: Wednesday, June 7, 2000
Material or Service: The Louisville Water Company is requesting bids for 8 oz Water Bottles.
For any questions relating to this Bid, contact the Buyer, Lynn Humphrey, (502) 569-0875.
Sealed bids for the material or service specified above shall be received in the Purchasing Department, 550 S. Third Street, Louisville, Kentucky 40202, up to 11:00 A.M., Local Time, on the date cited above. Specifications are on file and may be obtained in the Purchasing Department.
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Lynn Humphrey, Buyer

filled with lots of good buys. Call

The State Journal

1216 WILKINSON BLVD.
Frankfort, Kentucky 40602
502-227-4556
Fax 502-227-2831

A DIX NEWSPAPER

AFFIDAVIT

PROOF OF INSERTION OF PRE-PRINT/ADVERTISEMENT FOR BellSouth Telecommunications

I, WARREN R. LUYSTER; do hereby certify that I hold the position of ADVERTISING ACCOUNT EXECUTIVE with the State Journal of Frankfort, Kentucky, and in such position have the responsibility for the publication of advertisements in said newspaper. I certify that the pre-prints/advertisements for the above named advertiser were inserted in the State Journal on Wednesday May 24, 2000

Signed Warren R. Luyster

Subscribed and sworn to before me in my presence this 01 day of June, 20 00.

Notary Public

My commission expires the 25th day of April, 2001.

Los Angeles 2, DC United 1

Sox (Sirotka 3-3), 8:05 p.m.

Thursday's Games

Anaheim (Levine 1-0) at Minnesota (Radke 3-4), 1:05 p.m.

Cleveland (Burba 3-1) at Detroit (Moehler 1-2), 7:05 p.m.

Seattle (Abbott 1-1) at Baltimore (Mussina 1-6), 7:05 p.m.

Toronto (Wells 7-2) at Boston (Schourek 2-3), 7:05 p.m.

Oakland (Heredia 5-3) at Tampa Bay (Yan 2-1), 7:15 p.m.

Texas (Loaiza 2-2) at Kansas City (Suzuki 1-0), 8:05 p.m.

N.Y. Yankees (Cone 1-3) at Chicago White Sox (Baldwin 7-0), 8:05 p.m.

Linescores

Tuesday's Major League Linescores
By The Associated Press
AMERICAN LEAGUE

Seattle	000 000 002—2	8	0
Baltimore	110 000 002—4	6	0

Meche, Paniagua (8), Ramsay (8), Mesa (9) and DWilson; Rapp, JMJohnson (8), Timlin (9) and CJohnson. W—Timlin 1-1. L—Mesa 2-3. HRs—Seattle, Buhner (9). Baltimore, BKAnderson (8), Baines (4), Ripken (8).

Toronto	101 100 000—3	7	0
Boston	100 001 000—2	9	1

Carpenter, Quantrill (6), Borbon (7), Frascatore (8), Koch (9) and Fletcher; PMartinez, Garces (9) and Varitek. W—Carpenter 4-5. L—PMartinez 7-2. Sv—Koch (10). HR—Toronto, TBatista (12).

Oakland	010 000 120—4	10	1
Tampa Bay	022 000 20x—6	11	2

year with only a few shinin moments. He was runner-up t Payne Stewart in the U.S. Open, an runner-up to Woods in the NE Invitational at Firestone after nearl making up a seven-stroke deficit i the final round.

It was a difficult year for Mick elson. The first half of the seaso his mind was on his wife, Amy, wh had a difficult first pregnancy. Th second half was an adjustment t fatherhood. There was little time f the kind of work he usually devot to his game.

"I analyzed my game and what needed to improve on," he said. " felt that from 150 yards in, I wasn getting the ball close enough. I wa n't making enough birdies."

Mickelson worked hard in th offseason, put his old Ping wedg back in the bag and started playi like the old Phil.

He is second on tour in puttin up from 20th a year ago. He leads birdie conversion at 37 percent, u from 33 percent last year, whi

of realignment was touched upon, but nothing will be decided until next year at the earliest.

"It's still very much up in the air right now. It's much too early to jump to conclusions," New York Giants owner Wellington Mara said.

"There seems to be inflexibility by owners who want to protect home-and-home rivalries," Ravens owner Art Modell said. "To separate the Redskins from the Cowboys would take an act of Congress."

In other news, the league approved the transfer of ownership of the San Francisco 49ers from Edward DeBartolo Jr. to his sister, Denise DeBartolo York.

Lindros

in an effort to avoid bringing at-risk players into the organization.

"We try to pick players who have not been in trouble before. Of course, that doesn't mean you won't get someone who gets in trouble later on," he said.

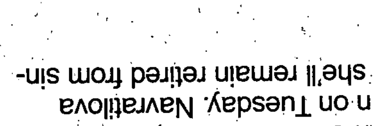
Harold Henderson, chairman of the NFL management council, unveiled a program that expanded the policy already in place.

Among the changes:

—A mandatory intervention process to support and counsel at-risk incoming players, as identified by the league-wide screening process.

—Professional counselors will teach coaches how to better identify at-risk players.

—The "Violent Crime Policy"



Associated Press

n Swardt in a 6-3, 7-5 dou-
n on Tuesday. Navratilova
she'll remain retired from sin-

aria Antonia Sanchez Lorenzo ainst Virginia Ruano Pascual of ain and Argentina's Paola Suarez.

In singles play Tuesday, Ai igiyama of Japan bested Spain's nchez Lorenzo 7-5, 7-5; Kristina andi of Bradenton, Fla., downed ovakia's Katarina Srebotnik 6-4, 6 (5), and Suarez beat Erika De

The Winchester Sun

Newspaper Publisher • Commercial Printer

20 Wall Street • P.O. Box 4300 • Winchester, Kentucky 40391 • 606-744-3123

AFFIDAVIT OF PUBLICATION

STATE OF Kentucky

COUNTY OF Clark

I, Ann Laurence (name) Adv. Manager (title)

of The Winchester Sun Newspaper in the aforesaid State and County, hereby certify that the attached advertisement appeared in The Winchester Sun on MAY 24, 2000 (dates).

/s/ Ann Laurence

Date 5-24-00

PASTE
ONE
CLIPPING
OF
AD
HERE

Subscribed and sworn to before me, a Notary Public within and for the State and County aforesaid, by

Sheila K Johnson

Notary Public

MY COMMISSION
EXPIRES: 9-11-2002

CLASSIFIED

Painting

Frazier Painting
Interior & Exterior
Comm. 745-0922

Pawn Shops

limitations or
discriminations.
ate laws forbid
iscrimination in
sale, rental, or
vertising of real
state based on
tors in addition
those protected
der federal law.
We will not
owingly accept
advertising for
estate which is
violation of the
All persons are
reby informed
at all dwellings
dvertised are
vailable on an
al opportunity
basis.

18 Finley Rd.
/3 br. 1 1/2 story
h full basement,
heat, less than 2
rs old. 745-2682

Beaumont Place
3 br, 2 baths,
rages, swimming
123,000 737-3336

3 br, 2 bath
ufactured home,
5+ acres, with 3
barns, city water,
9,900 744-3752

r upper, 2 story,
ew plumbing,
,000. 745-0476

v 3 Bedroom, 2
house for sale,
re lot $99,900.00
3 Redhouse Rd.
nond. 749-0870.

Real Estate

106 Fulton Rd.
3 br, new roof, vinyl & carpet. Large lot, $64,900. Milton & Associates, 225-9499

Recreational

included. 737-3224 or 737-5999

1 BR. $125/WEEK BILLS PAID, NO PETS. 744-1009

108 Holly, upstairs apt. $325. month $325. deposit 263-5660 after 4pm

111 Harkins, 3 br. duplex, 1.5 bath, garage, $650/month, $325 deposit, 1 year lease, no pets, 744-6937

1br upstairs apt. stove, refrigerator & utilities furnished. $95 week $250. deposit, no pets 744-0495

2 br $400. deposit, lease, no pets 744-4127

2 br, 2 bath duplex $600/month, $250 deposit, Colby Ridge. 744-1379

2 br. apt. refrigerator & stove furnished 744-6485 or 771-7638

2 br. duplex, Stamper Dr, satellite hook-up, $500/month 744-9827

23 Waveland, 2 br, appliances, fenced no HUD, 744-1674

29 Lincoln, 3 br. house accepting HUD. 744-5973

3 br, 2 bath house, 1 car garage, no pets

For Rent

Heather Lane, 1,650 sq. ft, 3 br, 2.5 baths, fireplace, living, dining, sunroom, furnished appliances, garage, storage room,

NOW RENTING one bedroom apartments for senior citizens in downtown section of Winchester. Close to churches and shopping district. Rented under HUD Section 8 Program. 744-0521 Beverly White Towers

Real nice, 2 br. apt, appliances furnish, c/a & heat, w/d hook-up, $450/month plus lease & deposit 744-1118

Townhouse, roomy 3 br., 2 bath with large trayed living room and master br. in Royal Oak. All appliances in eat-in kitchen, 1 car garage, 1400 sq. ft. $725 mo. with 1 yr. lease & 1 Mo. deposit. References. 744-0064.

Westside Homes has 3 br. units available Income restrictions. Available in the beginning of June Pick up application now at: 168 Westside Dr. Mon-Fri, between 1-5, Equal Housing Opportunity

For Sale

#1 TOP SOIL DELIVERED TO YOU 741-7595

18' Aurora pool, used 1 season 54" deep Jacuzzi sand filter

Storage

U-LOCK STORAGE
Fence, Fireproof
Resident Mgr.
744-7893

Yard Sales

❀❀❀❀❀❀
YARD SALE KITS
$5.00
Makes Your Yard Sale Complete!
Sold only to those who place Yard Sale Ads in
The Winchester Sun Classifieds.
❀❀❀❀❀❀

Franklin Ave
33
(Dalles Alley-in back)
Thursday, Friday & Saturday
8-?
Pool table, table & chairs, odd & end pieces of furniture, counter room divider, clothing, lots more

Holiday Road
114
Friday & Saturday
8-5
Childrens clothes, furniture, appliances, & lots of goodies
Canceled if Rain

Jean Ct.
45
Saturday
7 a.m. - 12 noon
YARD SALE
Boys clothes, 0-2T, girls clothes, 12 mo. - 5; playpen, high chair, stroller, baby swing, toys, misc. baby items.

Johnson Street
20
Thurs. and Fri.

Free

FREE: Good clean queen size mattress. 744-7677

FREE: to good home Shepherd/Grey Hound mix, blond

Public Notice

LEGAL
PUBLIC
NOTICE
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E.C. Roberts, Jr.
President
Kentucky Division
BellSouth
Telecommunications, Inc.
May 24, 2000

Public Notice

LEGAL
PUBLIC
NOTICE
PUBLIC NOTICE
OF SALE
On Wednesday, the 31st day of May, 2000

PUBLIC NOTICE
OF SALE

On Wednesday, the 31st day of May, 2000, on or about the hour of 5:00 P.M., The Peoples Commercial Bank will sell at public auction, pursuant to Kentucky Revised Status 355.9-504, to the highest bidder the following:

1996 GMA C1500 PICK UP VIN# GTEC19R2TE543751

The transaction will be on a cash basis or on prior approved terms and will be held at the Peoples Commercial Bank By-Pass Branch lot, By-Pass Road and McCormick Drive, Winchester, Kentucky 40391. The Peoples Commercial Bank reserves the right to bid.

Cindy Newsome
Loan Servicing Administrator
May 24, 25, 26, 2000

Public Notice

LEGAL
PUBLIC
NOTICE
PUBLIC NOTICE
OF SALE

On Wednesday, the 31st day of May, 2000, on or about the hour of 5:00 P.M., The Peoples Commercial Bank will sell at public auction, pursuant to Kentucky Revised Status 355.9-

THE RICHMOND REGISTER

AFFIDAVIT

I, Sherrie Hawn, Adv. Consultant
(NAME) (TITLE)

of the Richmond Register hereby state the advertisement concerning the BellSouth - Notice to Customers ad

did run in the Richmond Register of the requested date(s).

5-24-00
(DATES)

Sherrie Hawn
(SIGNATURE)

5-25-00
(DATED)

Sandra Mieta
NOTARY PUBLIC
SIGNATURE

2-13-01
(EXP DATE)

P.O. BOX 99 • RICHMOND, KY 40475

CLASSIFIED

- **To place your ad call** 623-1669 • **To FAX your ad** 623-2337
- **Mail or stop by:** The Richmond Register, 380 Big Hill Ave. Classified Dept., Richmond, KY 40475
- Mayme or Teresa will assist you with your ad.

- **Our OFFICE HOURS** 8 am to 5 pm Monday - Friday
- **DEADLINES:** For Monday Paper: 2:30 Friday • For Tuesday Paper: 2:30 Mo
For Wednesday Paper: 2:30 Tuesday • For Thursday Paper: 2:
For Friday Paper: 2:30 Thursday • For Saturday Paper: 11:45 F
For Sunday Paper: 1:00 Friday

Display Ads: 10:00 am day prior, except Sat., Sun. and Mon. Call display advertisi

- Cancellation deadlines are the same as above

Bell South Telecommunications, Inc.
Notice To Subscribers

On December 17, 1999, BellSouth Telecommunications, Inc. filed an application to modify its Price Regulation Plan with the Kentucky Public Service Commission. The proposed modification included proposals to rebalance rates, reduce certain access rates charged to interexchange carriers, restructure the overall plan, focus future investments on broadband deployment to rural areas, and rename the plan. The Commission has established a docket, Case No. 99-434, to review the proposed modifications, and has scheduled a public hearing for June 6, 2000, at 9:00 a.m. EDT in Hearing Room 1 of the Commission's offices at 211 Sower Boulevard, Frankfort, Kentucky.

E.C. Roberts, Jr.
President- Kentucky Division
BellSouth Telecommunications, Inc.

030 In Memoriams

Remember Loved Ones
American Cancer Society Memorial: Ann Kindred, 516 Baker Ct, Richmond, Ky. 623-2510, Ad: Red Hed Oil Co.

070 Legal

Charles N. Hammons, mailing address 455 Drowning Creek Road, Irvine, Ky hereby declares intentions(s) to apply for a Malt Beverage Retail Beer license, Retail Liquor Drink License(s) no later than 5/24/30. The business to be licensed will be located at 826 Health Street, Richmond Ky 40475 doing business as Yesterday's Lounge.
The (owner(s); Principal Officers and Directors; Limited Partners; or Members) are as follows.
Owner, Charles N Hammons of 455 Drowning Creek Road Irvine, Ky 40336...
Any person, association, cor-

130 Help Wanted

FACTORY LABOR
The Okonite Company is now accepting resumes from individuals wanting an opportunity to work for one of the finest employers in Madison County. This is full-time (not temp-to-perm) work. Successful candi-
dates must have a high school diploma (or equivalent), be able to work any shift and pass a drug screen.
This 120+ year old employee owned company offers a wide variety of benefits including-
*Health, life & dental,
*Insurance, Co. paid pension,
*401-K savings plan
*ESOP,
*Vacation ,11 paid holidays.
We are looking for a few good employees- are you one?
Mail your resume to:
The Okonite Co.,
1740 Berea Road,

130 Help Wanted

KENTUCKY RIVER FOOTHILLS
Is Now hiring drivers in Madison and Clark Counties. Must be 18 years of age, have a good driving record, GED, and a desire to work with persons of all ages. Position pays $6.00 per hour with excellent benefits. Applications can be obtained at 1621 Foxhaven Drive. Agency policy regarding drug and alcohol testing applies to this position.
Equal Opportunity Employer.
No phone Call Please.

BOOKKEEPER NEEDED
General ledger Bookkeeper needed for local Professional office.
Bookkeeping test will be given.
Please mail resume and cover letter to:

130 Help Wanted

Burger King of Berea is now hiring closers. Starting pay $6.25 Per hour.
Apply in person:
Burger King
100 Prince Royal Dr.
Berea Ky. 40403.

IMMEDIATE POSITION Open for full time Desktop publishing, computer graphics. Experience with Corel Draw and Adobe Pagemaker helpful. Please send resume to Kentucky Printing. P.O. Box 1355 Richmond Ky 40476-1355.

Dry cleaning and pressing. $7:00 to $9:00 per hour depending on experience. Full-time or Part-time. Apply 7am. to 11am.
Sno-White Laundry Mat
U.S. 25 North
Berea, Ky. 40403

130 Help Wanted

Customer Service Rep., retail sales & clerical responsibilities, professional outgoing attitude, 9-6, M-F. Call Apply at: Fastsigns 3450, Richmond Rd.
Lex., Ky. 40509.

Internet Business @ Home.
Earn Online Income. $500-$7500/mo. 1-888-216-1331
www.e-commbiz.net

"Low voltage electrician needed for exciting work in security, fire, cctv and access control. Good pay based on experience. Call 1-800-833-9249.

Experienced exhaust pipe benders, and general laborers needed, competitive pay. Creative Storage Buildings /Gabbard Signs/ 1-800-326-5725.

Berea Pizza Hut, Now hiring delivery drivers week nights, and weekends a must. Competitive wages, tips, and commission. **986-6161**.

HELP WANTED AT Mike's Warehouse Liquor, part time position. Apply in person 302 Big Hill Ave., or call 623-5932.

210 Miscellaneous For Sale

FOR SALE 5' finish mower, Ford 930 Asking $350. Call 985-0656.

Clearance wood storage buildings, 40% off. Call 625-1567, or 625-0473.

For Sale Blue brocadel loveseat. Good condition Asking $75. Call 624-3790

FOR SALE ELECTRIC Range, 3 month warranty. Call 986-7344.

FOR SALE REFRIGERATOR, self defrosting. 3 month warranty Call 986-7344.

For sale, 25 ft. travel trailer. Woods finishing mower, call 623-5315.

FOR SALE: Air Conditioner 5,000 BTU $95.00 Call 527-3498.

Washer & dryer, $85.00 each or $150 for both. CALL 527-3498.

FOR SALE 10,000 BTU Air conditioner, $195 Call 527-3498.

400 Townhouses For Rent

2 bedroom townhouse, 11/2 baths 306 East Irvine St. $350 per month. 1-800-240-7009.

2 BEDROOMS $520 & w/d hookups, dishwasher, all utilities paid, deposit.. No pets, Marietha Dr. 625-0225.

BEREA: two bedroom townhouse apartment. 1-1/2 bath. all appliances, central heat/air. $350 plus deposit. 925-9110

White House Village
Has available June 1st.,
Large & luxurious
2 bedroom, 2-1/2 bath, Townhouse., Fireplace, wet bar, built in book case, W/D hookup. Gorgeous Setting. **Small pets.** $650 month, Deposit. & Lease. **623-6318, 624-3742.**

410 Duplex For Rent

3 bedroom, 2 1/2 bath, 1 car garage duplex. Hillcrest. No Pets. 626-1276.

Burchwood Estates Berea ...

420 Apartments For Rent

APARTMENTS
For Rent 1, 2, & 3, bedrooms. All Utilities Paid **Call 623-0356**

Avaliable One Bedroom near EKU, $325. mo. $250 deposit. Includes utilities. No pet. Lease & deposit. 623-0984, 623-8481.

Berea & Richmond: 1 & 2 bedrooms, 1-1/2 bath, $300 deposit. $350 .& $410.mo. lease, No Pets. 624-1900.

Berea 2 bedroom, 1 bath, central heat and air $355 per month, deposit, lease, & references, call 986-0692.

BEREA: Studio Apartment for rent, appliances furnished, $350 month includes everything Call 986-8941.

HILLCREST 2 Bedrooms upstairs, w/d furnished, $385 monthly, 300 deposit, no pets. 624-3911.

AFFIDAVIT

The affiant, Michael G. Elliott, states that he is the Advertising Director for the Advocate Messenger and The Kentucky Advocate, newspapers of general circulation published in Danville, Boyle County, Kentucky.

He further states that an advertisement of BELLSOUTH

for 1 AD @ 7 INCHES amounting to $65.10

was published in THE ADVOCATE-MESSENGER

on WEDNESDAY MAY 24, 2000.

Michael G. Elliott
Advertising Director

Subscribed and sworn before me this 25th day of May, 2000.

Betty Smith
Notary Public
State-at-Large
Kentucky

My Commission expires 9-28-00.

Kansas town has strange big stones

By KELLY WIESE
Associated Press Writer

MINNEAPOLIS, Kan. (AP) — It's not the easiest place for tourists to find, but people who are determined to see big rocks will be impressed.

Rock City is advertised on billboards along U.S. 81 as a national landmark, enticing motorists to stop and see what all the hype is about.

(This place is not to be confused with the Rock City tourist attraction atop Lockout Mountain in Georgia, which is advertised on barns all across the South.)

The hype in Kansas is about a 14.5-acre park full of huge, gray rocks, all shaped in perfect spheres.

No one knows for sure how the 200 or so rocks wound up in Ottawa County. They were around long before the town that's built up around them.

The public park is about four miles southwest of Minneapolis, over a narrow bridge, up a hill and down a gravel road. There are signs pointing to the park, if travelers know where to look.

Some of the rocks are still partly buried in the ground. Others stand more than 12 feet tall, towering over their visitors. A few are the size of houses, more than 27 feet in diameter.

Geologists think the rocks were made of Dakota sandstone when the whole area was underwater. The theory is that over millions of years, the water dried up, and the surface eroded away, leaving the current landscape with rocks protruding through.

Others have their own theories. According to an Indian legend, the great big rocks are really petrified eggs, laid by the Thunderbird — now known as the Jayhawk.

Rock City has covered picnic benches and a one-room gift shop that's open from May until September. It draws about 5,000 tourists a year — more than double the city's population.

Minneapolis couldn't be prouder of its park full of boulders. There are brochures in Kansas hotels promoting the "gentle giants."

"Is Rock City just a 'bunch of rocks?' YES! It's a bunch of big rocks ... It's a BIG bunch of BIG rocks," the pamphlet proclaims.

Janel Kirn, who has been president of the Rock City Board of Directors for 15 years, also pointed out that Rock City was named a natural national landmark in 1976. It's cared for by the nonprofit group through memberships and admission fees.

The rocks are lined and worn with age, looking almost like dinner rolls that peel back layer after layer. Such rocks exist elsewhere, says Rex Buchanan, associate director of the Kansas Geological Survey, but the concentration in Rock City is unusual.

Still, he says, "They are more of a curiosity than they are scientifically significant."

Kirn, 60, just thinks they're neat. They remind her of the vastness of the universe.

"I feel like the Earth is part of a huge cosmic thing," she says. "Those massive rocks just kind of bring it all home."

Some people climb the rocks for a photo opportunity.

One rock, fondly referred to as "Picture Rock," is hollowed out in the middle, allowing people to stick their heads in and snap a photo. Children can even scramble through it.

Some rocks are etched with the messages of young lovers — one dates to 1937. Others were scratched in just last year.

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trial wiring, including motor controls, running conduit, pulling wire and machine control panels. Experience with PLC's a plus. We offer competitive pay and the following benefits package: Medical/Prescription Plan, Dental/Vision Plan, Company Paid Life Insurance, Vacations & Holidays and 401(k) Retirement plan with company match. Send resume to: Human Resources Department, P.O. Box-983, Somerset, KY. 42502
EOE

JANITORIAL

Barnes Services taking applications for FT & PT. Holiday & vac. pay, flexible hours & above average pay. Apply: 443 West Walnut Street or call 236-7231 Mon.- Fri., 8:30 am. to 4:30 pm. BSI is an EOE.

LOOK NO FURTHER

SDS SERVICE, INC. NEEDS APPLICANTS FOR TRAINING PROGRAM IN LOCAL MANUFACTURING FACILITY.

IF YOU CAN PASS A DRUG SCREEN, MAINTAIN A GOOD WORK AND ATTENDANCE RECORD AND COMPLETE A 6 WEEK TRAINING PROGRAM YOU WILL BE CONSIDERED FOR FULL TIME EMPLOYMENT AT THE NEXT HIRING SESSION.

APPLY IN PERSON
M-F 8:30 to 4:00
100 FACTORY LANE
DANVILLE
DANVILLE, KY.

SDS
SERVICE, INC.

LOOKING for outgoing hardworker with good people skills and with flexible hours. Please apply in person: **The General Store**
Highway 34,
Old Lexington Rd.
Call 936-9777.

tal office/$5.25 per hour. Call 792-3911.

ADVANCEMENT OPPORTUNITIES

Springfield Wholesale Supply is accepting applications for self-motivated, career minded individuals for positions of Counter Associates. Knowledge of the Wholesale business and product knowledge of plumbing, heating, cooling and electrical supplies is a big plus. These positions hold great advancement opportunities. Great benefits and competitive salary is available. Send resume with salary history to:

HAYCO, Inc.
Attn: HR Manager
P.O. Box-246
Springfield, Ky. 40069

Property Manager Needed

Experience preferred but will train the right person. Must have computer skills. Bring resume between the hours of 9:00 and 4:00 to McAnly Properties, Greenleaf Shopping Center, Suite 2, Danville. No phone calls please.

SEWERS, INSPECTORS

All departments needed.
Apply in person:
Creative Draperies
400 Delta Dr.
Nicholasville, KY

highly motivated, aggressive, self-starter and have excellent communication skills. Excellent starting salary, performance bonuses and promotional incentives. Company paid vacation, paid disability program, tuition assistance program, 401(K), and comprehensive benefits program available. Please submit resume and salary history to:

Attn: Human Resources Department (Code #TSML10)
2307 Frankfort Court
Lexington, Ky 40510

EEO/AA
M/F/D/V

US FOODSERVICE

QuickClicks
Making local online shopping easy!

Web Directory

Sandi Darland
Caudill & Assoc. Realtor
www.sandidarland.com

Caudill & Associates Real Estate
info@caudill@searnet.com

Liberty Tax Service
www.libertytax.com

The Advocate-Messenger Classified Ads
www.amnews.com
class@amnews.com

LEGAL

BellSouth Telecommunications, Inc. Notice to Subscribers

On December 17, 1999, BellSouth Telecommunications Inc. filed an application to modify its Price Regulation Plan with the Kentucky Public Service Commission. The proposed modification included proposals to rebalance rates, reduce certain access rates charged to interexchange carriers, restructure the overall plan, focus future investments on broadband deployment to rural areas, and rename the plan. The Commission has established a docket, Case No. 99-434, to review the proposed modifications, and has scheduled a public hearing for June 6, 2000, at 9:00 a.m. EDT in Hearing Room 1 of the Commission's offices at 211 Sower Boulevard, Frankfort, Kentucky.

E.C. Roberts, Jr.
President – Kentucky Division
BellSouth Telecommunications, Inc.

Messenger

P.O. Box 529
Madisonville, KY 42431
(502) 824-3300

AFFIDAVIT OF PUBLICATION

I, Crystal Carlton

of the Messenger Newspaper, published at Madisonville, Kentucky and having the largest general circulation of any newspaper in Hopkins County, Kentucky, do hereby certify that from my own knowledge and a check of files of this newspaper that the advertisement of BellSouth for legal was inserted in the Messenger on the following dates:

DATE: 5/24/00 AD DIMENSION 2x4 - Legal

DATE: _____ AD DIMENSION _____

DATE: _____ AD DIMENSION _____

DATE: _____ AD DIMENSION _____

SIGNATURE Crystal Carlton

Subscribed and Sworn to before me by Crystal Carlton

this 31st day of May ~~19~~ 00

Notary Public Julie Allen

My Commission Expires 5-21-04

ATHS

by Ovelia Utley Baker

DISONVILLE, Ky. — velia Utley Baker, 88, of nville died at 10:20 p.m. y, May 22, 2000, at Citizens Nursing Home.

was born in Hopkins on April 6, 1912, to the hard O. Utley Sr. and Belle Kirkwood Utley.

was a housewife and a of Silent Run Baptist in Rabbit Ridge, Ky.

was preceded in death by sband, William Garfiel on Aug. 26, 1979; two obert Baker and Charles two sisters, Virginia and Verna Mae Morrow; e brother, Richard O.

is survived by one son, Edgar Baker of nville; two sisters, Wyatt of St. Petersburg, d Emma Jean Clemons of

Flossie Nadine Geary

LIVERMORE, Ky. — Flossie Nadine Geary, 71, of Livermore died Monday, May 22, 2000, at Riverside Manor Health Care Center in Calhoun, Ky.

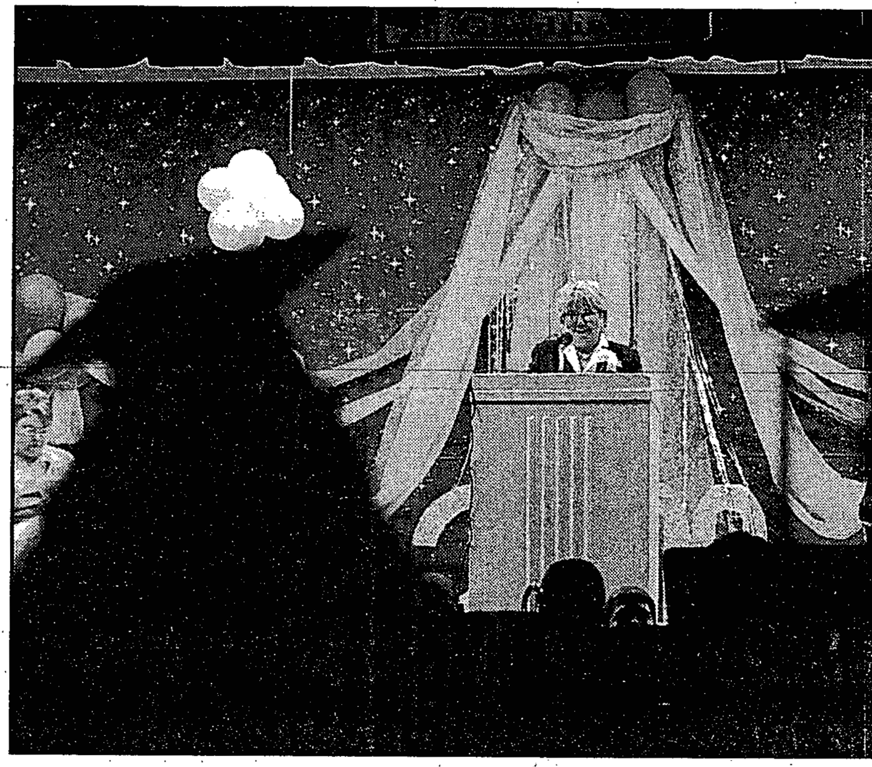
She was born in McLean County on Nov. 13, 1928.

She was a member of the Pentecostal faith.

She is survived by one son, Clyde Rowan "Dale" Smith of Evansville, Ind.; two daughters, Pamela Buckman of Melrose Park, Ill., and LaVonda Pierce of Owensboro, Ky.; her stepfather, Gilmore Howard of Livermore; three brothers, David Howard of Owensboro, Clarence Atkinson and Jimmy Atkinson, both of Livermore; two sisters, Minnie Ball and Sheila Ball, both of Livermore; 11 grandchildren; and 18 great-grandchildren.

Services will be 2 p.m.

Graduation



Marsha Studer Abell, a 1969 graduate of Providence High School, ... address Tuesday night during graduation cerem costs.

David A. Marshall, 26, Paducah, to no Kentucky regis-

pay restitution, court costs and fees.

BellSouth Telecommunications, Inc. Notice To Subscribers

On December 17, 1999, BellSouth Telecommunications Inc. filed an application to modify its Price Regulation Plan with the Kentucky Public Service Commission. The proposed modification included proposals to rebalance rates, reduce certain access rates charged to interchange carriers, restructure the overall plan, focus future investments on broadband deployment to rural areas, and rename the plan. The Commission has established a docket, Case No. 99-434, to review the proposed modifications, and has scheduled a public hearing for June 6, 2000, at 9:00 a.m. EDT in Hearing Room 1 of the Commission's offices at 211 Sower Boulevard, Frankfort, Kentucky.

E.C. Roberts, Jr.
President-Kentucky Division
BellSouth Telecommunications, Inc.

APPALACHIAN

News-Express

P.O. Box 802, 201 Caroline Avenue, Pikeville, Kentucky 41502 (606) 437-4054 or 432-0148
FAX (606) 437-4246

NEWSPAPER AFFIDAVIT

I, Marty Backus, Publisher of the **Appalachian News-Express** newspaper, published at Pikeville, Kentucky and having the largest general circulation of any newspaper in Pike County, Kentucky do hereby certify that from my own knowledge and a check of the files of this newspaper that the advertisement of Notice to Subscribers for BellSouth Telecommunications, Inc. was inserted in the **Appalachian News-Express** on the following dates:

DATE 5-24-00 PAGE NO. 8B COLUMN NO. 5+6
DATE ______ PAGE NO. ______ COLUMN NO. ______
DATE ______ PAGE NO. ______ COLUMN NO. ______
DATE ______ PAGE NO. ______ COLUMN NO. ______

SIGNATURE Marty Backus

Subscribed and sworn to before me by Marty Backus
This 24 day of May, 2000.
NOTARY PUBLIC Gwen Mullins
My commission expires: August 1, 2001

650-LEGALS

NOTICE OF
'UBLIC SALE
May 25, 2000 at
P.M., or there-
it, a 1988 Ford
) 4x4,
I1FTEF14H7JLA2
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NOTICE OF
ND RELEASE
accordance with
350.093, notice is
by given that
star Energy, Inc.
Tollage Creek
l, Pikeville, Ken-
y 41501 has ap-
l for a Phase III
l release on Incre-
t #1, 2, 3, 4 & 5 of
it number 898-
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650-LEGALS

dollars ($4,900.00). Approximately fifteen percent (15%) of the original bond amount of thirty-two thousand three hundred ($32,300.00) is included in this application for release.

The bond now in effect for Increment #2 of permit No. 898-0536 is a surety bond in the amount three thousand seven hundred dollars ($3,700.00). Approximately fifteen percent (15%) of the original bond amount of twenty four thousand four hundred dollars ($24,400.00) is included in this application for release.

The bond now in effect for Increment #3 of permit No. 898-0356 is a surety bond in the amount of fifty nine thousand six hundred dollars ($59,600.00). Approximately fifteen percent (15%) of the original bond amount of three hundred ninety seven thousand two hundred dollars ($397,200.00) is included in this application for release.

The bond now in effect for Increment #4 of permit No. 898-0356 is a surety bond in the amount of fifty two thousand six hundred dollars ($52,600.00). Approximately fifteen percent (15%) of the original bond amount of three hundred fifty thousand four hundred dollars ($350,400.00) is included in this application for release.

The bond now in effect for Increment #5 of permit No. 898-0356 is a surety bond in the amount of five thousand seven hundred dollars ($5,700.00). Approximately fifteen percent (15%) of the original bond amount of sixty nine thousand five hundred dollars ($69,500.00) is included in this application for release.

650-LEGALS

Reclamation work thus far performed includes: backfilling, final grading, seeding, mulching and tree planting completed in March of 1995. The establishment of the approved post-mine land use has been achieved.

Written comments, objections, and requests for a public hearing or informal conference must be filed with the Director, Division of Field Services, #2 Hudson Hollow, Frankfort, Kentucky 40601, by July 7, 2000.

A public hearing on the application has been scheduled for July 10, 2000 at 9:00 a.m. at the Department for Surface Mining Reclamation and Enforcement's Prestonsburg Regional Office located at 3140 South Lake Drive, Suite 6, Prestonsburg, Kentucky 41653-1397. The hearing will be canceled if no request for a hearing or informal conference is received by July 7, 2000.

5-17-24-31-6-7-4tc

NOTICE OF BOND RELEASE

In accordance with KRS 350.093, notice is hereby given that Marathon Coal Corporation, P.O. Box 129, Ashcamp, Kentucky, 41512, has applied for Phase III bond release on permit number 898-5151 which was last issued on September, 14, 1984. The application covers an area of approximately 2.49 surface acres and 50.00 underground acres for a total permit area of 52.49 acres, located 1.80 miles southwest of Ashcamp in Pike County.

The permit area is approximately 1.80 miles southwest of the intersection of Ky. Route 195 and Ky. Route 197 and located 0.10 mile south of Elkhorn Creek. The latitude is 37° 15' 22". The longi-

650-LEGALS

tude is 82° 27' 22".

The original bond in effect for the permit is a letter of credit in the amount of ten thousand dollars ($10,000.00). Approximately 100% of the original bond amount is included in the application release.

Reclamation work performed includes: backfilling and grading, seeding, and mulching to establish vegetation.

Written comments, objections, and requests for a public hearing or informal conference must be filed with the Director, Division of Field Services, #2 Hudson Hollow, Frankfort, Kentucky 40601, by July 7, 2000.

A public hearing on the application has been scheduled for July 10, 2000, 9:00 A.M. at the Department for Surface Mining Reclamation and Enforcement's Pikeville Regional Office, 109 May's Branch Road, Pikeville, Kentucky 41502. The hearing will be canceled if no request for a hearing or informal conference is received by July 7, 2000.

5-17-24-31-6-7-4tc

NOTICE OF PUBLIC SALE

On May 25, 2000 at 1:00 P.M., or thereabout, a 1995 Toyota 4x4 Pickup, S/N#4TAUN73C6SZ00 6400 will be sold to the highest bidder for cash "as is, where is" at Sunshine Auto Sales, 371 Bypass Road, Pikeville, KY under the terms of a Retail Installment Contract and Security Agreement. The Bank reserves the right to bid. The buyer will pay all taxes and transfer fees. For questions pertaining to sell, Please contact the Collection Department, Community Trust Bank, at 606-432-

650-LEGALS

1414.
Community Trust Bank
Collection Department
Pikeville, KY
Grover Tackett
Auctioneer
5-12-17-24-3tc

NOTICE OF PUBLIC SALE

On May 25, 2000 at 1:00 P.M., or thereabout, a 1996 Toyota Camry, S/N#4TF1BG12K3TU 793361 will be sold to the highest bidder for cash "as is, where is" at Sunshine Auto Sales, 371 Bypass Road, Pikeville, KY under the terms of a Retail Installment Contract and Security Agreement. The Bank reserves the right to bid. The buyer will pay all taxes and transfer fees. For questions pertaining to sell, Please contact the Collection Department, Community Trust Bank, at 606-432-1414.

Community Trust Bank
Collection Department
Pikeville Ky
Grover Tackett
Auctioneer
5-12-17-24-3tc

BellSouth Telecommunications, Inc.
Notice To Subscribers

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650-LEGALS

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E. C. Roberts, Jr.
President-Kentucky Division
BellSouth Telecommunications, Inc.
5-24-00

LEGAL SALE

Notice is hereby given that on Thursday, June 1, 2000 on or about the hour of 10:00 A.M. (local time), Whayne Supply Company, U.S. 23 South, Pikeville, Kentucky, will offer the following equipment at public sale to wit:

(1) - Caterpillar D8L, SN 53Y02546 and
(1) - Caterpillar D5C, SN 6PJ00763.

This sale will be at public outcry, to the highest bidder, and will be for cash at the time of the sale. Seller reserves the right to bid. The equipment may be inspected at Whayne Supply Company's place of business in Pikeville. Licensed auctioneer - Hindman Land Auction Company.

5-17-24-31-3tc

ADVERTISEMENT FOR BID

Published by News Publishing LLC

Park City Daily News

813 College St. P.O. Box 90012 Bowling Green, KY, 42102-9012

AFFIDAVIT OF PUBLICATION

Mr. Hank Mangeot
BellSouth
P O Box 32410
Louisville KY 40232

To Whom It May Concern:

Re: NOTICE TO SUBSCRIBERS

This is to certify that on Wednesday, May 24, 2000, the above mentioned notice to subscribers ran in the Daily News, a publication in and for the county of Warren, city of Bowling Green, state of Kentucky.

I further certify that all of the foregoing facts are true on such date aforesaid.

Dated this 31st day of May, 2000.

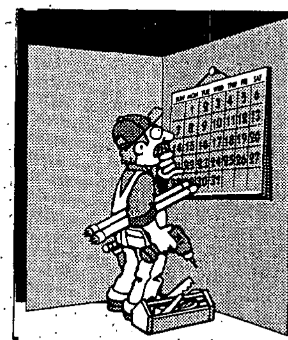
Sarah Nofsinger

Subscribed and sworn to before me this 31st day of May, 2000.

My Commission Expires: 9/6/03

Kimberly Ann Leach

Notary Public, KY State-At-Large



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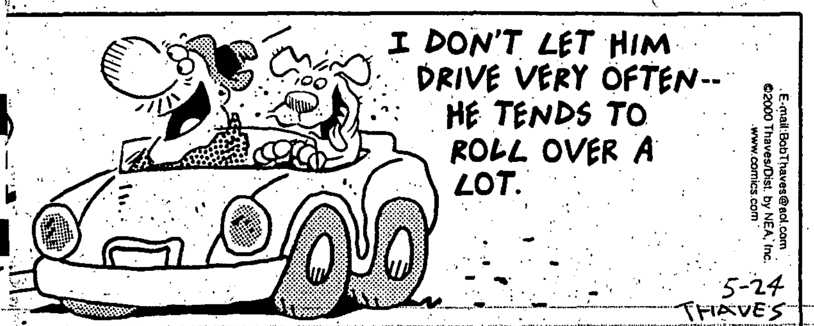

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#182
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#188

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BellSouth Telecommunications, Inc.
Notice To Subscribers

On December 17, 1999, BellSouth Telecommunications, Inc. filed an application to modify its Price Regulation Plan with the Kentucky Public Service Commission. The proposed modification included proposals to rebalance rates, reduce certain access rates charged to interexchange carriers, restructure to overall plan, focus future investments on broadband deployment to rural areas, and rename the plan. The Commission has established a docket, Case No. 99-434, to review the proposed modifications, and has scheduled a public hearing for June 6, 2000, at 9:00 a.m. EDT in Hearing Room 1 of the Commission's offices at 211 Sower Boulevard, Frankfort, Kentucky.

E.C. Roberts, Jr.
President-Kentucky Division
BellSouth Telecommunications, Inc.

AFFIDAVIT OF PUBLICATION

Laurie White of Owensboro, Kentucky being first duly sworn, says that she is Credit Coordinator of the Owensboro Messenger-Inquirer, Inc. a newspaper printed and published in the State of Kentucky, County of Daviess, and that the advertisement is a true copy which has been published in the Messenger Inquirer on the following dates, viz: May 24th, 2000.

Laurie White

Laurie White

Subscribed and sworn to before me, a Notary Public within and for the State and County aforesaid, by Laurie White to me personally known, this 31st day of May, 2000. My commission expires the 27th day of January, 2001.

Carol Sue Trautwein

Carol Sue Trautwein

County of Daviess
Notary Public State of Kentucky

end. When you're focused, you accomplish a lot. Tonight: Holiday.

Cancer (June 21-July 22)
★★★★ There's a lot going on, and you might be challenged to get a situation under control. Understand where another is coming from; take

Tonight: Off to the gym.

Libra (Sept. 23-Oct. 22)
★★★★★ You are clearly in the mood to frolic and have fun. Others join in, even at work. Let your sense of humor come out. Be easygoing. Reach out for another at a distance. Don't take

★★★ Use your instincts when dealing with others. You gain if you handle a financial matter quickly and effectively. Recognize an opportunity; dive in and make it so. Your financial ideas pay off. Go for what you want, even if it means more work. Tonight: Pay

NOTICES | NOTICES

BellSouth Telecommunications, Inc.
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E.C. Roberts, Jr.
President - Kentucky Division
BellSouth Telecommunications, Inc.

5/24/00

BEFORE THE

KENTUCKY PUBLIC SERVICE COMMISSION

CASE NO. 99-434

RE: BELLSOUTH TELECOMMUNICATIONS, INC.
PRICE REGULATION PLAN

Pursuant to notice duly given, the above styled matter came to be heard June 6, 2000, at 9:00 a.m. in the hearing room of the Kentucky Public Service Commission, 211 Sower Boulevard, Frankfort, Kentucky; The Honorable B. J. Helton presiding.

COPY

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BEFORE THE
KENTUCKY PUBLIC SERVICE COMMISSION

CASE NO. 99-434

RE: BELLSOUTH TELECOMMUNICATIONS, INC.
PRICE REGULATION PLAN

APPEARANCES:

Hon. B. J. Helton
Chairman
PUBLIC SERVICE COMMISSION

Hon. Edward Holmes
Vice-Chairman
PUBLIC SERVICE COMMISSION

Hon. Gary Gillis
Commissioner
PUBLIC SERVICE COMMISSION

Hon. Amy Dougherty
Legal Counsel
PUBLIC SERVICE COMMISSION

Hon. Creighton Mershon
Hon. Langley Kitchings
601 West Chestnut Street
Louisville, Kentucky 40203
Legal Counsel
BELLSOUTH TELECOMMUNICATIONS

Hon. Ann Louise Cheuvront
Assistant Attorney General
1024 Capital Center Drive, Box 2000
Frankfort, Kentucky 40602-2000
PUBLIC SERVICE LITIGATION BRANCH

INDEX

CHAIRMAN HELTON:

Good morning, we are here in the case of the review of BellSouth Telecommunications, Incorporated, Price Regulation Plan, Case Number 99-434. Could we have appearance of the parties please?

MR. MERSHON:

Madam Chairman, for BellSouth Telecommunications, Creighton Mershon and Langley Kitchings, 601 West Chestnut Street, Louisville, Kentucky 40203.

MS. CHEUVRONT:

For the Attorney General's Office, Ann Louise Cheuvront, 1024 Capital Center Drive, Frankfort

MS. DOUGHERTY:

For the Commission and Staff Amy Dougherty.

CHAIRMAN HELTON:

Is there any member of the public that would like to give public comment. Hearing none, Mr. Mershon, you may call your first witness.

MR. MERSHON:

As a preliminary matter we have the affidavits for the Commission that we have published notice of the hearing per the Commission rules, which I'd like to give to the clerk and we have also provided a copy of our testimony. We call Mr. Gerwing.

(WITNESS DULY SWORN)

MR. KITCHINGS:

Good morning, Chairman Helton, may I proceed?

CHAIRMAN HELTON:

Yes.

MR. KITCHINGS:

Thank you.

The witness, FRED GERWING, having first been duly sworn, testified as follows:

DIRECT EXAMINATION

BY MR. KITCHINGS:

Q Would you please state your name and business address?

A Fred L. Gerwing, 601 West Chestnut Street, Louisville.

Q By whom are you employed Mr. Gerwing?

A BellSouth.

Q Are you the same Fred Gerwing who caused to be prefiled some 19 pages of direct testimony and two exhibits?

A Yes, I am.

Q Do you have any additions or deletions or corrections to your testimony?

A I do have one correction to the FLG-2, the price-out for the rebalance. It is the attachment to the settlement in the year two Louisville rate, we are proposing to add 85 cents to the present rate to take it to $18.40, and we have a typo in the second column that says "$18.50," and it should say "$18.40."

Q Subject to that correction, Mr. Gerwing, if I were to ask you the same questions as contained in your direct testimony, would your answers be the same?

A They would.

MR. KITCHINGS:

Chairman Helton, I would move Mr. Gerwing's testimony into the record as corrected and we would make Mr. Gerwing available for cross-examination.

CHAIRMAN HELTON:

So ordered. Ms. Cheuvront.

MS. CHEUVRONT:

Thank you.

CROSS EXAMINATION

Q Good morning.

A Good morning.

Q Do you know how your other eight states are doing competitively wise?

A There is a lot of competitive activity in all of our states. Certainly, I think Atlanta, Georgia, and Florida we are seeing the most competitive activity, but we have many multi-state contracts with CLECs and the competitive activity is heavy and growing in all of our states.

Q In mainly business, or are you seeing it in residential area also?

A Well, you know, for purposes of 271 I think you have one definition; for purposes of your question, I'm going to say that we are seeing it in all areas because, clearly, with wireless services it has become very clear when you can purchase a telephone--I noticed the other day a Powertel add for $10 and pay $19.95 for a 100 minutes which includes a lot of intraLATA long distance and sometimes even beyond intraLATA long distance. There is obviously a lot of a folks that are substituting wire line for wireless services. Cable modems are--there is quite a bit of cable modem activity which is cannibalizing our additional line services and also taking--competitive with us for our ADSL services. So, I would say that there is quite a bit of activity, competitive alternatives for all of our services, both residence and business.

Q You are talking about the wireless service and how it is--you are seeing it--you've seen it as a competitor, there is legislation being proposed to make the incoming caller pay for the minute. From talking to residential or consumers that have wireless phones that is sort of irritating them. And they are saying they are not going to give out their telephone number, do you see that as going to make a difference in being competitive?

A Well, I mean, our--I think we will continue to see lots of wireless activity. I mean, that is the way it is in Europe and it certainly hasn't cut down on that business in Europe. So, you know, I really haven't studied the effects of caller pay since I'm not in the wireless business, I don't represent the wireless industry. But, no, I fully expect that to be--continue to be a very viable competitor.

Q We'll get back to the subject now, I was just curious about wireless in competition. In the AG's Data Request Number 2 you said there was no way that you could report--that you could figure out what your rate of return would be with what you report to this Commission, but, in the FCC, don't you still file a rate of return or a Form 492?

A Well, the--all of the financials are now done on a GAP accounting basis. We departed from Part 71 accounting some several years ago and I think it would be very difficult to try to say under traditional rate of return what your financials look like because so much of our behavior has changed under price regulation as opposed to rate of return regulation. There is a number of things

we've done that--such as promotions, our contract businesses has accelerated, accelerating our depreciation, which lowers our capital base. I mean, there is just so many changes that have been made to try to do a retro of our--
Q My question was do you file a form--a report or a Form 492 with the FCC which they refer to as a rate of return report?
A Since you have it there in front of you, obviously, we do, I'm not familiar with Form 492.
Q I can pass out a copy if you'd like--but it just--
A We do--
Q --on the form it shows that you had--in 1998 you did a 20.80% rate of return, which is an increase since 1994 and you have increased every year since 1994. If you would like to see it I do have copies of it.
A I wouldn't--
Q But that's not really the question.
A I wouldn't dispute that we have earned better since 1995.
Q Okay. Well, that is the question. This

report shows that you made 15.92 in `94. Since your answer says the Commission allowed an 11.26, I'm even going to assume that what you filed with the FCC may be different than what you would file here. And it may be for all your nine states and not just for Kentucky, so my question was have you done well since you have been under the price cap?
A Have we earned better in 1999 and the year 2000 than we did in 1995, certainly. That's what we were incented to do by this Commission. We were put under a Price Regulation Plan for just that purpose. Have we done a number of things under Price Regulation that traditionally were not allowed under traditional rate of return regulation in order to obtain those earnings, yes, we have. We have taken quite a bit of risk. We have done a number of things, bonus plans for our employees that were traditionally disallowed under traditional rate of return regulation. We've changed pricing that was not traditionally allowed under the rate of return regulation because

the risk of changing that pricing creating revenue requirement in other categories that the Commission didn't want to deal with at the time. We have, as I mentioned, we have accelerated depreciation which lowers our capital base. We tried to do that several times under traditional rate of return regulations because it increased short term expense, that was not allowed, even though obviously the long term benefit was there. So, you know, we have done a number of things in the marketplace to increase those earnings. And, thank goodness, we have, especially, as we find ourselves now having to completely rebuild our circuit switch network into a package switch network. You know, when you look at our stock prices, not increased since 1998, even though we have increased our earnings, clearly, financial markets are expecting the kinds of earnings. I noticed last night on--no matter which business channel you turned to last night--the topic was the AT&T/Media One combination approved yesterday by the FCC. And quickly following that was all the analysts saying that the market is not giving much rift to the cable and wire line companies because the emphasis nowadays by the investors is on the wireless side of the business and that our ability to raise funds to rebuild our networks, whether it is cable or wire line, into this package switch network is going to be a very difficult task without dilution to our earnings. And you see companies setting up wireless tracking stocks just to create a mechanism to be able to raise money to build these new networks and update networks. And so, you know, have we earned better, yes; are we earning at a point where the financial markets are willing for us to--to help us finance the kinds of network upgrades, it is looks very doubtful. And so, you know, I think the earnings have been commensurate. If you go back and look at our performance against the S&P 500--it is pretty simple to do, you go into CNNFN, you type in BellSouth, you pull up a three year trend, overlay the S&P 500 graph on that and you find that we have only maintained pace with the S&P 500 over the last three years. We have not out-paced the S&P 500, we run counter cyclical to the NASDAC on those same charts. You can overlay the NASDAC over that same time period. NASDAC goes up and we go down. And so, clearly investors are expecting-- investors are expecting rate of returns that we are earning and perhaps even higher.

Q And as you said, to receive this capability of earning better, you were to take some risks?

A Correct.

Q Did BellSouth support the competition--the idea of competition and help push for the 1996 legislation, maybe not necessarily in that form but--I know everybody had give and takes?

A Certainly. It became clear to us that the only way that we were going to have an opportunity to participate in the interLATA market was by having some legislation that broke the dam that we found ourselves behind in the court system. And so, yes, we helped draft that and push for that kind of legislation. You know, I think even in 1996 no one foresaw that--the value of data networks and what was going to happen in the data network market. Clearly, the real value in the interLATA market, while it is to be a full service provider and have a voice piece in your package, it brings very little value, just that piece brings very little value itself to the company. The real value is going to be to be able to provide the interLATA data piece. So, yes, we did see the need that we were going to have to have a competitive framework before we were going to get the opportunity to grow our business in the areas where the growth is coming from.

Q You are asking this Commission to eliminate, if I understand correctly, the productivity factor and instead allow you to deploy broadband in rural areas. Does broadband technology allow for data services?

A It is necessary--the kinds of speeds that broadband brings to make data services viable, yeah, I would say that you need to get to a broadband network.

Q And this area is growing, as you previously mentioned?

A That is where the market opportunity is, yes.

Q And that's where competition is going to be. What percentage of your territory already has broadband capability?

A Well, broadband comes in a number of different forms. A T-1 service could be considered to be broadband, and we sell T-1 services all across the state. Certainly, the Kentucky Information Highway, which we have put in place with a frame relay networks and the ATM network is a broadband capability and we deliver that through our partnerships with the independent companies and Cincinnati Bell and GTE to all the counties in Kentucky. So, we do have some form of broadband capability. Now, that serves primarily a restricted market that is out there today and T-1 services certainly aren't the kind of broadband capability that a residence can make access of. The kinds of high speed services that we typically are looking at today in the market to deliver to the mass market we offer only in Louisville. Let me correct that, we do have a partnership with Darwin Networks where we have deployed digital subscriber line service in Frankfort, Bowling Green and Pikeville on a trial basis. So, we have begun to look at the market opportunity outside of Louisville through that partnership.

Q Aside from what you are proposing to do in this filing, do you all have any plans to put broadband any place else since you already have that source?

A Presently we do not. The business plans as we see them today, and I think it is being reinforced by what we are running into in Frankfort, Bowling Green and Pikeville, the business plans and the demand that is there in the marketplace today wouldn't support us or any other provider going out there and putting a broadband capability, or in this case, digital subscriber line service in those markets.

Q This isn't what you are doing in Lexington or

attempting to do, I can't remember if you got your--
A Right now we are deploying primarily data services over T-1 capability in the Lexington market. We do not have digital subscriber line service deployed in Lexington.
Q Why should you be given incentives to invest in new technology and services? Wouldn't it be to your advantage and to the customers you want to keep and hopefully draw in, to invest?
A As I said, the business plans presently, if you try to do a business case on deploying this broadband technology outside of a very dense market, it doesn't prove in. You know, I think we are going to have to--we are going to have to do some very creative marketing to even hope to begin to take advantage of the kind of deployment we are offering. And yet, when you talk to the policy folks on the economic development side in the Governor's office, Aldona Valicenti, and those folks in the Information Technology Cabinet, they have clearly laid out a path of what their vision

is for Kentucky. And that requires to deploy broadband capability and that is why we--our first example of how we would deploy looks at the KCTCS sites and the Kentucky Rural Economic Development Act sites as the first targets of where we would deploy this service, because I think it is going to take a public/private partnership and their help, and their pushing along with us. Again, one of these creative marketing kinds of things to make this investment pay off for Kentucky. Will it pay off for BellSouth in the short run, there isn't any way that is going to happen; will it pay off for Kentucky big time short run and long run, I think Kentucky has got to do it to position itself. I'd like to add that, for example, if you look at Georgia, the Georgia legislature down there just passed some tax credits that effectively gives us the opportunity to recover the costs of this kind of deployment out in rural Georgia. There was a bill that was put together in the Kentucky legislature, it didn't go very far, to incent this kind of investment. So, I think if we are going to sit here for another two years and wait for the legislature to come back into session, that is not a very good alternative. I think, again, the folks in the Governor's Office, Doug Robinson, Aldona Valicenti, and those folks would tell you the opportunity is going to pass Kentucky by unless we act pretty quickly. And so, you know, we see this as an opportunity to rechannel the gains in our productivity instead of into rate reductions which, as the audit points out, are anti-competitive, let's rechannel those into this kind of opportunity for doing broadband deployment. And that's an important focus, we are not saying do away with productivity factor, I mean, that--that is the effect of what is happening here, but we are not saying give up capturing those productivity improvements. We are saying we are willing to share those productivity improvements but it ought to be in the manner of technology deployment. We feel that is important and the auditors that this

Commission hired felt that was important.

Q Have you already made any type of these investments in your multi-line business environment other than just in Louisville?

A Not outside of the Louisville market, no. Now, in that a multi-line business, a very large business, can take advantage of frame relay and ATM capabilities, you know, that is available to them. Quite frankly, most of our frame rely business though has been relegated to the Kentucky Information Highway and the participants of that highway, and that is the reason we have looked to broaden the Kentucky Information Highway capability for the kinds of participants that can utilize that network. We are not seeing a lot of that activity outside of the Kentucky Information Highway in rural Kentucky.

Q I'm not quite sure because I don't totally understand this, but, from my understanding, when you all used to build your network it was done on what I'm going to call a peak hour, or your busiest hour of the day. You had to be able to cover that?

A It would be engineered on the busy hour, busy day, yes.

Q You are moving away from that and going into a package switched network?

A Yes.

Q Does this allow for more flexibility?

A It is a totally different type of traffic engineering that you do with a package network as opposed to a circuit switch network. Clearly, digital capability and package switched networks create a whole lot of flexibility because they can carry all kinds of traffic, whereas, clearly, the circuit switch network today can't carry the kinds of traffic that is required in the data markets.

Q That was my next question, it will carry more traffic then. So, if the network can handle more traffic, does that drive down the cost per subscriber?

A I don't know that you want to make the cost comparison per subscriber between a circuit switch capability and the packet switch capability. A packet switching capability carries with it a certain cost per packet of data. The fact that that particular unit might be cheaper than a minute of use on the network is like comparing apples and oranges and, you know, building a packet network with a certain broadband capability brings its own cost. It is clearly incremental cost over and above what we now have in equipping the circuit switch network. The fact is that right now we are faced with building our packet switch network with a high potential. You have got the 706 proceeding having over our head. The fact that we are probably going to have to settle on an open access basis and at TELRIC prices. All of that brings a lot more risk to BellSouth's decision to deploy packet based networks than it does the cable industry or other industries, wireless industries, who don't have to sell on an open access basis, apparently, and don't have to sell at TELRIC prices. So, our opportunity and the risk for the ILEC, for the RBOC, BellSouth to deploy a packet switch network carries a lot more risk than it does our competitors.

Q Are the costs associated, you said it is apples and oranges, but could you say if the cost associated with the circuit switch network is greater than what would be associated with the packet switch network

A I don't think that that is a viable comparison. They each have their own cost, they each provide a certain kind of service to customers and, clearly, we can carry voice traffic on a packet switch network probably more efficiently than we can carry it on a circuit switch network. I think I said that right, carry it more efficiently on a packet than a circuit switch network. But voice-- the voice traffic is really of no consequence in this market. It is the data traffic that is where we have to manage our business toward. And so, you know, we are stuck with a huge anchor of how we handle traditional voice traffic over that circuit switch network and you have got all that investment setting there. And the fact is in today's market we have got to get our packet switch network deployed, up and running, if we are going to be competitive, because we are already well above 75% of the traffic flowing over the telecommunications network is data and it won't be long before it is in the high 90s. And so, you know, the voice traffic is inconsequential. I think it is very interesting to note, for example, in the WorldCom-Sprint merger where the discussions now are to pull this thing off. Quite frankly, I think they have pulled an excellent Brer Rabbit routine, don't drag me, you know, it looks like they are going to sell the long distance, the voice long distance piece in order to get the wireless piece of that business. So, you know, there is very little value in the voice market any more.

Q Could you explain to the Commission the technology that you want them to allow you to implement more rapidly than what you originally planned?

A Well, that is a very good point because I think the important thing for this Commission is that no one can say for certain what is going to be the best way to deploy broadband services over the next two to five year planning horizon. We have done our analysis and put on the table that if you were to deploy ADSL to the 31 counties and the wire centers that we have used as an example, and we have built the case based on that deployment, but we don't know that a wireless application--two years from now that a certain wireless application or perhaps a satellite application for delivering broadband might not be the more efficient way. What we are committing to this Commission is regardless of what that technology is, is that by the end of year 2002 we will have broadband capability in our wire centers that serve 75% of the access lines in this state. At this point in time I would venture to say that is probably going to be ADSL service. But I don't think the Commission ought to lock itself into a particular technology deployment or a particular time frame or a particular central office, I think what they ought to do is require a commitment that we reach a certain level and then let us work with Economic Development people--Cabinet with the KCTCS folks, find out--and find out which of the right central offices, the right counties to be in, and then let us choose the right technology at that given point in time. But we are committing to start deploying digital subscriber line service this year. As soon as this Commission approves this case we will spend up to four million dollars this year alone and that we will deploy in 31 counties by the end of the year 2002.

Q This probably goes once again against my lack of understanding, but it sounds to me like you are trying to raise the rates for voice service to your residential customers, yet have them pay for data services. But you said voice services--

A Well, I think, clearly, the public policy initiatives in this coun--in the United States, and the FCC has just dealt with that in the CALLS proposal, everyone knows that the circuit switch 1FR service is below its cost and that there are subsidies in the rate structure in both access and business services that are helping to pay for our universal service and to help pay the cost of those--the difference between the pricing cost in that market. And so, you know, what we are asking this Commission to do--because by law the Commission has to deal with Universal Service Funding issues and has to deal with how do you make--how do you entice competition into rural Kentucky, and you have to do that by shifting the subsidies out of the rates and creating the opportunity for any provider going into those markets to have an opportunity to share in that subsidy--so, what we are asking this Commission to do is to deal with the universal funding issues in a little different manner than a line item charge. And to--the plan we have put on the table we think would be a gradual transition of shifting cost to the local loop, as the FCC dealt with in the CALLS order, and it would do it on a gradual basis and at a lesser amount. We are willing to risk keeping in our rate structure in our competitive rates, we are willing to risk, if this Commission will take that risk with us, leading a certain level there so that the increase in rates to residential customers will be much less than it would be if this

Commission has to deal with USF on a line item basis.

Q Since you started talking about USF, I'll skip ahead a few minutes, a few questions. You are proposing to increase your residential rates and, from my understanding, to forego collecting from USF, but there hasn't been any order issued stating what you would collect or even if you would collect yet from this Commission?

A Well, I think the Commission did a preliminary order and if you look at the--if you just make a run at the synthesis model that synthesis model would say that there is potentially 90 to 100 million dollar fund here in Kentucky. If those monies would be collected on a line item against the ILEC revenues, you are looking at something above $4 and change. If you decide to collect that from the revenue base of all providers in the state you are looking at something above $2 and change. So, you know, I think just a preliminary look, and the Commission in their order said, this is what we see, is there a more creative way to deal with this. I think the auditor looked at some of these issues when they spent six months with us and came up with a framework--defined a framework. We built on that framework in this plan and that framework has been confirmed with the CALLS order. So, I think it is the appropriate--I think it is an appropriate approach.

Q But we've seen the USF change between the time they issued their order, just what the FCC lowered was substantial, so it could possibly change even from their order?

A Well, I think you also have to look at whatever that might be. Let's say it is only a $1.50 or a $1 when that USF line item goes in, the present plan would say at that particular point in time BellSouth could begin increasing residential rates at the rate of 10%. Our plan doesn't do that. Our plan has a minimal rebalance of 10% in four of our rate groups, 85 cents in our Louisville rate group, which is a much smaller percentage. And, so, you know, I think our plan handles it correctly.

Q Let's get back to your call centers. What exactly are your call centers going to be built for?
A Our call centers?
Q Didn't you propose to build some call centers in your proposal or did I dream that?
A I don't think so.
Q I guess maybe at the informal conference, or in something I read, it talked about another thing that you all proposed was putting before it Economic Development was call centers. Did I misread that?
A No. We do have an economic development tariff as part of this package which would look at the same locations and the same plans that the Kentucky Rural Economic Development Act looks at and for those companies we would have 10% discounts on their rates and waiving of installation charges to try and entice companies to locate by lowering their communication bill in Kentucky. Certainly, that has some value, in this plan, and we do have an economic development tariff. Now, what we are seeing is that I think the

opportunity for call centers, clearly, the KREDA Act entices businesses to locate here that are going to do a certain amount of business out of the state and call centers clearly fall into that realm. And, so, call centers have been an attractive business that the Economic Development folks have been able to incent to come to rural Kentucky. We want to help them with that.

Q Maybe that is what--and I misunderstood where you were coming from. On page ten of your testimony you talk about an adjustment to address subsidy, to get prices more in line with cost. But this is by your BellSouth calculation on what cost is, isn't it?

A I think if you use the FCC synthesis model which, you know, I think by any stretch of the imagination it is a TELRIC forward looking cost, it doesn't include any of our embedded cost. Even if you just use that, clearly, 1FR rates are below cost, especially after you go through your deaveraging--when you look at the deaverage requirement.

Q If I read the audit report correctly, it was on page 138 of the audit report, you say that even if you get a rate increase you will freeze rates, but then in your proposal that you filed it didn't say anything about freezing rates. Was there a change of mind or am I reading the audit report wrong?

A I don't know, let me look at page 138 and see maybe where you are talking about. Can you direct me to where the wording might be? It starts on page 137 is--is there a-- recommendation number two is about the rebalancing. The paragraph there on page 138 would be the first full paragraph on its own. During our discussions with the auditors they were researching what would be some potential trades and how would this plan work if we put a plan together. And we offered up, in the spirit of kind of a quasi negotiation, the kinds of things that we might be interested in doing, and that is what they put in the audit report are the, you know, some potential. You know, I think what we have said in our rebalances is that we would do these first two years and then rates would be allowed to increase at the rate of inflation. That is what is in our plan.

Q Let's assume that I agree residential rates should increase slightly. Don't you think maybe it might be a better idea to freeze them after a couple of years until we get a grasp on what is happening instead of just letting you raise them to inflation since you are employing technology that could possibly lower rates?

A I think in this plan the most important thing are the principles of the fact that productivity factor no longer serves its purpose. I think the FCC dealt with the productivity factor in recognizing it for the ruse that it is and saying, look, it is a transitional mechanism that works to lower rates. You know, they lost in the courts that it had any basis on total factor productivity basis and now they don't have to go back and defend that. But that is an important principal that the productivity factor and the way it is handled in the formula and the way we use it in the baskets is really no longer applicable. I think another principal of rebalance is important. I think access charge reductions, getting down, getting access charges down to the .0055 level is an important target. And then dealing with USF, and we think we have got a better way to deal with USF than kind of what is going on around the country. I think those four principles are important. How you go about implementing those four principles can be cut a number of different ways. We have put one plan on the table, we have tried to engage parties in this case in discussions about what is it that you want, what is it that you need to meet your needs and we think we have achieved that. You know, those are the kinds of things that we would have been happy to discuss with the Commission Staff at the informal conference or with you in settlement conferences. You know, I don't want to get in the position of negotiating here on the stand. I will say Vantage Consulting has, in their testimony, put in another way you could cut this thing. The principles are important and how you go about implementing this, whether you do a two year rebalance or a three year rebalance, and then you freeze rates for a year or you let them go at inflation, you know, there is a number of ways you could cut this thing. We think we have got a very effective way to go at it, and it meets four areas that we thought were very important to this Commission: Deal with USF, get broadband deployment, have stable rates and high quality service, and get access reductions. We felt that in looking at Commission orders, talking with the auditors, those were four important things that this plan does and we put one way to do it on the table.

Q So, you obviously don't think that since technology seems to be--the cost of technology seems to be decreasing that the fairest way for the residential rates would be to have a cost study scrutinized before rates are written?

CHAIRMAN HELTON:

Written?

Q --are raised.

A You know, how much more are we going to look at costs? I mean, we have had cost dockets galore and the Commission has got another one that it has to go through this fall on UNE prices. There isn't anybody in the industry any more that is willing to say that residential rates aren't below cost. I mean, the FCC has recognized it, I mean, that is just a fact of life that we are going to have to deal with. You know, why delay further? I think the CALLS order has an interesting paragraph in it on page 12. It is paragraph 27 and--in that order--and what they point out is it says, "The Commission"--the FCC--"not permit itself be gridlocked into inactivity by endeavoring to find precise solutions to each component of this complex set of problems. It is preferable and more reasonable to take several steps in the right direction, even if incomplete, than to remain frozen with indecision because a perfect ultimate solution remains outside our grasp." I mean, how much more studying do we need to do? The 1FR rates are below cost, there is subsidy in our rate structure, we need to get access charges down, and we've got a better way of doing it in this plan than utilizing the USF methodologies that are out there floating around. And we think the Commission should get on with it.

Q Is a switch just one cost?

A I'm sorry?

Q Like, if you are going to buy a switch, is that just a cost?

A Switch--a switch certainly has a capital expenditure component with it, but there is lots of expenses that go into maintaining and operating a switch and depreciation and all the rest that goes with it. Every dollar of capital we put in carries at a minimum about a 25 cents carrying charge.

Q If you buy a switch, does that include vertical services?

A Not necessarily. There is right to use fees that go on top of that, depending upon which package of vertical services you put into it. So, the switch itself isn't necessarily the sole factor.

Q If a CLEC purchases a switch from you under--
with UNE prices, doesn't that include the
vertical service? Or am I misunderstanding?

A No, presently I think there is, and the
Commission will clear this up in its cost
docket, I think we would say that there ought
to be some incremental increase to the port
charge for a given set of package of vertical
services. It could be argued that today the
port charge does include the features, the
vertical services that come with the switch.

Q Is it correct that the UNE services that you filed
with this filing are the lowest of any UNE
services you have filed

A I don't know, Mr. Rausch could probably
answer that better than I can. They are
lower, they are lower than the set of
deaveraged UNEs that are in the stipulation.
We are proposing a lower set of non-recurring
charges, both on interim basis until the
Commission can have their cost docket. The
audit pointed out that our UNE charges in
some areas seemed a little high, as did our

non-recurring charges. And being responsive to that audit and, again, bringing some value, we were willing to accept lower rates to try to get this plan approved. And, so, we have offered a set of lower rates in the interim which we thought would benefit the CLECs until the Commission can go through the cost docket this year.

Q And do I remember from the informal conference that you thought when they went through the cost docket they may even be lower, or am I dreaming?

A I wouldn't venture a guess as to what the Commission might do after everybody puts on their proof.

Q Do you think the CLEC should pay something toward non-recurring UNE costs then?

A Certainly.

Q You know, as I'm saying, and, once again, this might be a lack of understanding--

A Let it be noted I did answer yes to that question.

Q I know and I'm so proud. By lowering access and getting rid of the NTSRR, does that mean the IXCs aren't paying--are paying less and less towards being able to use your network?

A Well, the price they would pay would be less, but I think that it is a matter of getting non-traffic sensitive costs off of the access charge and put on the loop side, the end user. The FCC in its Order lays out lots of reasons why that should happen. I have to tell you that there are competitive alternatives, it is in our best interest also to get those rates down so that we can keep our network attractive and keep as much traffic as we can on our network. So, we would like a level playing field with our competitors. And getting access charges down and getting subsidies out of those rates, getting rid of this non-traffic sensitive cost out of those rates is important.

Q You said to get the most traffic out of your network, then how are they paying to use your network?

A They will still pay access charges to use the network.

Q I pretty much thought the goal was to get it down to virtually nothing?

A Well, the non-traffic sensitive element, which is clearly a subsidy element, I mean, it is defined that way as a subsidy element, that would be taken to zero. But they would still pay an appropriate rate for access services. And the other issue is to avoid arbitrage in this marketplace. We need to continue to move access charges toward interconnect rates so that someone is competitively neutral in that decision. We don't want interexchange carriers buying services from a CLEC paying--and getting the opportunity to arbitrage interconnect rates because there is a big difference between that and access charges. And, so, in this area of access charges we are seeing the same thing. I think it is a very important point in this case, the FCC pricing policies, whether it is on access charges, whether it is on UNE rates, they form kind of the gravity, economic gravity in this market. That is the protection in this market and that is where prices, that is kind of the gravity where everything is going to go to. So, you know, that is--we think that .0055 is the appropriate access charge, the right market rate to pay.

Q As we have seen in the last year the USF charges have decreased and I realize they are going to go up again because of this CALLS proposal but it has nothing to do with the inputs, just that they are increasing the pot. By raising the residential rates in lieu of USF, aren't you changing something permanent that could possibly be flexible?

A Well, our proposal doesn't even come close to getting it up to the level. In fact, if you just look at the last run of the synthesis model and if it does generate between a 90 and 100 million dollar fund, BellSouth would net out of that fund around $32 million. Our proposal rebalances rates over a two year period of 24 million and, so, there is still 8 million left in the rate structure that we are willing to risk out there in the marketplace as part of this trade off. So, you know, there is still a lot of room. So, even if the Commission at some point in the future decided, well, you know, the USF should have come down, we would still be under the level. We are leaving some money on the table in this USF situation.

Q But by doing it the way you propose that means none of your business customers are paying anything towards USF; isn't that true?

A No. Business customers also--if we get access charges down to the .005 level, we have taken care of the non-traffic sensitive piece there and there is still $8 million net difference between our proposal, and that means that businesses are paying eight million dollars somewhere in their rates toward USF. If you are just looking at the TELRIC forward-looking cost model, that is not to mention our embedded cost situation, you know, I think in all of this debate everyone has just decided that embedded cost don't play a factor and that is just something that is out there at risk in the marketplace, and that is kind of where it is coming out. But even in a forward looking

TELRIC model, we are leaving $8 million on the table in this proposal.

Q As we established earlier, you haven't seen the FCC's transcend telephone service report that was issued in March of 2000 but at the beginning of its universal service section it reads, "High cost support enables areas with very high costs to recover some of these costs from the support mechanisms leaving less costs to be recovered through state rates. In this manner the high cost support mechanisms are intended to hold down local rates and, thereby, further one of the most important goals of federal and state regulations, the preservation of universal service telephone service." Do you believe this statement to be true?

A Yes. And the CALLS proposal still has over $600,000,000 in high cost funds that is targeted in high cost areas. Clearly, you know, I--we are not going to begin to take care of the subsidy--some subsidy shifts somewhere that is supporting local rates. I mean, we don't get near cost with the proposal that we have got on the table. When you deaverage UNEs and you look at what the cost of providing service to some of these rural wire centers versus the 11.17 plus the two 10% increases we are proposing, I mean, they won't even come close. So, I think that there still needs to be subsidy support. The FCC has set it up where that subsidy support is portable. Our plan leaves a mechanism open where it can be portable, and there will continue to be subsidy on universal service still in the structures.

Q It depends on what you read on whether this CALLS proposal is so wonderful or not. But one way--either way no matter what you read BellSouth will probably receive more money from the FCC under the USF fund money?

A There is a $2.1 billion reduction that is part of this plan and, so, it is subject to check, but my feeling is that there is less money following the CALLS proposal coming to the companies than there was before.

Q Even though they have increased it to $650,000,000 from, what, three hundred and something?

A I'm probably going to have to let Mr. Rausch talk with you about the actual flows before and after from the high cost support basis. But keeping in mind that that high cost fund of $600,000,000 is a pittance. I mean, it is--it really doesn't--it is just a small portion of this whole plan.
Q Do you consider telephone a luxury item now days or a necessity?
A I can't imagine anybody wanting to be without communications. I think that depends on the individual. We know that there are some people--that there is probably three to four percent of people in our society that don't want a telephone. So for them it is not a necessity. I can't imagine being without communication services, three or four of them at any given time.
Q Okay. Here is the hard question. This is what it is all about. You have customers that don't qualify for Lifeline assistance, and because they can't afford it they don't make a lot of long distance calls, so most of these access charges aren't helping them any. And some companies are charging minimum fees, I understand AT&T says its

cost proposal is going to drop theirs, but I don't know if that requires everybody else to or not. They don't have a computer, they don't have vertical services, and from what I'm told from the people I talk to it is because they can't afford it. I've also been told that they are afraid that if their phone bill keeps going up that they are going to have to be a luxury item and no longer a necessity. You know, with the cost proposal this passing, from my understanding, the participants are now, so I'm going to drop the minimum fee, but the SLC is going up to the point that they are increasing Lifeline to help cover it. But it doesn't appear that it is going to be helping these POTS customers any. Do you have any ideas on what could be done to help these POTS? customers?

A Well, today if you qualify for Lifeline, of course, you can get up to $10.50 and that will go up a little bit for those subscribers to take care of the $3.50 to the $4.35 increase of the SLC. As you have pointed out, the PICC charges and the minimum usage charges that today flow through to those customers are being offset and the amount of money that even your basis POTS customer will save will be less even though the SLC is going up, those other charges coming off, it is still a savings to those customers. Affordability is an interesting issue and we have done several studies of affordability. Probably the one that comes to mind is when Jim Sharpe was still on the Commission and we used the University of Kentucky Economics Department to help us do an affordability study and we found some very interesting things about affordability. People would say that they couldn't afford telephone service yet they had cable TV, and would tell you that they were going to have to take their telephone out. I mean, affordability is a very relative term. I can't hardly believe that basis telephone service under a Lifeline plan where you can get $10.50 off and the rate we charge is--in rural Kentucky, for example, is around $13. And that has increased dramatically in the last couple of years, the telephone service has become more and more affordable. In fact, that has been backed up by the fact that penetration has increased. In Kentucky we have gone from mid 80s to the 90s in penetration of households. Also, from affordability standpoint, if you look at age, income, and education, it varies across that realm. An older person who makes a poverty level--the older population of poverty level has a much higher penetration of telephone service than do young mobile people at that same income level. So, affordability is a very relative term. I think telephone service is very affordable. Our plan doesn't change that equation. In fact, our plan, if the Commission by law has to deal with USF, our plan is a better way and a more affordable way to deal with it than a line item on their bill, plus it creates a lot less customers being upset over a line item on their bill. And, so, I think we have got a very interesting and unique way of dealing with it and it does not change the affordability equation.

MS. CHEUVRONT:

I'll start sending my complaints to you. That's all I have.

CHAIRMAN HELTON:

Ms. Dougherty?

MS. DOUGHERTY:

Thank you.

CROSS EXAMINATION

BY MS. DOUGHERTY:

Q Good morning.

A Good morning.

Q Under the current Price Regulation Plan there have been productivity adjustments; how often are those made?

A Once a year.

Q The date is July 1, correct?

A We file them July 1, effective August 1.

Q We have got another one coming up here shortly, right?

A Depends on when the Commission approves the plan.

Q Okay. At those productivity adjustment times, since the plans inception, how much

money has been returned to the customers? If you don't know exactly you can give me some ball park.
A I'd really rather not guess, I think we've got the number here in the room, Amy, if Steve or Jim one --I think we can get that number for you here very quickly.
Q Has money been returned, if I can use that phrase, at each adjustment period?
A Yes, it has.
Q And who has benefited from those monies?
A All citizens. I mean, if you lower business rates, you lower access charges, the benefits of that flow to all of the citizens in Kentucky. I think I can give you that number, I just remembered where I had it.
Q Thank you.
A The first one was 3,200,000, the second was 6,400,000, the third was 6,400,000.
Q Have there been four?
A I'm trying to look at this last one. I don't see the--I'm going to have to check on the last one, I don't know what it was.
Q Would you accept, subject to check, that it

was over seven million?

A Sure.

Q And for this proposed change to your Price Regulation Plan you are suggesting that instead of these adjustment periods, or adjustment monies, that the Commission instead allow you to deploy advanced services; is that accurate?

A I think there is a number of quid pro quos. Let me go back just a minute, Amy, just let me correct something. I see now the line, the non-competitive basket, I guess, where this productivity formula was operating, the first one was 3,078,000, 4,669,000, 5,539,000 and the last one was 7,847,000. So, those are the four. And those have been based on the low inflation rates that we have experienced over the last three or four years. If you consider inflation is going up, the opportunity for those kinds of levels to come down is pretty high. And I think whether or not we would sustain 1.8 rate of inflation like we have had, I think is questionable. But besides just the capital commitment for the infrastructure deployment there is lots of expenses that go with that, like, we don't know yet what kind of marketing expense we are going to have to go through, what kind of partnerships we are going to have to do, and to incent those partnerships with ISPs to sell RADSL product out there, I think it is clear we are probably going to have to come to this Commission and ask them to go to the FCC with us to do some kind of trial and how we can enhance and get ISPs to work with us out there to sell this ADSL service. So, you have got that situation, we have got the economic development tariff in this package which brings some value with it. We have got to lower UNE package, which also represents a rate reduction over the present status quo. You know, I think there is a number of value creation opportunities in this package other than just the infrastructure deployment. Clearly, that is the biggest one.

Q Over the last four years there has essentially been approximately $19 million returned to your customers through this

productivity adjustment; is that accurate?
A Yes.
Q Of this 19, how much has been in access reductions, just generally, do you know?
A No, I don't have that, but, again, I think we can probably get that for you, today.
Q A sizable portion, though, correct?
A Yes, it has, because we've asked the Commission to deviate from the plan rules in order to do a cross-basket pricing and to target access charges.
Q And what other reductions have been made
A There have been some, certainly, some business reductions in the 1FB rates, we dropping hunting rates, also, would be some other examples.
Q Okay, thank you. You mentioned under the Attorney General's cross that you were committing over the next year, if the Commission adopts this plan, to $4 million deployment of advanced services?
A Yes, that would be $4 million in the next six months. The following year we would spend another seven million and the following year another four or five million. So, to reach

those 31 offices in the next 30 months, we will spend capital expenditures of around 15 to 16 million or incremental dollars.

Q Does this 19 million that has been returned over the current plan, in your opinion, compare favorably to the 15 to 16 million you are proposing for the coming years?

A Well, I think it would compare favorably to the potential of what would happen in the future. The 15 million, as I say, the most recent calculations are carrying charges around 25%. So, the 15 to 16 million creates around $4 million a year in carrying charges, just on the capital expenditure alone. And, so, over the same four year period you would be looking at something--some $16 million would have been returned. So, it would be $3 million short from, I guess, we came up 19 million, yeah, we would have been $3 million short if you want to do a dollar for dollar kind of analysis here. So, it would have been a tad short under that kind of analysis. But that would--you would be ignoring the other value opportunities that we have got in this plan. We are not saying that our deployment is the only quid pro quo for this situation. We think there is other value opportunities in this plan and I think it opens up a potential that we could perhaps do more deployment. We would be more than willing to meet with this Commission, down the road, and look at how the business plans have worked and look at the deployment and see how we are doing and see whether there is other opportunities. I think one of the beauties of this plan is that we work with you all every day, day in and day out, and if at any time this plan is not producing what you think is a fair and equitable production, given this--I mean, we can always be back in this hearing room. And so, you know, it is not like--to me it is not like we come in and we do the deal and we walk out and go away and you don't see us for three years, and que será, será, you know. We are here, we work with you every day. If this plan is not producing exactly what we say it is going to produce, then we know that this is the ultimate place that we have to face.

Q So, is it your testimony that the access charges, the access rates are basically where they need to be for the foreseeable future if this plan is adopted?

A It looks, you know, when you look at the CALLS proposal it looks like the industry and everyone is agreeing that .0055 looks to be a good end gain for about five years and kind of see what the market is doing after that.

Q Is that rate that you mentioned of .0055 based on some agreed target or where does that come from? Why is that the number?

A Well, you know, I think it is a product of some gives and takes and looking at what all the industry felt was an appropriate combination of elements in access charges as getting to be toward cost based. I don't think AT&T and WorldCom would agree that it is cost based, that maybe there is still some more to go. On the other hand, I think we would say it has got to have some market value in it and I think it has been a product of negotiation over several years to arrive at that level.

Q Do you know what the current access rate is of that equivalent charge?

A Yes. it seems to me that it is--
Q Would you accept .008?
A No. With the NTSRRR in there it is much higher than that. If we eliminate NTSRRR it is .008, it takes about $14.5 million to do that, to get the--
Q To eliminate the NTS?
A Yes. And then you would be at a .008 rate level.
Q How much more does it take to reduce it to .0055 as you proposed?
A Around $2.5 million more. So, you are around $16 to $17 million it takes to get rid of--to get down to the .0055 level.
Q Back to the broadband deployment proposal a little bit. You have stated that you will deploy in 31 counties and covering 75% of the customers. Is that 75% of your--BellSouth customers in this state--
A Yes.
Q --or 75% of--
A Yes, we will serve wire centers, we will have broadband capability in wire centers that serve 75% of our customers.

Q Your customers?

A Yes.

Q You state at page five of your testimony that infrastructure commitment proposal places broadband capabilities in the markets that would not normally support the deployment of these services?

A Correct.

Q If the market won't support those services, why should they be deployed there?

A I hope it is a chicken and an egg situation. I don't think anybody knows what the rural market is going to produce. You know, we think in our--if we do this right with Economic Development folks and deploy these places where they are trying to entice businesses to come and that kind of effort, and that, for example, the KCTCS, there was just a recent article in <u>Business First</u> where KCTCS has joined with SISCO, there will be a press conference tomorrow, as a matter of fact, to do technology training in sites all across the state, all of which we have got covered with this deployment. The students that will be attending and going through that--I think there is going to be things that create the demand and as long as we figure out how to tap that demand, again, ours is a wholesale product, we are going to have to find ISPs and create an attractive package that will entice ISPs and create a business plan for them that they will join and partner with us in selling this product out there. I think that--you know, I think quite frankly it is a gamble. Why at any given time did somebody think we needed to do rural electrification of the country. Clearly, it wouldn't have supported private investment at the time but, I mean, look what it produced. And so, I think that is what everybody foresees for broadband deployment is--it is being deployed in places like North Carolina and Georgia because of various incentive packages or what have you. If Kentucky is going to be able to maintain its capability to draw businesses, create the educational opportunities, we are going to have to keep pace. You know, I don't know what the outcome will be. I think it has got very high risks. And the key is that you are not going to see COVAD or Blue Star or anybody else going there. There may be some municipals that for--that for the lack of anybody else coming under a kind of cooperative kind of effort will try to do it. I don't know if they will be able to keep up with the technology and the kind of expertise that it is going to keep to keep that kind of network together. But if BellSouth doesn't do it who is going to do it?

Q Is BellSouth able to do it because other customers outside of that given area are supporting the project? I mean, is that a form of subsidy?

A I don't think I could argue with you on that. Clearly, if we are saying let's capture some of this productivity effect and channel it toward a broadband deployment and see what that does for the economic development opportunities for the citizens of Kentucky, then that is productivity sharing that maybe could have gone in a different direction in terms of lowering some business rates. And I think that to me one of the objectives of this Commission is to be pro-competitive. You continue to cut the margins out of business rates and cut the margins--there are no margins in residence rates but even lower them even more. I mean, it is not a pro-competitive situation. And so, you know, what is a better way to capture that productivity sharing? But I couldn't argue with you that it is a form of subsidy.

Q So, the markets that you refer to that I quoted was the private capital market wouldn't support investment in that kind of region for that use but you are hoping that the Commission's order to do so will be enough of an incentive and you can use your broad customer base to support that in conjunction with some public partnerships; is that accurate?

A I think it is. I think it is going to take a lot of work on all of our parts to make this work for Kentucky and, you know, I--I don't know that we have a choice. I mean, if you talk to Aldona Valicenti and that group of folks, they would tell you we don't have a choice.

Q Your current plan, I'm sorry, your proposed plan, does not contain a lot of specifics about the broadband deployment, but you just testified here today about the four million for first year, seven, five and four million for the next years. Is this an actual commitment that you are making to the Commission in that these investments will be shown to the Commission each year at these levels?

A Certainly. Now, again, let's say in year three--what we are saying if we are going to deploy ADSL services in the counties that are left, it would take $5 million. But if I can find some partnership with SISCO and they are willing to put it out there for free through some partnership with us, I would come back and say to the Commission I don't intend to spend $5 million, I've found another way to do it. Now, at that point we might be able to engage in some discussions, well, you know

we feel like we'd like to see you do some productivity sharing here and we haven't gotten our fair share. We are open to those kinds of discussions. Do we maybe move beyond those 31 counties then and push that envelope in the market even a little further than that kind of opportunity. But I think part of the beauty of the Price Regulation Plan and this Transitional Regulation Plan is it incents us to do those kinds of things. My bet is that I will be coming to you in the year 2002 and showing you we are spending the five million.
Q Is it accurate that BellSouth is deploying now these advanced services where markets will support them?
A Certainly where we think the markets will support them, we think there is an opportunity in the business case where you have got the density. You know, I think Sony deployed Beta because they thought they had the markets that would support it too. Whether ADSL wins out over cable modems, whether it is an MMDS application, whether it

is a satellite or wireless application supplants ADSL on the market. Interestingly enough ADSL has kind of found a new life for ISDN because of some relationships there and how it is networked and provided. So, I mean, it is hard to say.

Q Do you know how much BellSouth is currently spending in Kentucky for capital deployment of advanced services?

A Let me spend a minute here. I want to say that the--that this year we will spend around 2.7 million in our base plan, not including the four million we are committing over and above for the first 10 or so DSLAMS we put in this year. We plan to spend one million next year in the Louisville market, and in year three it looks like we plan on spending about nine million.

Q So, the money that you quoted to me earlier are all in excess of that; correct?

A Yes. So, our total deployment ends up being something in the range of 27 million of which 15 of it will be outside of Louisville.

Q Okay. On page 11 of your testimony, line 24, you mentioned that the objective of this approach is to improve the technology and economic development position of the state. As opposed to punitive and arbitrary rate reductions associated with the current productivity offset, do you think that the Commission has penalized BellSouth because these rate reductions have been done in accordance with the current plan?

A I do have a change in my testimony that I'd like to make. I think to continue it on a going forward basis it does take on kind of a, we think you are earning too well, we just want the money, and they are--if you carry the present plan to its ultimate, let's just take the Louisville market, I think an argument could be made that everything in the Louisville market, except perhaps the 1FR, is competitive now. With UNE platform, the capabilities of our competitors, and, so, you eventually in the next--over the next two years in the Louisville market everything moves out of basket one. You are left with the productivity factor acting on 1FR rates, saying we are going to continue lowering 1FR rates. This seems to be arbitrary and doesn't make a lot of sense in this marketplace, and it doesn't match a pro competitive stance. And so, no, I wouldn't say there have been punitive in the past, but on a going-forward basis I think they take on that aspect.

Q You referenced that to continue with the current productivity offset would be saying you are earning too much and we need the money back. How is it--is your proposal for this advanced deployment in areas where, arguably, a private capital market would not support it are not the same thing, not saying you are earning enough that we want you to make some policy choices with this money?

A I think it creates opportunity. Whether we can capitalize on that opportunity or not remains to be seen and it seems to be the right public policy objective. I think it is important as a resident of Kentucky that we take a shot at getting broadband out there and seeing what we can do for--whether it is going to do for in the market. And it has got risk associated with it. I see this as being a different nature than just doing rate reductions on competitive services and below cost services.

Q But isn't what we are talking about really essentially a rate design issue, to use the term from years gone by, we are both looking at the industry years gone by and used to do rate cases, you would figure out your revenue requirement and then when you had excess monies you'd figure out a rate design for how you were going to lower your rates. I mean, aren't we talking really about the same thing, it is just a policy decision about whether they come from access and business lines in the past or advanced service deployment in the future?

A You know, I think--I'm going to say yes, and the FCC has clearly laid out that a productivity factor, or what they are now calling a transitional element, is a rate design rate of return, you know, kind of issue. We are going to drive prices down using this element until they get to a certain level and then the element goes away. So, you know, I guess to a certain degree to continue with a transitional element in our plan that drives prices down is a traditional rate of return kind of philosophy. Letting us capture some of our--letting us channel some of our productivity gains in that effort into broadband deployment is a different policy direction, and that is why I think that is appropriate.

Q Do you think that there are still areas of your rates in which prices could be driven down?

A Certainly. Yes, as I say, just on the basis of the synthesis cost model we are leaving $8 million in our--probably in our business rate someplace. We are willing to risk that in the market as part of our--again, you know, we are talking about what is the quid pro quo here if you want to get down to a dollar for dollar kind of mechanism. But, clearly, that is a big risk, us leaving eight million dollars out there in the rates that if customers come in and use the UNE platform at UNE rates, TELRIC rates, and our business rates, hunting, for example, or Touch-Tone for business services are driving up the effect of price, then that is subject to loss.

Q On page two of your testimony you state that the proposed Transition Plan is more pro competitive and provides pricing protection for those customers with limited alternatives. Could you please explain how the proposed plan contains more pricing protection for customers with these limited alternatives than the current price plan does?

A Well, first of all, the USF is dealt with in a different manner. And so, their rates--we don't think their rates go up as much under our plan as they do if our plan is not put into effect and the Commission has to deal with USF. It is a gradual rebalance rather than a one time line item. The present plan calls for 10% annual increase opportunity, the plan that we are proposing here drops it to rate of inflation after this rebalance is done. And, so, that is a much lower potential increase for those customers than the present plan would have in it. And as we talked about before, there might be other ways to cut that rebalance and what you do with rates there, but the principle is important. And, so, those are some ways I think that there is more price protection in the present--in the proposed Transition Regulation Plan than there is in the status quo.

Q But in the current plan, residential rates are frozen until there is a universal service plan. So, I mean, with the frozen rates certainly that is more protection than what you've got on Transitional Plan, is it not?

A Well, what that would say is this Commission never plans on complying with the 1996 Act in dealing with explicit and implicit subsidies and not going to do Universal service. I mean, I would agree with you, if this Commission says I'm not going to do universal service, I'm not pro competitive, I don't care if there is a line item on the bill and

I don't want broadband deployment, our plan doesn't bring anything to the table. If the Commission wants to accomplish those things, our plan gives you a way to do that.

CHAIRMAN HELTON:

Ms. Dougherty, we are going to take a break right now.

MR. MERSHON:

Thank you Madam Chairman.

(OFF THE RECORD)

CHAIRMAN HELTON:

Ready Mr. Gerwing?

A Yes.

CHAIRMAN HELTON:

Ms. Dougherty.

Q Thank you. Do you agree that the trigger point for having any residential rate increase under your current Price Cap Plan has not occurred?

A I think a case could be made that when the Commission implemented a Lifeline Plan that that was the trigger point. You know, it is not clear when you go back and read the initial orders and the Commission was talking about universal service protection, when we implement universal service, and at that time universal service consisted of a Lifeline. It was really kind of the concept. And, so, I think a case could be made. Now, we have decided it is not worth pushing that question, but I wouldn't want to categorically say that the trigger has not occurred. It seems to me that it is very clear that when the Commission implements USF, deals with it, then that trigger certainly has occurred, but I don't want to categorically say it hasn't yet.

Q Do you think that a case could also be made that there shouldn't be any residential rate increases until the high cost fund is implemented?

A I go back to are we going to delay, how long are we going to wait, when do you start the transition? The longer you wait the quicker it needs to be handled. Why not step into this thing on a transition basis? You know, we have put one plan on the table. Vantage has proposed perhaps some changes to that plan, you know, if you do the rebalance over two years, you do it over three years, do you do 10% this year and 5 and 5, you know? I think there is a number of ways you can cut this thing, but it strikes me that a gradual rebalance to something that we have got to face, inevitably, is the best approach. And the company is willing to risk some things to incent the process to get on with let's take a shot at it to try to move the thing along. So, you know, we certainly prefer action over delay.

Q You would agree with me in Case 97-074, you last proposed a residential rate increase to the Commission, they rejected that increase at that time; correct?

A Yes, and my understanding was based on that there wasn't clear understanding of what the cost nature was and that there was some feeling we needed to wait until some cost work was completed.

Q If that is the case, has the cost work been completed now so that you think the Commission should feel confident in moving forward with a residential rate increase at this time?

A It seems clear to me that the Commission has decided on a cost model. And when you utilize that cost model to look at the nature of cost in the residential market that there is a clear picture today that rates--that 1FR rates are below cost. And that, to get rid of subsidy, some kind of rebalance or USF line item has to be dealt with.

Q Let's talk about some cost issues. On page four of your testimony you have descried the two new objectives of the Transition Plan.

A Yes.

Q Number six is to permit BellSouth Kentucky retail rates to move toward incremental cost or market price. Have you determined the incremental cost for all of your tariff services?

A No, we have not.

Q Given that, how can the Commission be assured of accomplishing this goal?

A I don't know that the Commission will ever be assured that it has ultimately accomplished this goal. I think it is always going to be a moving target. Are residential rates today below cost? Seems to me even on a TELRIC synthesis cost model forward-looking methodology, yes, they are. Does the rebalance that we are proposing get them anywhere close to the--what is going on in those cost dockets and looking at this model, no, it doesn't. And so, I don't--you know, I think the auditors looked at the five objectives and said there is two more things that ought to happen to complete what the process is. One of those is the Commission ought to start a gradual rebalance, minimal rebalance, and certainly that is what this is. Will we ever fully accomplish item number six, I don't think so. And you all, as you said, you all have done this for a long time now, too, and to go through and try to do incremental cost studies on everyone of our products, it is, you know, it is kind of like the brass ring here.

Q What do you mean by market price, how is that going to be determined by you? How should it be determined?

A Again, I think market price would be a moving target. It is just something that you weigh decisions against. It is an objective that you weigh your decisions against. And you look out and you say, okay, what generally are competitors charging out there and I think you get a feel for a market price. As competition comes on and, you know, the one that comes immediately to mind, it is probably the most pressing on us, our primary rate interface services that we sell to ISPs. Our competitor seem to be selling that for around anywhere from two to four hundred dollars. Our price typically is a $1,000 or $1100. It seems the market price, and in determining that market price with PRI gets into the reciprocal compensation issue. That market price is someplace in there. You know, I think that is just one product. I think market price is a moving target, something that you always have to weigh on each individual case by case decision, how close are we. It strikes me that what forms market price for 1FR services is kind of determined by the UNE pricing philosophies and how that comes out. If a competitor can come in--a competitor is going to come into rural Kentucky and they are going to weigh what is the deaverage UNE platform versus what is resale--rate minus resale discount and they are going to choose. And then they will go out in the market based on the choice of one of those, put some kind of margin or markup on it that they want to be in the business for, and that will form the market price for 1FR service in that category. So, again, I think it is on a case by case basis. It is an objective, it is something out there to weigh your decisions against.

Q I'd like to talk about cost studies with you for a moment. In the response to the Attorney General's question number 7 you stated that there had not been any recent cost-of-service studies done. But then you relied upon the results of the BCPM model filed in Administrative 360 and said that that was the statewide average of $39.48; is that accurate?

A Yes, it is.

Q Is the average cost per line in the BCPM comparable to the basic rates as suggested or must additional revenues be included to have comparability?

A I mean, you know, this is the age old argument of how we set up the USF fund. Now, we maintain that universal service supports basic services and you ought to look at the revenues associated with basic services and weigh that against the cost. And that vertical services and the other factors ought not play a role in determining what kind of support you need to support basic services. There are others that disagree with that and say that providing basic service brings the market opportunities to sell these other services with them. So, you know, our answer--BellSouth's answer to that is that you should only consider the revenues for basic services, when comparing it against basic service costs to determine what support level is there.

Q In the May 1998 Order in Admin 360, did the Commission adopt the BCPM?

A It strikes me that you adopted the synthesis cost model but I'm not sure about that. Mr.

Rausch, I think, can answer those kind of details about the cost models.

Q Has the FCC continued to examine the appropriate cost model for a national USF?

A It strikes me that they are still looking at various kinds of inputs and that kind of thing and did not make that kind of final determination. It just goes on and on and on.

Q You would agree with me that this Commission adopted the HAI version, 5.0(A), for USF determinations; correct?

A At that point, but, again, I'd let Mr. Rausch speak to the cost models. It strikes me that you have also asked for input about the synthesis model, but I'm not certain about that.

Q If you want Mr. Rausch to answer this question that's fine, too. The latest of FCC models that were adopted, do these support your observations that rural rates are still below costs?

A Yes.

Q You have mentioned the Commission's cost docket that is pending, Administrative 382.

Why wouldn't it be better for the cost to be determined and examined in that docket prior to the changes that you have proposed here today?

A You know, again, how long does the search go on for the ultimate answer. I think we know enough today to know the timing of renewal of the plan, we filed the plan back in December that was filed following a six month audit ordered by this Commission. It embodies the record from that audit, the recommendations from that audit, it embodies and is reinforced by the recent FCC CALLS decision, it moves ahead with reducing access charges, it moves ahead rapidly with deployment of broadband capabilities. We know that 1FR rates are below cost to a greater extent than we are even off--that we are even making up with this. I see no reason why to wait. If broadband deployment is important, if reducing access charges is important, if getting our--keeping our pricing on a pro competitive basis is important, then we ought to go ahead and move ahead. Status quo and delay just puts off the benefits. I mean, that--and that is what the FCC said in the CALLS proposal. You know, everybody--you go --these same people brought up--folks brought up these series of questions and the FCC kept knocking them down saying we are delaying the benefits of some of this--of these proposals, we are delaying the benefits and why do that, and, so, let's get on with it. That was their opinion and I think that's where we are.

Q Let's talk a little bit more about your capital investment. How much capital investment has been deployed in Kentucky annually for the last three years; do you have that figure?

A No, I don't. I can tell you it has been between $140 and $160 million.

Q What types of investments have been deployed?

A It ranges all the way from POTS, basic line, outside plant, fiber, circuit, switch, data, it is all levels of telecommunications services.

Q What is your current capital budget?

A For the year 2000?

Q Yes.

A It is probably going to be in the--the budget itself is probably in the $130 million range. But I think given the last forecast I saw where access lines are down from last year but they are running ahead of forecast, and, so, we will probably over spend that budget some.

Q How much of this $130 million deployment accounts were broadband?

A It is what I mentioned before.

Q The 2.7 million

A Let me confirm for you. Yes, for the year 2000 2.7 million. And we will be adding, as I said, we will be adding 3.8 million to that in this last six months if the Commission approves the order, approves the plan.

Q You talk about the general assembly and some of the work done there, was there a bill proposed to expand local EAS, extended area service?

A It seemed to me we faced several efforts in the legislature this year to deal with that,

yes.

Q Are there other states that BellSouth has been required to provide county-wide or similar calling scope type plans?

A Yes, we have county-wide service in Tennessee and Georgia.

Q What would you think of the idea of investing substantial level of capital to achieve county-wide calling in Kentucky?

A Well, first of all, we do have even broader than county-wide calling in Kentucky. Our area calling service plans target communities of interest, very often that is a county-wide kind of situation, sometimes it is not. I think the beauty of our plan is that we look at communities and we target community of interest, those are the kind of plans we put in. So, we do have a county-wide service. To go to a flat rated EAS and spend capital to do that is a much bigger waste and brings no value to the consumers. They think it might, I mean, if you listen to a legislator and at least on the surface they think it brings a lot of value, but it wouldn't--I don't think--I think it brings even less value than the potential of our broadband deployment, that would be a total waste of infrastructure. I think would we be willing to sit down and talk about, you know, if customers have particular needs to call a county seat and is there a way to do that, through a rate structure kind of approach as opposed to doing capital investment, making a plan available for customers on an optional basis as opposed to flat rate mandate across all customers, we are certainly willing to sit down and talk about those kind of plans. You know, if our customers are demanding those kind of services, we want to figure out how to address them. For the most part over the years we have been able to do that through our area calling service efforts. And, you know, if we need to focus those a little more, at little different price levels, we are willing to talk about that. But to just--to put capital out there to deal with county-wide plans and the level of expense that would take would be--I think

would be a huge mistake.
Q Okay.
A You know, some of the county-wide issue has been precipitated because of LATA boundary problems. Hopefully, we are within 18 months where the LATA boundary problem goes away. And so, there are solutions, there are rate solutions and market solutions on the horizon that would say to spend money on infrastructure deployment for that purpose would be a real waste.
Q The 18 months you referenced, is that BellSouth's projection for meeting the standards of Section 271 in Kentucky?
A That would be a real outside date. In talking with legislators I don't try to be too optimistic. You know, the present schedule is that the Florida test would be finished by November, that the cost docket would be wrapped up this year and, hopefully, we would be back talking with this Commission in 96-608 the first quarter of next year and would get a decision sometime later. So, I mean, it could be as early as 12 months, but I don't want to mislead a legislator as we are

trying to talk to them in terms of what the potential solutions are. So, I've been using an 18 month period as an outside date for when we could put some kind of plan on the table to deal with some of the LATA wide--LATA situations in counties.

Q There is some federal legislation pending so called the Data LATA Bill. What about the effects of that on your proposal here; are there any?

A On the discussions we are having about county-wide voice?

Q No, just on the Transition Plan?

A No. You know, it--the interLATA data relief would allow us to do data services across LATA boundaries without--before we--outside of the 271 issue and that really doesn't have anything to do with what you are doing down at the wire center level of deploying broadband services. It does enhance your broadband capability because you can be a full service provider to your largest customers that require interLATA data capability. But it really doesn't have much to do with changing the business case on deploying of broadband in rural environment.

Q And if that federal legislation is enacted, would BellSouth still pursue 271-type checklist?

A Oh, absolutely. I mean, we, to be a full service provider, we have to be able to carry the interLATA voice. I don't know that it brings--it certainly doesn't bring the value to the table that the interLATA data market does, but you need to be able to offer the full package. And, you know, we fully intend to continue with our 271 efforts to open our local markets. That is a separate issue. We are committed to opening our local markets and we think we have done a good job in doing that.

Q And would the enactment of that federal legislation affect the time frame in which you would seek to meet the 271 checklist in Kentucky?

A No. We are on track to do that based on the time schedule that I told you, and if that bill were to pass tomorrow we would stay on the same track and, hopefully, accelerate it.

Q Let's talk a little bit about the last general assembly's enactment of a sales tax on access charges. Effective June 1, 2000, ILECs in the state were required to begin assessing a 6% tax on services rendered reflecting in Accounts 5082, 5083, and 5084.

A Uh-huh.

Q Do you assume these additional costs will be absorbed or passed on to the ultimate consumer? Do you have any knowledge of that?

A I have to assume that they will be passed on to the ultimate consumer. Now, keep in mind, you know, what is happening here is that while--well, and part of this is January of 2001 access charges begin on the interstate SLC. You know, in that that they are offsetting the SLC--in that they are offsetting reductions from the PICC and in that access charges are moving from the non-traffic sensitive and switched elements over to the SLC elements, some of this would be a wash to the customer, but any increased cost are ultimately going to be passed on to the consumer.

Q Let's talk about mirroring access charges for a moment. We have had lots of discussions over the last four years about how this should be done and referenced those in some previous Commission Orders. Does BellSouth have any suggestions about how we might better approach this issue in the future?

A Well, it is certainly one thing is clearly changing with our proposal, reducing--taking the NCSR element to zero and, basically, doing away with it. Today when we mirror and there is reductions that at the interstate level shift over to the SLC or SLC is shifted to the PICC or other non-traffic sensitive elements, we shifted those to the NTSRRR fund. In the future if--what we would propose is to continue mirroring in the access basket. That's the reason that our categories or baskets that we set up, we kept an access basket, so it is clear we continue mirroring interstate charges. And on a going forward basis if the .0055 is reduced and the FCC increases the SLC to make up for the reduction of the .0055, where in the intrastate arena we would have shifted that to an NTSRRR element, that element would be gone. And, so, that is just another further give up, I guess you might say, or change in the way the access charges are calculated today. So, I think mirroring has worked pretty well and easy for us. I mean, it has been administratively easy and we would propose that we continue the mirroring concept.

Q With the elimination as you propose it of NTS where is it--is it BellSouth's proposal, then, that the--any amounts of money that are not mirrored by current charges just be absorbed by BellSouth or where will they be reflected?

A You know, our commitment in this settlement is that we would not grow the NTSRRR in the same manner that we have grown it in the past. So, yes, there would be some absorption beyond that .0055 level. That has been a bone of contention between us and interexchange carriers, obviously, because of the rulings you all have had to make and the cases you had on it. We are willing to try to clear that up. We think this plan is that important, that is the reason we tried to get that in the settlement.

Q If the Commission accepts the reduction of the access charges as you have proposed, what do you propose for toll rates for BellSouth? Would there be any effect?

A Our toll rates are in our competitive basket. We try to--that means we can--we respond to the market. If we lower access charges and our competitors lower their toll rates, if we are going to be responsive to the market, we would have to lower ours. There is no relationship between our toll rates and access reductions that we give to interexchange carriers except for the effect out there in the marketplace. And we have done our toll reductions through packages, area calling service expansions, those kinds of things.

Q Do you have any--scratch that. You talked at some length with the Attorney General about earning and I'd like to carry on just a little bit more there. On page 13 of your testimony you state that under the PRP, the Price Regulation Plan, profitability was measured by a rate of--probably by return on equity and that is not a viable regulatory measure since the objectives of the plan were to promote innovative competitive opportunities while still providing quality service in non-competitive services. Does BellSouth derive a large portion of its revenues from non-competitive services where the market cannot set the rates?

A I'm sorry, Amy, did you say page 13, my testimony must be different pages or something, my page 13 is all about service objectives.

Q I'm sorry I think I got something mixed up here. This is not your question.

A I'd be glad to take a shot at it if you'd like. It sounded like an interesting one.

Q That's all right. You talked about your healthy earnings and you did so with the Attorney General. Do you foresee that as continuing in the future?

A Well, I guess the first thing I would quibble with you is over the use of the term healthy. You know, I don't think the financial markets think they are so healthy. They are not real enamored with our business plans right now. And so, I'd first quibble about that term. I guess, secondly, it strikes me that after price regulations, certainly under transitional regulations, have we earned better than we did before; yes, we have. But it strikes me that earnings ought not be a consideration in this kind of case. Having said that, I think if you look at our most recent quarterly report, we have probably shouldered and, you know--can we sustain the kind of growth we have had, clearly, we have--clearly, our--we have probably taken all the advantage we can of reduction of cost through employee head count. In fact, we have reversed that, now we are hiring employees. We have taken the advantage of getting our capital base down through accelerated depreciation. That is probably leveling off. Items like additional lines, even our own ADSL product cannibalizes additional lines and so over this time period we have had tremendous growth in additional lines. That is slowing down. You know, there is just lots of indicators out there that say we have got our work cut out for us to maintain an earnings level that is attractive in the financial markets. You know, I would quibble over the term healthy and to me it strikes me that earnings--what does that have to do with what we are talking about, you know. You have incented us to do those kinds of things, that's the purpose of the plan, and we have done them.

Q So, is it your testimony that the Commission should not consider your earnings in terms of deciding whether now would be an appropriate time for a residential rate increase?

A You know, first of all, the residential rate increase is revenue--it is a revenue neutral item. It really--any of the--I'm going to go back to the question you didn't ask me a little bit here, most everything that we have done in terms of improving our earnings level commensurate with the market requirements has been done outside the non-competitive basket. It has been on other items and other ways we have managed our business. And so--and the residential rate increase is to deal with universal service. It is revenue neutral, it has nothing to do with increasing revenues to our company. And, yes, I don't think the Commission should take into account at all our performance under price regulations from a financial standpoint in determining whether this is the appropriate thing to do. I mean, underlying your question shouldn't we absorb USF? There is lots of reasons on why that shouldn't happen. That is a very non-competitive, anti-competitive issue. It is not portable. There are lots of reasons why we shouldn't just be required to absorb the subsidies that are out there in the rate structure.

Q Are you suggesting, then, that if the Commission felt that your earnings were overly healthy, I know you won't like that term, that there should be no action taken by the Commission regarding that matter?

A I really don't see how you deal with USF or broadband deployment or pro-competitive, I don't see how you deal with any of those things in the context of how we have performed financially. To me, there is a total disconnect there between those items. The Commission could decide today--it is just in the context of price regulation I don't make the connection. The Commission needs to move on USF broadband deployment, getting our pricing rebalanced in a pro-competitive manner regardless of what we have earned.

Q We talked some already about your plan for substituting this rate increase for USF and that there would be no line item or no identified universal service high cost portion for your customers. How will that affect the portability of the Universal Service Fund for other competitors that may compete against you?

A Yeah. We have made the commitment that as competitors come into our market and meet the universal service criteria of the way they provide service and if they have the right to draw from Universal Service Funds, that we would pay our share of--into a fund that they could then draw from. And, so, a competitor could come in, serve customers in one of our high cost areas and get the same support level that we would have gotten for those customers, and BellSouth would pay in its share to support that competitor coming in. And so, portability implies a competitor has access to the funds the same way BellSouth would and under our plan that continues.

Q Let's talk about the basket service proposed in your Transition Plan. According to the audit report there may not be a basis for redefining the existing three service categories. Why did you choose to change those now, to propose changing those now?

A We tried to come up with a plan that was--that dealt with all of the complex issues. And I think for the last two years the majority of what this Commission has had to deal with BellSouth has been over wholesale issues. And, so, we just felt--and, also, if a productivity factor is no longer--there is no formula, that is the whole purpose of the categories of baskets under the present plan is to define how you are going to do price changes in those categories. The Transition Regulatory Plan moves away from that and, so, if there is no productivity formula working on a particular basket, then the basket really has no meaning. The present baskets have no meaning in terms of how this Commission regulates us by wholesale, retail and access. And, so, we just felt that that was a better line up to focus the debate on a going-forward basis and that we had a plan that was all inclusive. I would tell you that we came up with that after we sat down and looked at the audit, we thought about the four objectives that we think this Commission is interested in, looking at the objectives of the price regulation, we said this seems to be a better plan. So, we really never--it was after the audit that we--as we were putting this plan together that we came up with these categories. We think it is a better way. Again, there is lots of ways you could cut this and if the Commission felt that there were too many changes it is something we could live with, as long as the principles that the auditors found and we think are important stay in place: Rebalance, get rid of the productivity factor, deal with USF.

Q Let's talk about these baskets in more detail. You have three proposed; correct?

A Yes.

Q You mentioned access. Are there additional changes or is that still basket number two under the current plan?

A It is the same basket as basket number two.

Q With no other changes, with no changes?

A Right. That way we don't get confused on this mirroring thing. We are still proposing that that basket would operate in conjunction with what happens in the interstate market.

Q Okay. So, the way that basket two services or the access basket is regulated under the Transition Plan, as you proposed, is identical with no changes to the way it is regulated under the current Price Cap Plan?

A It mirrors interstate.

Q What about the retail basket, how does that differ from the category one services now?

A Well, we feel that the controlling factor on retail prices on a going-forward basis are basically the UNE pricing philosophies at the FCC. As I said, that kind of forms the gravity base for where prices can go. It is already operating in, say, like, the Louisville market where we, in our rebalance, we only proposed 85 cent increase in the Louisville market because when you sit--when you look at what we think where the UNE platform will come out, our pricing philosophies are to try to get our retail rates minus the resale discount equal to the UNE platform rates, so that a competitor is competitively neutral on how they approach us. So, we feel that the UNE rates are forming that control over that retail basket and that there is no productivity formula working on that basket any more. We pull 1FR rates out and deal with them separately, 1FR and if the Commission wants on single line business rates, we would pull those out and deal with them separately. But the control on the retail market is--are the UNE rates that the FCC puts into--and this Commission puts into effect.

Q You talked about the UNE pricing as the control, does that mean under your proposal that the Commission would set the UNE prices under Admin 382 and that would be the maximum on a per service basis for this? I'm not sure of the translation and I wanted you to explain it?

A It forms the effective market cap. I mean, if we try to raise prices much above that platform, we just continue to increase margins and open more to competition. And, so, its reliance on--it is relying on the market to control the prices in that basket. For example, how can--we can't--if we go try to raise vertical service rates and they are included in the port charge there is only so much you can do with that before you open the door to more competitors coming in and taking your business. So, they form a very effective control. And that is keeping in mind that we are pulling 1FR out to deal with--the 1FR and the single line business to deal with that on a separate basis.

Q You have talked about wholesale basket, is that your industrial category?

A Yes, it is.

Q And what is in the industrial category?

A It would be anything we sell on a wholesale basis. It is the UNE platforms, the unbundled network elements, those kinds of items.

Q Looking at your proposed tariff and you have four items listed in there, Lifeline--I'm wondering why--well, you have Lifeline resale discount, UNEs that are not tariffed, and the USF fund. Why is Lifeline in your industrial category?

A Well, to us it is a category of price that lays out very specifically, as do the other prices, nothing changes until the Commission does cost studies and there is no pricing rule outside of cost study support. And it kind of fits in that category better.

Q Because it is not market driven, is that the reason?

A Primarily, yes. All the prices in the industrial category are subject to very specific Commission action.

Q Is that why you don't have pricing rules associated with that basket in the proposed tariff?

A The pricing rules are the cost--the pricing rules are the action of the Commission, in effect.

Q In your proposed tariff what did you mean by not--the UNEs that are not tariffed? I'm looking at--I don't know if you have the proposed tariff in front of you but I'm looking at the 9th revision to page four.

A I think I do. And, so, you are just asking me that one line that says unbundled network elements that are not tariffed?

Q Yes, what does that refer to?

A Well, you know, to me that is UNEs that are determined maybe through arbitrations, arbitration through contract, as an example. We will--obviously, we are--we will propose in our 96-608 our--we will propose a SGAT some place along the line, however the Commission determines to handle that thing. And, so, that will be--that will have a tariffed set of UNEs in it that someone who doesn't want to use a contract or arbitration will have access to, as opposed to other UNEs which will be set by this Commission through arbitration or whatever.

Q Okay. Under your current plan the categories are broken up by service and the unbundled network elements hasn't really been categorized; is that accurate?

A That's accurate.

Q So, you are really changing the whole definition of a category from a service to everything you have that has a price tag on it; is that accurate? Or how is this changing?

A It's the more--it is set up more by the particular market that it serves, whether it is a retail wholesale or the IXC market. It is set up by markets so the Commission can look at--I mean, again, it is just a comprehensive plan that says here is the regulatory paradigm this company is operating under. And it lays out very specifically, by market, how that market pricing is done. In the retail market it will be done--the company will be free to change prices based on the presumptable validity definitions in the tariff and in the TRP tariff. And what the Commission is relying there are UNE prices to control what we do in that market, except for the 1FR which is pulled out and has it own rules. The wholesale basket, it is done by Commission action through--we can't change a rate unless we come to the Commission and have cost studies to support that change in the rate. And the access basket it is controlled by mirroring at the interstate level. And, so, each market has a very specific set of rules of how the prices are going to work in that basket.

Q Is it accurate to say that your changing of the categories in this tariff, that you are proposing for the Commission, has as one of its goals to eliminate a distinction between a resale market and a UNE team market, any pricing distinctions?

A Not specifically, no. That is not a goal we have set up. I mean, we--

Q I misunderstood you, I thought earlier you had mentioned that. I'm still trying to understand the statement that you made about the retail market being controlled by the UNE prices?

A Well, again, if the UNE platform rate turns out to be $10 for a loop and a $1.20 for a port, and a certain amount for usage, and that totals up on average to, say, $14, we obviously in a--like a business rate, which right now in Louisville, say, is $31, we obviously can't raise that to $40 without opening that--I mean, there is some level of control there, a competitor is going to go to the UNE basket, going to go to the UNE platform to provide that service and be able to undercut our price substantially. And, so, there is a market control there that is--our retail rate is limited by the market control of what our competitors can purchase a UNE for and, obviously, those two can't get too far out of balance. Our pricing goals, again, are to move our retail rates minus the resale discount, to get that as close as possible to what the UNE rate, that UNE platform rate is, so that a competitor isn't incented to leave our network or is--to either way, that we are not losing money either way on the situation. It is a comparable decision for the competitor.

Q So, the price control that the UNEs set for these retail services is one that is just a market reality, not something that the Commission itself would be monitoring?

A Correct, exactly. And I think, you know, again, if that process doesn't work, the Commission always has the opportunity to pull us back in and say something is not working right in the market, we've got to fix this.

Q Under your proposed Transition Plan BellSouth has full discretion to set all of--to set the rates, terms and conditions for all services except the residential market that we talked about and the access market, is that accurate--and these industrial that are set

by Commission Order specifically?
A Right. Yes.
Q So, everything else there is no external control on the price?
A Well, no. Again, we would file tariffs with presumptive validity approval the day after we file them. The Commission could always set a docket and pull us in for some kind of case or study or determination about a particular price if they think we have gone too far. I think a good example is on the directory assistance pricing, I think it is the directory assistance pricing that is going on in the state. That is, basically, a competitive situation. Companies are out there setting the rates, yet the Commission has said wait a minute we want to take a relook at this thing. Something is not working in the market the way we would like for it to, everybody come in and talk to us about it. The Commission has always got that right.
Q Your proposed tariff describes one of these exceptions to what I was referring to as

"certain residential services." What all
does that include? It's the 1FR.

A Yes.

Q Anything else?

A I mentioned single line businesses, the Commission may want to consider that also and I think we could work with the Commission on that but, basically, just the residential rates.

Q So, the phrase in your proposed tariff "certain residential services" actually refers to 1FR?

A Yes.

Q And nothing else?

A Nothing else is coming to mind right now. We have elim--you know, the Touch-Tone has been rolled into the rate and everything, that is all that comes to mind right now.

Q So, for all of the services that you offer with the exception of 1FR, the services contained in the access category, and these four listed items of Lifeline, Universal Service Fund, UNE set in arbitrated cases and resale discount, you would--you are proposing that your tariffs come in on one days presumptive notice?

A Correct. And then the Commission always has the opportunity to open up a case on them. And if there is some term and condition, the other situation--the presumptive validity clause works really basically on price. If there is some term and condition that the Commission doesn't feel is appropriate, the Commission could still suspend. The real purpose of presumptive validity, we have had several cases in which we filed tariffs for some competitive service, our competitor was able to use the regulatory process through--to create a delay, the Commission ultimately decided with BellSouth but we lost six months in the market while that process was going on, all over some price situation. Presumptive validity would say we would come in file on a certain price and if the Commission didn't find any problem with the terms and conditions the tariff would go into effect and we would go on with the price. If the Commission wanted to investigate it they always would have the retroactive capability back to the date of the tariff filing to make some correction to it. So, it is not like--you know, it really is on the market side where presumptive validity works, on the regulatory side the controls and checks are still there, albeit some of it on a retroactive basis if the Commission found that the price for some reason didn't work. Or if there is a term and condition, then the service doesn't go into effect. The Commission could say, oh, we have some problem here with some term and condition and we are suspending for further investigation.

Q Based on your testimony right now, then, I assume you would be changing the proposed tariff to eliminate the phrase terms and conditions from this full discretion or you are describing somehow the presumptive validity?

A Maybe I--let me--are you looking at the new TRP tariff?

Q Yes, and maybe I haven't captured the right spot on here but I'm looking at the first

revised, page three?
A Do you know what line, I'm sorry.
Q I was looking at the description of the retail service category.
A Okay, uh-huh.
Q But now that I've backed up two pages looking at page two under your description of the presumed validity, maybe this describes what you have testified to today. Let me ask it this way. The testimony that you have given today regarding presumed validity of your tariffs was intended to reflect your proposal as contained in A36.1.3(b)(5); correct?
A Yes.
Q We don't have too much further to go, you might be happy about that. I'm looking at your attachment two, the price out for the vertical services.
A Yes.
Q There is a column entitled Target Price. How did you determine that price?
A Our product managers do an analysis of the market of what they think they can sell that product for in the marketplace. The main

thing they do is weigh the value of the individual offering versus our package pricing. And, so, it is really a function of analysis that our product managers do for each of these products as to what they think it will sell for in the market and what value it brings to our package prices.

Q Is it based on a cost study or just on some market analysis?

A It is based on market analysis. Obviously, we do cost studies for the services, too, I mean, they are aware of that because they can't price something below incremental--long range incremental cost. But it really is a market analysis based on, I guess, what you would say is the elasticity of the product, what we think we want to be in the market for, what it sells for, versus what market share we are willing to give up at that price.

Q I'd like to talk with you about the possibility of some alternatives to your proposed plan here. What would you think of the notion if the Commission implemented no residential rate increases but maybe allowed those services to change with inflation, as an option to your plan?

A You know, it is difficult to negotiate from the stand without looking at a total package of gives and takes as we go forward in a case.

Q Well, let me ask it hypothetically?

A It strikes me that the Commission has to deal with USF funding somehow. And to increase residential rates at the rate of inflation doesn't deal with the subsidy issue very effectively. That is just off the top of my head.

Q How does the absence of a line item, as you propose, on the bill, achieve the objective of having explicit subsidies?

A Well, implicit subsidies are in the competitive rates. When you move implicit subsidies and you raise the price of the item that is be subsidized, it is no longer a subsidy. And, so, it strikes me that if you are going to keep a subsidy you have to make it explicit so that those people paying the subsidy know they are paying a subsidy. But if you are raising the rate of the product that is being subsidized, it is no longer a subsidy. So, you have dealt with the implicit explicit situation. Ideally you would get rid of all implicit subsidies and each product and service would be sustained at a price above its own cost, at or above its own cost, and you would have no subsidies and you would have dealt with implicit and explicit situations. It strikes me that you need to worry about whether a subsidy is explicit when somebody is paying in their rate some price to cover the cost of some other product. Now, on the other side, you have got the $8 million that is left. I guess at this particular point in time we are willing to test whether that $8 million is indeed a market rate or whether it is still a subsidy. Obviously, if we lose the business very quickly because that $8 million is there, we rolled the dice the wrong way.

Q What would you think of transitioning to the rate increase that you have proposed here on,

say, a four year plan rather than a two year plan. Does that affect any of your answers?
A As I've said, this thing could be cut a number of different ways. I think one of the recommendations of the audit is to figure out how in the process we can have more of these kinds of discussions with all parties involved. We would have been glad to discuss those kinds of things. I think it could have been cut several different ways. If this Commission decided they wanted to spread this out over four years and we had come upon some settlement agreement that kind of approached it that way, there might have been a basis for that. Again, it is hard to--when you give up here and you take over there, you know, to do that now is difficult. If the Commission issued an order that said rather than two year we are going to spread this over four years, would we appeal it? I think we'd have to look at the Order in whole and there is a chance that we would accept it.
Q Tell me briefly what your proposal is for Lifeline in this Transition Plan? Does it

change?

A We have not proposed any change to our Lifeline methodologies in this plan. We would--you know, I've not--I don't recall when the CALLS proposal, they are obviously letting their--the share that the federal fund pays of the 10.50, looks like it is going to climb. We were required--the state was required to put so much in in order to get that full effect of the 10.50. Now, if they are letting it climb where we don't have to put any more in, then I guess we are all going to be happy. If to get the additional amount we have got to go up half of that or something, then we will deal with that. I don't read that into the CALLS proposal. It appears to me that the FCC is just saying we are going to--for whatever the states contributing today, and I forget what that 5.25 or whatever it is, that we will let the 10.50 rise another 80 cents, whatever it is, to go from 3.50 to 4.35, we are going to absorb that for those Lifeline participants and we will pass that on to our customers, obviously.

Q Is this the only effect you see that the CALLS proposal brings to Kentucky at this time?

A Well, no, I mean, under the present plan we would mirror down and NTSRRR would go up, because that is what they have done, they have shifted to another non-traffic sensitive element.

Q For the access reductions involved?

A For the access reductions. So, there would be an affect so that our intrastate switched access rate would be .0055 but the NTSRRR would be larger. Now, under our proposal we wipe all that out through the rebalance.

Q Under this proposal, then, the NTS rate would obviously not be absorbing this increase?

A Well, it does to the tune of two and a half million. What we have--in effect, what we have done with our proposal is of the 24 million, we propose to take 16 1/2 of that, 14 for the present NTSRRR and the other 2 1/2 million it takes to go from .008 down to .0055. That is what we would do with $16.5

million. So, in effect, I guess you could say the NTSRRR does absorb it and then we reduce it to zero.
Q And you mentioned that this is revenue neutral, what would be--where would you be absorbing this, through the residential increase?
A Yes. The residence rates go up $24 million over a two year period, 16.5 goes to access, the additional 7.5 goes to various business rates, Touch-Tone and Hunting, and, so, that there is no new money to the company in this proposal.
Q And CALLS will not effect this in Kentucky?
A Well, that's where the 16.5 million comes from. It gets our rate to the .0055 rate, same as the CALLS proposal.
Q When you propose this, you proposed it as though the CALLS had been approved; is that right? You had already accounted for the effect of CALLS?
A We agree in the settlement that regardless of what level CALLS went to, in the state, we would go to .0055 level. It just--now, it

turned out that that happened to be the right level.

Q Okay, thank you. Have any other states renewed your price cap plans or modified them?

A We were the first state to come up for review and, clearly, the first state that had an audit. Several states have now extended the plans, Louisiana and North Carolina come to mind. Those two plans have been extended, they didn't go through a renewal, I guess you might say.

Q Are you familiar with the Louisiana plan?

A Yes, I am.

Q Did it involve a commitment of a billion dollars on the part of BellSouth in capital investment?

A There was a statement that over four years BellSouth would invest one billion dollars in Louisiana. That did include a portion of incremental investment for broadband deployment that is commensurate with our commitment on a broadband deployment. You would say a similar kind of process if you were to look at four years in Kentucky, we invest--we would be investing some $600 to $700 million is comparable to their one billion, recognize their size is larger. That would be a comparable kind of number for Kentucky and we are there. And, so, the one billion was not a broadband deployment investment, it was a look at what their capital expenditure budget process would be over four years. It did include some incremental amount commensurate with ours for broadband deployment. The--I think it is important to note that both North Carolina and Louisiana where those plans were extended the North Carolina transitional element--I don't even call it a productivity factor any more--the transitional element is 2%, which is basically equal to the rate of inflation. And in Louisiana it is 2.5%, which is, again, basically equal to the rate of inflation. So, you know, the Commission and the companies there found the basis to extend those plans with those kinds of transitional elements in them. I don't--they don't have the comprehensive as approach, they are still facing the USF issues down there, and over in North Carolina too.

Q So, is it your testimony this morning that the Kentucky Commission, if it accepts your proposed plan, is getting as good as or better a deal as Louisiana or North Carolina?

A I'm not going to speak for the other states. I think this is a fair deal for Kentucky and it is one that promotes economic development in Kentucky. We don't want to--I don't engage in whether it is better than some other commission.

Q Is it as good as?

A Certainly.

Q Do you know whether BellSouth provided customer notice of the proposed rate increases? I know you provided notice of today's hearing.

A We did when we filed our original plan in accordance with the way we are supposed to do it, yes, there were notices of that.

Q Notices published in the paper and so on? If you need to check on that and let me know, that is fine.

A No, yes, I remember now. Because the present plan allows for 10% rate increase, and this proposal is that or less, we felt that the regulatory--it was in line with the regulatory paradigm that is there today and we did not--we did not advertise a rate increase or an increase in residential rates.

Q But the current plan doesn't allow for the 10% until there is a universal service plan. I know we discussed that, but there is arguably--arguably it is not provided for under the current plan.

A In that we are taking care of the universal service issue with this proposal, it strikes me that we are there, because we are saying that this resolves the universal service issue in Kentucky. So, it is included in the plan.

Q We talked at some length about your broadband commitment, how much money would it take to reach 100% deployment instead of the 75 you proposed by 2002?

A We have not done that analysis. We could do that analysis and provide it to the

Commission.

Q Okay, please do.

A Okay. You know, again, not knowing how the market is going to respond, you are going to get to a lot of wire centers which aren't going to be a player in either KCTCS or the KREDA or economic--or kind of on the economic development horizon right now. It would seem to me the Commission would want to see how we do in the marketplace with this proposal. I'm not saying that we wouldn't certainly be willing, over the next year and a half or two years, to come back to the Commission and say here is where we are and have discussions about whether we ought to go further, and there is clearly a framework for doing that. I would caution about requiring a commitment to do 100% broadband deployment. To me you get toward the same thing as the--that we had in Tennessee when the Commission ordered a full 100% ISDN deployment. It may not be the right technology, it may not be the way the market wants to go. I'm not saying that we are not going to get there and that we should have discussions with this Commission about where we are after we have done this initial one, and I think there is a framework for exploring those things. But that would be my only caution. Other than that, we will provide you the data.

Q And including some time frame that the projected amount covers--

A Okay.

Q --reaching 100%. Could you also give us a better sense in a post hearing filing of the priorities for where you would think the deployment should occur? I guess exchange by exchange, county by county, some sense of the priorities there?

A For the 100% as well as--I mean, the 75% we have 31 counties we can give you today.

Q That would be fine.

A Yeah, okay, yeah, we have got that, I could tell you right now exactly the 31 counties that we would propose to go into. We tried to do a good even spread across eastern and western Kentucky and central Kentucky, so we have got that list.

Q You could just file that after the hearing, that will be fine.
A Okay.
Q I have one last line of questions for you and it involves your service objectives.
A Okay.
Q Could you tell me just in general how Kentucky service objectives and reporting requirements compare with other states in BellSouth's territory, if you know?
A It has been so long since I've looked at that I'm just not sure. I know we have some similar kinds of things--in some states it is--you know, they focus pretty much on the speed of access to repair, the held application commitment within five days, the out of service cleared within a certain number of hours, that is probably a pretty common focus. Most of those service objectives came out of some old NARUC standards that are older than we are. And, so, there is a good chance that they are similar in some of the states, but we can give you a matrix that looks at service

objectives on a state by state basis if you would like.

Q That's fine, you can file that as well. On page 13 of your testimony, lines 5 to 11, you discuss time intervals for clearing trouble reports?

A Right.

Q How is it that increasing a time interval from 24 hours to 36 hours, as you propose, would be more efficient?

A Well, what happens today, let's say a customer calls in by ten o'clock. In order to meet the present service objection we have to clear that out of service condition by ten o'clock tomorrow morning. Very often we find ourselves routing an employee past service problems just to get over to the location to clear something by ten o'clock the next day. And what we have found is that customer satisfaction, especially in the residential market, is driven by can you clear my service the next day, clear my service problem by the next day, as opposed to can you clear it by ten o'clock tomorrow morning. And, so, we pick up some efficiencies by having a full next day to clear a customers problem and it gives us better routing capabilities of our employees. So, we are not on that days particular work we are not trying to route by a given time of when the report came in the day before. And so, since we are not affecting customer satisfaction by getting next day approval, and that is really what we are after here, and I think we will demonstrate to the auditors that issue, that by going to a 36 hour interval it gives you a complete next day to clear a trouble. I will offer, probably my lawyer is going to kill me, yesterday as we talked through some of these issues if the wording was you would clear it by the next day, that would--I think that would work as well as 36 hours. But that is what we are after there.

Q Do you believe that a 12 hour difference in restoration of service would always be negligible to a customer?

A It certainly is not to a business customer and the market really drives--certainly, when we try to clear business troubles out of service within four hours. The primary thing that we are aiming at here is the residential market. You know, I think if there is any perceived protection of responsiveness that this Commission wants to have it is over the residence market, because the business customer is being taken care of, you can rest assured of that. But, in the residence market, if there was to be some perceived protection, we detect no incremental customer dissatisfaction if we can give them that we will clear your service tomorrow, as opposed to by a certain time tomorrow.

Q And if a particular customer, residential customer, did have a specific need or request, do you attempt to meet that and you are just asking today that the Commission change this so it won't affect your compliance with Commission regulations?

A Correct. For the most part we try to--if the customer presents a situation--for example, we give morning and afternoon appointments, for example. So, we try to--we do try to meet the customers needs in that area.

Q Turn to page 14 of your testimony. Is page 14 a list of service objectives that you are proposing to eliminate?

A No, would propose to keep items one, seven and eight. We would be eliminating--it is a list of the present service objectives. We would keep one, seven and eight, and we are proposing that two, three, four, five, six and nine no longer have any relevance in today's marketplace and that we would no longer have to report those.

Q Okay, let's go through these quickly one by one.

A Okay.

Q Item one, the percent of request for regular service filled within five working days unless requested later.

A Right.

Q You are keeping that and there is no change to the compliance standard?

A Correct.

Q Item two, the percent of request for regular regrades within 30 days unless requested later.

You are proposing that that be eliminated; is that accurate?
A Yes. And the reason being is that we are down to about two two-party services left and we have got orders written on them. I mean, in all practical purposes, that was eliminated. It can't ever be missed again because two party service is gone. We are waiting for these two customers to decide and then we are going to have a big celebration.
Q There is no circumstance, then, according to your belief that this regrade could be useful?
A No.
Q On number three, the percent of telephone calls receiving dial tone within three seconds, you are proposing that be eliminated?
A Yes, in the digital world--I mean, when was the last time you picked up a phone and you didn't have dial tone by the time you got it to your ear? I mean, it has not been missed in ten years, it is just not meaningful in today's environment. And we go to quite a bit of trouble to have to keep up with and

track all of our wire centers and make sure that we are--just to report the fact that we are not missing it.

Q So, technology advances in the digital world render this standard meaningless; is that your testimony?

A Yes, it is.

Q On--why is item four no longer meaningful? It is the experience blockaging due to busy conditions

A Well, again, you know we just don't--it is not missed. It takes a lot of effort and time and trouble to report the thing but, again, in a digital world with fiber self-healing rings, it is just not an issue any more. I think before we did diversity--you know, it really comes down to a measure of diversity and we have got full diversity now and, so, it is just not an issue any more.

Q Item five, the percent of telephone calls offered to toll connecting or interexchange trunks encountering an all trunks busy condition, you want that eliminated?

A Yes, same reasoning. I mean, you know, if we even came close to missing that I think the interexchange carriers would be--I mean, it is just not an issue any more.

Q Have you done any studies to show how much it costs you to measure these?

A No, nothing formal. You know, I just know that they tell us that there are some--as we change out some--as we work in our digital offices sometimes we have to make some generic changes to them and things, to keep up with the reporting. It has obviously taken some man power time to do it, you know, to give you the actual number that we are hitting on it. And, again, if you look back over the last ten years, I mean, we have never missed it.

Q What about number six, the average speed of answer time for operator assisted calls; is that proposed for elimination

A Yes, it is. You know, it is a competitive service, the--again, we are always under the objective, it is something we are having to spend time to record, we would like to see it eliminated. I mean--

Q Do you know if you have missed this at any time?
A We have not.
Q Numbers seven and eight, the average speed of answering time for calls to repair service and the percent of out of service troubles cleared within 24 hours are ones that you propose to keep?
A Except for number eight we would like to change that to 36.
Q That's the 36 hour?
A Correct.
Q But that would be the only change for the measurement of those two?
A Yes.
Q And then the last one, the average rate of customer trouble reports per 100 access lines, you are proposing to eliminate that?
A We would like to. I have to tell you that I can tell you at any given time what our trouble report rate is and so, if the Commission wanted to keep that one, I mean, we've always made it, we run around two or three every month. If the Commission wants

us to keep that one, it is not a slit my wrist kind of situation. I mean, we know what the number is and that is a little bit easier to report than some of the rest because we are generating the information.

Q So, you propose that you would continue generating that information even if you didn't have to report it to the Commission?

A Yes, we use it internally.

Q But the rest of the items that you would like to eliminate you would not continue to track; is that correct?

A That's correct.

VICE CHAIRMAN HOLMES:

Are there new standards for the digital aid like to allow these now or are new standards being created because of digital technology?

A There are and hear the Commission's emphasis is going to jump to our service quality measurements in the industrial or wholesale market. And you will have to deal with those in the 271 case and certainly you are dealing with now new arbitration cases. I mean, that goes to the crux of how well we provide CLEC trunks, interconnecting trunks, and those kinds of things. And, so, there is a whole new gamut of service objectives that deal with the new environment that will be reported to the Commission on a monthly basis.

Q There has been some thought that you might have had a higher percentage of some of these numbers then recently because of your personnel drops. And I think the auditors mentioned that some of your service standards had slipped a little bit because of your force reduction. Has that been corrected or do you disagree with the statement in the first place?

A No, we demonstrate to the auditors right up front that in late 1998, like our out of service, we were having trouble hitting that.

Q So, you were actually having trouble meeting the standard?

A We did in 1998 and what we did was we started hiring service technicians and we are not-- you know, I'm not going to say we are not missing an occasional wire center because it is just a weather related kind of thing, that if you get some severe storms you are going to miss this. Or if there is a cable cut you are going to miss this one, occasionally, not for the state but in a given wire center or a particular situation. But that was the one that we were having problem hitting in late `98 and it was primarily a force situation. We went a little further in force reductions than we should have to maintain the quality of service. We demonstrate to the auditors, for example, in January and February 1999 we hired 120 service technicians. And had we not been able to demonstrate that I think we would have had a severe audit finding but we were able to show them that and we cleared that out.

Q And is that the number nine that you are talking about?

A No, we didn't get close to number nine, missing number nine, I'm talking about number eight.

Q I'm sorry, okay.

A The out of service cleared within 24 hours.

Q Okay. And had that been 36 hours rather than

24 would you have still missed it?

A I think there is a good chance, I don't believe I could tell you that we would have made it in that time frame.

Q In that time frame. My last question for you is whether you have any insight to give us about your proposal for its transitioning from the current price cap plan to your proposed Transition Plan if the Commission accepts that. Do you see that as kind of a flash-cut thing or there would be some progress, some slower implementation process?

A No, I think we are ready to move on the situation. I think we could put the rate increase in and drop the access charges immediately. We are ready to roll out $4 million worth of ADSL equipment into Kentucky. We have already initiated discussions with the Economic Development Cabinet and Aldona Valicenti to make sure that we are going to deploy in the right central offices. We are starting our discussions with Darwin about what we are going to do about those three wire centers they are in. So, we are ready to move and implement this thing as soon as the Commission gives us approval.

MS. DOUGHERTY:

I have nothing further.

COMMISSIONER GILLIS:

I just have one short one that I want to follow up on. Broadband deployment, you just mentioned talking with Economic Development, the other ISP people, how did you come up with the 30 or 31 counties that you are talking about deploying the broadband?

A We felt like to be a meaningful commitment we wanted to get into central offices that served at least 75% of the access lines, that was our first cut. And then we started looking at various mixes of wire centers trying to do east, central, and west Kentucky, a good spread. Then we overlaid that with the KREDA, which counties are involved in the KREDA, and looked at KCTCS sites, and our team kind of combined all of that and that came out to be the counties that we talked about.

COMMISSIONER GILLIS:

So, did you think that you do have a possibility of getting several users or there is a market in these 31 counties that you can reach?

A We would hope that--you know, I feel like we are going to have to figure out some creative way to get with the ISPs and working with Economic Development. But, yes, we hope we can do something with this investment that we don't just throw it out there and it sets idle, that's for sure.

COMMISSIONER GILLIS:

I guess that's really my question, Fred, is that when ADSL is put out in the counties, what information or how is it marketed in the counties so that they know that it is available?

A You know, we--I think we will put together a marketing plan and certainly we will share that with the Commission. It is going to--I think it is going to have to be working with the ISPs, we will probably have to maybe look at doing some direct mail, getting the word out to the schools. It is going to take some creative marketing efforts. I think we have a really good chance to show that perhaps this market has been underestimated and we'd like to go to work on that. And we will have to do that and we will have to put together a marketing plan and we'd be glad to share that with the Commission and get like Amanda Hale's input into our educational efforts and that kind of thing.

CHAIRMAN HELTON:

There was a question that I also had because you did mention primarily the ISPs and it seems like you were depending upon them to do the marketing. In looking at these 31 areas, are there already ISPs or other people who would do some marketing in addition to BellSouth?

A Hopefully so, especially--yeah, I think we are going to have to exploit and we are going to have to look and see what all help we can get from the areas, like the school systems, for example. And, certainly, this KCTCS thing with CISCO, trying to meet with those folks and ride that I think would be very important.

CHAIRMAN HELTON:

We will reconvene at 1:30.

(OFF THE RECORD)

CHAIRMAN HELTON:

Mr. Gerwing, Ms. Dougherty asked you some questions about the interLATA data bill and I'm not interested in that federal piece of legislation, I'm interested in a couple of the others that are related to broadband deployment in rural areas and, especially, since this is part of your alls plan. How do you think either the tax incentive federal legislation or the separate fund that will be set up for rural broadband deployment, if either of those passed what would-- and this plan or this portion of the plan for broadband deployment were approved by this Commission, how would we then go back and make sure that you are not getting double coverage for that?

A Well, certainly, if either of those pieces of legislation go through, we would sit down and reassess this deployment plan with the Commission and review what it does to the business case. So often on a tax--what we see on a tax incentive thing, private companies like the RBOCs who weren't able to typically get that kind of money. And, so, I think we just have to wait and see what those bills do, but I would commit to you that we would be willing to come back and sit down, certainly, through a series of conferences or work shops and talk through this deployment again as it relates to whatever legislation might pass and how it affects what we are doing and whether it would give us an opportunity to enhance this plan vis-a-vis what we might do under that point--under those pieces of legislation.

CHAIRMAN HELTON:

And you also mentioned that Kentucky being able to attract call centers as a result of the infrastructure that we have present in this state and use that as an example of--and we have attracted several and that has resulted in employment, and particularly in rural areas where we needed them to be located. But can you give us some other examples of the types of businesses or industries that you see this broadband deployment might help Kentucky attract?

A Well, I think one thing there is a new e.commerce center that is popping up in

Louisville and they have got several clients already. There is a new business that just opened up there that warehouses data applications. I'm not sure exactly how that works, but they have--there was an article in Business First the other day where they show how they can provide services to web hosting companies and that kind of thing by warehousing data bases and things like that for them. I don't think we begin to know yet the kinds of companies--it is clear those kinds of companies have to have access to broadband capability and its speed is a lot greater than ADSL. And so, you know, I think that it is--those are some of the kinds of companies I think we would like to see come to rural Kentucky. I think things like this KCTCS partnership with CISCO where you actually get employees trained to do network infrastructure and understand broadband deployment, how to set up networks and that kind of thing, that are going to be out in some of these communities augmenting their business life at their home environment where they can do that kind of thing from home, too, to create industries. I think that is another example. Again, Aldona Valicenti and Doug Robinson, all those folks, they have got a whole litany of people they are talking to and ideas and ways to approach this, but they need that infrastructure there to begin to carry on those discussions out in the marketplaces they work in.

CHAIRMAN HELTON:

And in your discussions with Economic Development, did they have any game plan, for example, I'm think of there is a couple that located in Maysville that are from that area, but Harvard graduates, and they have brought their business there because they can do it because of the technology available. Has anybody indicated either from the CIO's office or from Economic Development that they see that they have any game plan to take advantage of Kentucky's better life style to attract people if we get this broadband deployment out into areas where they might want to locate?

A They have several strategic long range plan kinds of documents that I think do just that. Show cost of living, the work force, and its a matter of getting that work force trained, but the availability of work force, the opportunity is there, the work ethic. Once you get those kind of folks trained and Kentucky presents a unique labor pool, they go on at great lengths about those opportunities. Some of the tougher issues that you couldn't find in maybe some of the other locations, Kentucky brings to the table, if we can just get the infrastructure and the education aspect of it dealt with.

CHAIRMAN HELTON:

Ms. Dougherty covered a couple of different alternatives that you all might consider and we might consider as we look at this plan and then the consultant also had some alternatives. I was just wondering if there was any consideration given, especially since you stressed some gradual action versus delay, and we all know that through litigation and the FCC and all of the delays that we have had in there that we are not at the point where we thought we would be at--when the

Telecommunications Act was passed. In thinking about something gradual versus delaying, was there any thought to looking at the rate groups and perhaps making a suggestion that some rate groups might see an increase and others not?

A Well, we do get to some differential in that the first four rate groups would be getting a 10% increase and rate group five would only be getting and 85 cent increase on about a $17.55 base, today. So, there is--you know, we are trying and certainly in our business rates we have closed that differential where we have reduced--I'm kind of going in the opposite direction--reduced some rate groups more than we have reduced others to try to swing that cost relationship, cost price relationship, back to be more in line.

CHAIRMAN HELTON:

But until we get the high cost fund in place, was there any consideration other than the differential between the rate groups that perhaps saying at this time this rate group should not see any increase versus just seeing a smaller increase?

A We looked at the cost relationship to the present price and in trying to generate through the rebalance enough to take care of some business reductions on hunting and Touch-Tone and to take care of the NTSRRR we had to do fairly much the way--the 10% level, recognize the 10% level in rate groups one through four over two years, plus the 85 cent one time rate increase for Louisville subscribers is what generates the $24 million. So, to start backing away from that you then you start backing away from the opportunities of, you know, how are we going to address these needs. Can it be stretched over more time than two years, well, that is something the Commission might want to consider. But as far as saying there shouldn't be any rate increase for a particular rate group, we probably came closest to that with Louisville and felt that we needed to do at least the 85 cent level in order to accomplishing the pricing objectives that we were trying to get at.

CHAIRMAN HELTON:

Other than stretching the increases out for a longer period of time or decreasing the percentage or tying it to inflation, is there any other index that you can think of that increases could be tied to that--other than inflation or a set percentage?

A Nothing would come to mind right now as to have any more legitimacy for how you are going to go about doing this. Like I said, we really looked at what are the pricing objectives we really need to get accomplished in the market; the first priority being access reductions, and that says you need to do $16.5 million, roughly. You know, beyond that we said, well, certainly our Business Hunting rates are obviously contain a lot of subsidy. You get that capability through the UNE elements today. There is very little economic reason that can sustain that price out there in the market and it is one that our competitors leverage against us quite often. And so, it obviously is a subsidy element, we felt we needed to address that. And Touch-Tone the same, Touch-Tone rates in business services, when you buy the port you get the Touch-Tone capability. So, that seemed to be another one. You know, now, maybe in response to what you are saying that you deal with the access and I think that is absolutely critical that we deal with the access. Beyond that, do we want to have some discussions further with the Commission after we deal with the access piece in this first year, and perhaps do a little bit of rebalance the second year to take care of that, or maybe deal with the Hunting and then talk about the Touch-Tone later to see how the market responds. All of those things I think would be open to consideration. But I guess I emphasize that we think that the access piece is absolutely critical and it also, in taking care of the access piece and a little bit of these business rates, then we think we can deal with that subscriber line issue on USF, also.

CHAIRMAN HELTON:

Thank you. Do you have a question?

VICE CHAIRMAN HOLMES:

Yes, Mr. Gerwing, will the projected rate increase bring any of the wire centers closer to costing-- closer to the cost, specifically the loop. Or where do we stand at that point?

A I would think that there--that if you consider your cost definition to be your deaverage UNE platform once we get it--if that is a measure or if you look at deaverage using the synthesis model from the FCC, Louisville is getting pretty close. The problem we run into in some, you could have a census track in, say, Owensboro where we are pretty close perhaps because the density looks very similar and if a given censur track attractive as it might look into a Louisville market, as far as if you went to the census track level. As long as you stay at the wire center level Louisville is probably the only one we are getting close to.

VICE CHAIRMAN HOLMES:

But once you get--what you are proposing was implemented and that 85 cents, then we are getting close to a cost?

A Well, I definitely think once you get to a deaveraged UNE platform in Louisville and we will start to see more activity in the residence market for that--to me they are going to--again, we don't know how--until we see where we come out with this cost docket this year, but it is pretty easy to see that it looks like the Louisville UNE platform would be a better alternative than a resale discount, for example, off of the present 1FR. And partially because when you are in the resale market you are also paying those SLC charges. The reseller is responsible for the SLC charges, recovering those from the end user. And, so, as opposed to when they buy the UNE platform, they don't pay the SLC. It is not a--it doesn't come with the package. So, when you start putting the SLC charges on either the 1FR, the residence, or the business line, then the UNE platform, especially in the Louisville market, starts to look real attractive.

VICE CHAIRMAN HOLMES:

Do you potentially see some greater forms of competition that could possibly occur?

A I would think you would see that.

VICE CHAIRMAN HOLMES:

In your discussions about deployment of broadband in rural areas, are there discussions as well about deploying broadband in economic depressed urban areas, or is it already deployed there? Or is Louisville the only one?

A You know, in our urban area, really, Louisville is the only one that I think has specific areas of the city that I think you could--as opposed to saying looking at Owensboro if you get the primary central office there you have covered the whole city. In Louisville it is a little bit different situation and we did deploy one of the first central offices we deployed was geographic area that I think would normally be considered economically depressed, and that would be our 26 Street office, 77. It has a judicial subscriber line system in it. One of the--there is a new effort, a new development down in that--that is served out of that wire center where they --where the Cotter and Line Homes project, they have leveled that and they are putting up a whole new effort at trying to draw mixed income, various mixed income levels, into various types of housing in a community atmosphere. And we wanted to commit to them that we could provide broadband services in that community and, so, we purposely targeted the 26 Street Office for that reason. So--and we are getting pretty close to where most of the offices in Louisville, given the deployments we have got for Louisville, we should--we would fill up Louisville by the end of the year 2002.

VICE CHAIRMAN HOLMES:

So, I guess part of the deployment of broadband--could we expect to see it in those types of similar areas and other communities, such as Bowling Green?

A Certainly, and, you know, we can certainly get more granular once we decide that this is a particular county we want--and wire center that we want to go into to make sure that we are spreading that opportunity. I think that is a worthwhile goal.

VICE CHAIRMAN HOLMES:

I guess after hearing your testimony, if I understand it, there are basically four objectives that will enhance, one is the broadband, rate rebalancing, that you view is necessary, access

charge reductions and the USF portion; is that correct?
A Yes.
VICE CHAIRMAN HOLMES:
And within the framework of that are you saying that if we maintain those four objectives we might be able to--decide to alter one and rate rebalancing to maintain those four objectives necessary to offer this plan and to make this work?
A I think it is a comprehensive solution. There are several ways you could go at doing those over various time frames, but I think focusing on how we get to the four objectives is the critical factor.
VICE CHAIRMAN HOLMES:
Are there provisions for--at some intervals in the plan for review?
A It seems to me there is a natural review date out there, the five years once the CALLS proposal has to be looked at.
VICE CHAIRMAN HOLMES:
I mean, some interim steps in there?
A There is really nothing set in the plan, you know,

if within 24 months the Commission wanted us to come back in and report on this broadband deployment, review kind of where pricing is at the end of a rebalance, for example, you know, we are certainly open to that, even annual reports or whatever the Commission needs from that perspective.

VICE CHAIRMAN HOLMES:

So, you would be open to review?

A Yes, we think we are better served by communication rather than not, so--

VICE CHAIRMAN HOLMES:

Let me ask you this, from a digital service quality standard, if we eliminate the other standards are you going to replace those with digital service quality, or wait until the process is completed in Georgia and Florida?

A We do propose a set of service quality measurements that could be adopted in this plan in our negotiations with the interexchange carriers who are also CLECs. They felt that--they didn't feel like they wanted to sign on to a settlement that would acquiesce that those were the correct service quality measurements. And so, what we did in the settlement was agree that we wouldn't push those through this plan, that we would let those go in through individual arbitrations. You know, if the Commission wants to adopt those, they are certainly there to adopt at this particular point in time. If you want to deal with them through your arbitration process, we are willing to live with that too.

VICE CHAIRMAN HOLMES:

In the interim?

A Certainly, certainly.

VICE CHAIRMAN HOLMES:

That's all the questions I have.

CHAIRMAN HELTON:

Just to follow up on that because I was interested in the trouble reports since you do have to have those for internal use. You would obviously recognize that the Commission can also use those for--to look at other carriers and see how they stack up.

A Sure.

CHAIRMAN HELTON:
Are there others--are there others that we should be considering that, you know, especially since we don't have the digital ones yet, unless we adopt them in this case, are there ones that particularly we should be focusing on because of competition, to make sure that you keep the standard up and make sure that we have a way of measuring other carriers against your performance, that you can think of?

A Not in this particular list. I think the SQMs that we propose do exactly that, set up the basis. For example, there is no retail analog to an interconnection trunk. So, you know, certainly, monitoring, as opposed to a retail analog you set a benchmark on, what kind of performance you expect to see over an interconnection trunk. And we ought to be willing to report that, and, so, that is the kind of thing--I don't--in this particular list that we are saying move away from, I don't see any particular benefit of those to the wholesale environment.

CHAIRMAN HELTON:

Redirect?

MR. KITCHINGS:

Yes, ma'am. Thank you.

REDIRECT EXAMINATION

BY MR. KITCHINGS:

Q Mr. Gerwing, do you recall a question this morning from Ms. Cheuvront about the notion of raising residential rates to voice customers in order to pay for data services?

A Yes.

Q Isn't BellSouth's plan, rate rebalancing plan, revenue neutral?

A It is revenue neutral, yes.

Q So, is there any way that this residential rate increase could fund the data broadband roll out?

A No, because there is an offsetting rate reduction for every dollar we raised through the rebalance.

MR. KITCHINGS:

That's all, Chairman Helton, thank you.

CHAIRMAN HELTON:

Ms. Cheuvront?

RECROSS EXAMINATION

BY MS. CHEUVRONT:

Q But you are using--in your current plan could the productivity factor be used to keep residential rates either lower or as they are? I realize it hasn't been, it has gone to lower business rates and access, but is it possible that the Commission could have used it for that?

A It is possible that it could have been used for that. As you say, that has not been the experience and probably not on the near term horizon under the status quo plan.

Q But if that is a possibility and you are going to take that possibility to pay for broadband, wouldn't--couldn't the residential rate payers be seen as paying for it?

A I don't think so because I don't think the potential--you know, it is terms--it is a measure of probability of a residential rate decrease. It seems to me it would be very poor public policy to lower residential

rates, the 1FR, any more than it is.
Q Well, I'm not talking about even lowering them, right now I'm talking about keeping them the same.
A Well, even in terms, then, I think you have to talk about what are the obligations of the--under the Universal Service Fund issues. And I don't see how those rates are going to stay the same whether we deal with those now or we have to deal with it a year from now. Those rates are not going to stay the same. In a competitive market prices move toward cost. An observation that obviously a lot of people fail to make to the legislators that passed that bill and, so, I mean, that--those rates are going to--there is going to be economic pressure to move those rates toward cost. I think it is a stretch to say that the--that utilizing capturing our productivity efficiencies and rechanneling those into broadband deployment opportunities which probably is going to create jobs, going to create employment opportunities, going to create tax base, all of those things are

going to help add more societal welfare than the potential probability that there might have been a residential rate--holding rates constant or rate decrease. That, you know, if you did a decision tree analysis on that the probability of that consumer welfare is nil, as opposed to the probability of some consumer welfare from the other path, other decision path, of doing broadband deployment and the opportunities that brings to Kentucky. And, so, I think if you look--step back from just what are we doing to the 1FR and you look at it from a societal welfare economic viewpoint, our plan delivers a lot more societal welfare than does the opposite path.

Q Did I understand you correctly on one of your responses of the question from staff was when you run the--so many tests, I don't know which one--I'm assuming it is the UNE test, you only take the base rates because you don't believe any vertical services or anything else that comes in that should be included in that; am I correct?

A That was a discussion on Universal Service

Fund. The original model looked at cost and then the issue was which revenue are you going to include to determine what the support level ought to be from cost to the revenue. We maintain that the revenues ought to be based on basic services and that you ought not look at vertical service revenues. Opposition to that said no, you should include vertical service revenues and see what the average revenue per customer is, then determine what the support level ought to be. There is differences in the industry on how to use that. As I recall, and Mr. Rausch can speak to this better than I can, but as I recall, where the FCC has now gone is they have abandoned that revenue argument and discussion, they have gone to, okay, is it at 100% national average of cost, is it a 135%, and we will fund any cost over 135% through Universal Service Fund. They have gone to that kind of cost level variation as opposed to even discussing revenue. I think they saw that argument was going nowhere.

Q So, when you--but when you run whatever the

test was you ran, was it the UNE test or
whatever was used, the BC--
A The BCPM.
Q --PM. Is that the same as when we are talking about the UNE test?
A No. The benchmark cost proxy model--
Q Did you use vertical services when you ran that test to determine if your residential rates are up to that cost? Am I being clear?
A No, the BCPM model determines what a particular cost of serving a given wire center on the--that the model would produce. And, so, then if you are going to use that to say, okay, now are rates above or below cost, I guess it is still open to argument to go in and say what is the 1FR rate in comparison to that cost? Or should you look at a whole stack of revenues on top of that to determine whether revenues are equal to or above cost in that wire center. The way we looked when we using the BCPM model by either--even if you used that analysis you still have a lot of wire centers that were below cost even using the $31 FCC determined average revenue

per customer. I think it was $31. We still had a lot of wire centers and you still created, as I recall in Kentucky, that in running the BCPM cost model, or maybe it was when the Hatfield 5.0, whatever it was, ended up producing around $110,000,000 fund in Kentucky, utilizing even the $31 FCC revenue benchmark. But I'll have to tell you, at that point I am way over my head, and Mr. Rausch could deal with these issues.
Q You think you are over your head.
A Mr. Rausch could deal with these issues even better, but that is my recollection of where we were.
Q You were talking about Louisiana and North Carolina.
A Yes.
Q They approved your Price Cap Plan?
A They extended the Price Cap Plans.
Q Or extended the Price Cap Plans.
A Yes.
Q Was there any type of rate rebalancing in--to extend that plan or is it the rates as--
A Neither of those plans dealt with the USF

issues at this particular time.

Q So, what they have in the audit report on rates is pretty much what it still is, or are you not familiar with it?

A You know, I don't know. It is accurate as of when the audit report was done, but if there has been any rate changes in those states since then, I don't know the answer to that. I'd say it is probably still pretty close. But I'm confident there has been some business changes in some states, so I don't know about the business rates, the residential rates are probably still pretty close.

MS. CHEUVRONT:

I don't have anything further. Thank you Mr. Gerwing.

CHAIRMAN HELTON:

Ms. Dougherty?

MS. DOUGHERTY:

Nothing further.

CHAIRMAN HELTON:

Thank you Mr. Gerwing.

MR. MERSHON:

I call Mr. Rausch.

(WITNESS DULY SWORN)

The witness, STEPHEN D. RAUSCH, having first been duly sworn, testified as follows:

DIRECT EXAMINATION

BY MR. MERSHON:

Q Please state your name and address for the record?

A My name is Stephen D. Rausch, my business address is 601 West Chestnut Street, Louisville, Kentucky.

Q By whom are you employed and in what capacity?

A I'm employed by BellSouth Telecommunications and I'm the Manager in the Regulatory Department in Kentucky.

Q Mr. Rausch, did you cause to be filed in this docket testimony consisting of seven pages?

A I did.

Q Do you have any additions or corrections to that testimony at this time?

A I do not.

Q If I were to ask you these questions today, would your answers be the same?

A Yes, they would.

MR. MERSHON:

I move the introduction of Mr. Rausch's testimony into the record?

CHAIRMAN HELTON:

So ordered.

MR. MERSHON:

And he is available for cross.

CHAIRMAN HELTON:

Attorney General?

MS. CHEUVRONT:

Thank you.

CROSS EXAMINATION

BY MS. CHEUVRONT:

Q I just have a couple that you have already heard because they were referred to you, so you had all lunch time to practice on the answer.

A That's all we did.

Q That's all you did, I'm sure. If I recall the UNE rates are lower on this filing than any previous filing. Do you know the difference between the first UNE filing and this filing, the difference in how much they are?

A What other UNE filing are you referring to?
Q I mean, the first time we talked about UNEs and the one you filed in this proposal. I believe in the testimony and I know at the informal conference you all were talking about them being lower?
A Okay.
Q I'm just trying to get an idea of how much they continue to go down?
A I understand. In Administrative Case 382 there was a settlement of all the parties and a certain set of deaveraged UNE rates were filed. And in this proposal we have put forward a set of deaveraged UNE rates that are, in fact, lower than the ones in that settlement stipulation. There are different--there is a different methodology at work in the way those rates were calculated and also the model has been updated. The initial rates were based on the October run of the synthesis model and the rates that we put forward in this case are based on the January run of the synthesis model. So, there are methodological differences and those are

primarily responsible for the rates going down. And they are the lowest rates, the rates that we put forward here are the lowest rates that have been put forward.

Q So, there is a possibility that when we continue 382 they could go lower?

A That's a possibility, yes.

Q I asked Mr. Gerwing and he referred it to you that the CALLS proposal, that now since the Universal Service Fund is almost doubling, does that mean BellSouth will receive more from the--more of the universal fund from the feds than the--I can't remember what it was that you got previously, just a few months ago it seems like?

A The high cost considerations that the FCC went through using the ACPM, the synthesis model, resulted in payment to BellSouth for Kentucky. And that amount was reduced from the October to the January run from $12 million down to something a little over a million dollars. The CALLS--and that's still there and won't change--the CALLS proposal includes a $650 million Universal Service Fund that's additional subsidy inherent in access rates. It doesn't have anything to do with high cost, basically. And that is a national number. So, a portion of that will, in fact, flow to BellSouth, but it will flow to BellSouth from subscribers, not from interexchange carriers or from any funds for something there is a--the CALLS proposal includes an increase to the subscriber line charge and then there is a universal service line item that is estimated to be something in the other of 36 cents where those Universal Service Fund amounts will be collected. And then the CALLS proposal includes how that money is to be spent to reduce carrier common line or reduce multi-line business PICCs or treated as multi-line business SLCs as we go through the five year progression of the cost plan. What will happen is we will charge 36 cents to individual subscribers, that money will be put into a fund and then that fund will be distributed out to the recipients based upon formulas in the CALLS plan. BellSouth is a recipient of some of those funds. That money is then used to reduce either carrier common line or multi-line business, SLCs or PICCs.

Q So, the original which just went to eight states, you are saying this new amount will go to everybody?

A It doesn't go to everybody. There are payers and recipients, I don't know those details, I do know that BellSouth is a recipient, but there will be some LECs that are net payers. But it is a function of how much implicit subsidy they still had in their access rate structure. It is not a high cost evaluation, it is a function of implicit subsidies remaining in the access structure. And the high cost fund--there are three funds: Schools and libraries and rural health care, high cost, and now there is this $615 million fund that deals strictly with the implicit subsidies in interstate access charges.

MS. CHEUVRONT:

So, it has taken me about four years to get a little more knowledge on USF, maybe in four years I'll have more knowledge on this CALLS, too. That's all I have. Thank you.

CHAIRMAN HELTON:

Ms. Dougherty.

MS. DOUGHERTY:

Thank you.

CROSS EXAMINATION

BY MS. DOUGHERTY:

Q Could you tell us about what the Commission could expect in the July 1, 2000, filing under the current Price Cap Plan assuming that no final order is issued in this case prior to that time?

A Well, I can get you in the ball park, I think.

Q That's what I was asking for.

A The proposal that we have in front of you, of course, would supplant that, but assuming--given your hypothetical that there is no order before then and there would be something that told us to go ahead and operate under the existing plan, I guess our expectation of inflation is in the neighborhood of 2%, and, so, you wind up with approximately a 2% reduction, somewhere in the neighborhood of $6 to $7 million. And then the mirroring requirement for the CALLS plan which will be implemented in July, we expect that the impact of that would be roughly equivalent to what we have in the rebalance, that there would be some puts and takes there. The access charges would go--the switched access charges would go down, but non-traffic sensitive revenue requirement would likely go up. Whether those would be revenue neutral or not, I'm not sure yet. And I haven't seen the CALLS proposal that was just issued or just approved, and, so, I don't know what actual interstate CALLS rates will result from the approval of the CALLS plan and how that would be mirrored in the intrastate tariff.

Q Given the $6 or $7 million that you are estimating, where would BellSouth propose to make the reductions?

A Well, in light of our objective to focus on access charges and our commitment in the settlement stipulation, I think we would probably request deviation again to apply that reduction to non-traffic sensitive revenue requirement.

Q In your proposal the access rate drops to

.055, is that originating or terminating or applied to both of them?

A Both.

Q Both. You talked about a total of $2.5 million reduction, is that on--which end is that, one or both?

A Well, that is what it takes to get both ends to .055, given that both ends are today at .008 and the non-traffic sensitive revenue requirement only applies on the terminating side. So, it is a bigger reduction on the terminating side but only that is because where NTS is applied.

Q Okay, thanks for that clarification. BellSouth currently imputes access revenues to itself based on the Commission's Order in Administrative 323; correct?

A That's correct.

Q With your proposal to eliminate the NTS and reduce access charges, how would this imputation be affected?

A Well, the imputation requirements in 323 exclude non-traffic sensitive revenue requirement collected in the manner in which we collect it. So, NTS doesn't affect imputation. The reduction in the switched access rates would cause the imputation level to fall to .055, essentially. And it is pretty high today, it is like a nickel. So, two ends of switched and billing and collections, which is what is imputed, would maybe take us into the two cent category for imputation rate. I don't know the billing and collections piece any more so I'm guessing, but in that neighborhood.

Q Your testimony includes an adjustment for a reduction in the UNE loop rates; is that accurate?

A Yes.

Q Are these deaveraged UNE loop rates the same rates that have already been adopted on an interim basis in Admin 382?

A Well, they are not the same.

Q They are not the same rates, but the same--we are talking about the same charges; correct? That you are proposing to lower the rates here?

A Yes, the rate that is deaveraged is the UNE loop rate which we feel is the only rate that really should be deaveraged from the UNE perspective, the loop that--rates that are associated with loops or loop related services. So, for instance, the port charges not deaveraged nor is transport or the other elements of unbundled--the other prices associated with other unbundled network elements, it is just the loop.

Q The rate you are proposing for this UNE loop is lower than the rate in the stipulation that the Commission adopted on an interim basis in 382; is that correct?

A That's correct. And that--there is a chart, I believe, in my testimony of that. On page three of my testimony the rates in the stipulation are 14.79 for zone one, 27.68 for zone two, and 47.78 for zone three, and those rates change respectively to 13.54, 19.73, and 28.27.

Q Why are you proposing this reduction to UNE loop rate in this proceeding when the Commission has a pending case for UNE loop rates and other UNE charges and why not make the reduction in the case that is pending?

A Well, it is basically a matter of consistency. These are the UNE loop rates that we use to create the UNE package that we use to develop the size of the Universal Service Fund by comparing revenues to the UNE package. So, since these are the rates that were used these rates are most consistent with the theoretical basis that we feel should be used for deaveraging the unbundled network elements that some roll up of our rate groups in major metro, minor metro, rural kinds of zones for a UNE deaveraging. So, the rates are lower than those in the stipulation, they are the rates that we used to calculate the Universal Service Fund and they are more consistent with the methodology that we subscribe, so we felt like we should put them forward on an interim basis until the matter is resolved in 382. But we are not foreclosing debate on methodology in 382. There are people who are proposing other methodologies.

Q Okay. I wanted to talk with you for a moment

about the impact of your propose for the USF. In your original December 17, 1999, filing in this proceeding you determined an intrastate fund of approximately 25 million, and given revisions by the FCC that amount is now 32 million; is my understanding correct?
A Correct.
Q How are these amounts determined?
A Well, the methodology for determining them is essentially the same, but the numbers have changed from two perspectives. The UNE package changed because the synthesis model was updated and that is what results in--the UNE rates that we used in the original proposal were based on the Commission's 382 Order and the density zone based thresholds that the Commission had put forward in that Order. The--and, so, we used the synthesis model from October and those density based thresholds to establish the UNE zones. That generated a UNE price which was part of the UNE package. Then we compared that UNE package to revenues available in those wire centers and the difference rolled into the

Universal Service Fund. The synthesis model was then updated and we changed the way that the wire centers are combined into UNE zones. So, this proposal now uses rate groups, not density zones, to establish the UNE zones. That generated these UNE loop prices. That changed the price for the UNE package, and we also updated the revenues, by wire center. So, all the numbers changed. And, as a result of that, we went from a $24 million fund to a $32 million fund.
Q Could you provide a work sheet showing the development of this revised $32 million amount?
A Sure.
Q You have estimated the fund size using the HCPM to be $61 million and an estimated contribution by BellSouth customers of $33 million for the net gain of $28 million if USF is implemented; is that accurate?
A That's correct.
Q Could you provide a determination of these numbers and what they are based on?
A Yes. Now, or later or--

Q If you can describe it now that is fine. I had a work sheet in mind if that would be preferable.

A Okay. $61 million is just the synthesis model, the HCPM model output for BellSouth. The total fund is, like, $91 million for the state when you include GTE and Cincinnati Bell. So, that is where that number comes from. There is a report produced by the FCC that discusses intrastate revenues for telecommunications companies and I think in the comments that we filed in Administrative Case 360 there is a reference to those numbers that result in a 6.1% assessment percentage, $1.4 billion--almost $1.5 billion and a $91 million fund that gives you about a 6.1% assessment methodology. If you apply that 6.1% back to BellSouth's revenues, you get the offset of the $33 million. So, $61 million minus $33 million gives you the $28 million. But I can put that all on a piece of paper.

Q Okay. So, we talked about the proposal that you filed in December as revised at $32 million and then this amount of $28 million under the HCPM, could you explain how these relate?

A Well, the--again, the 24 versus 32 is a similar rationale with a different set of arithmetic. The $28 million number is a different rationale. As Fred mentioned earlier, that the original discussions of how you would size the Universal Service Fund were based on revenue benchmarks. And with the federal high cost determination and the synthesis model, the FCC changed to a cost benchmark. So, the rationale change that is involved in the numbers is the $28 million number based on the $61 million fund using the cost benchmark and then offset by the fact that we would have to contribute--BellSouth would have to contribute some to that fund. And, so, the net of that amount would be--the net receipts we would get would be 28 million. I think the point that we tried to make here was that these numbers are not so precise that we are not really talking about the same kind or single level of fund and, so, the $24 million number that is on the table in the rebalance is, we consider, enough at this point to move on, because we can model this thing to death. And every time you run the model you will probably get a little different number, and every time you tweak an input you will get a little different number, and is it worth the difference to continue to run these exercises. And, essentially, we are saying no, we don't think so. We think the rebalance proposal is adequate so let's move forward.

Q So, essentially, BellSouth is agreeing to absorb the difference between the amount of calculated USF and the amount you are seeking to rebalance your rates?

A It is an absorption risk because if that number is right, then there is some implicit subsidy left in the rate structure and that might be competed away. That number might not be right, so, yes, there is some absorption risk involved in this process, yes.

Q By characterizing this as a risk, are you conceding that none of the calculations for USF that we talked about today are final?

A Well, I'm concerned that they will ever be final, personally. But, clearly, there--you know, the FCC is not done yet with the high cost model, apparently. They are continuing to evaluate access line inputs and what have you and they are talking about updating it quarterly. So, I'm not sure the word final is in their vocabulary.

MS. DOUGHERTY:

I have nothing further.

CHAIRMAN HELTON:

Redirect? Does anyone have anything further? Mr. Gillis? Thank you Mr. Rausch.

MR. MERSHON:

I'd just like to ask the witness if he is clear on what he is to produce?

A Yes.

MR. MERSHON:

I was not totally clear on that second or third one?

A I need to produce the numbers that came up with the $32 million number and also the backup for the $28 million number in 360 comments; is that correct?

MS. DOUGHERTY:

That's correct.

CHAIRMAN HELTON:

Mr. Mershon, I forgot to ask Mr. Gerwing, but you said you have a list of those 31 counties and I would like to have a copy of that to look at.

MR. MERSHON:

Sure.

CHAIRMAN HELTON:

Not immediately but before the hearing is over today.

MR. MERSHON:

We'll get the list.

MR. KITCHINGS:

BellSouth doesn't have any other witnesses.

CHAIRMAN HELTON:

Ms. Cheuvront? We do have Mr. Drabenski?

MS. DOUGHERTY:

Yes, we do. Would yoy like to take the stand sir?

MR. MERSHON:

Madam Chairman, while the witness is coming, BellSouth would propose that the order of cross be the Attorney--either the Commission or the Attorney General and then BellSouth because it would help us determine whether we really have anything left for this witness.

MS. DOUGHERTY:

I can volunteer to cross-examine first, if you even want to characterize what I'm going to do as cross-examination.

(WITNESS DULY SWORN)

The witness, WALTER P. DRABENSKI, having first been duly sworn, testified as follows:

DIRECT EXAMINATION

BY MS. DOUGHERTY:

Q For the record would you state your name sir?
A It is Walter Drabenski.
Q Thank you. And what position or role have you had in this proceeding?
A As President of Vantage Consulting, we were the firm that did the audit of the PRP during 1999.
Q And has that audit been made a part of the record of this proceeding?

A Yes, it has.

Q On or about May 4, 2000, did you cause to be filed in this proceeding Vantage Consulting, Inc.'s, testimony?

A Yes, I did.

Q And was that testimony an effort on the part of all of the auditors of this case?

A We had five senior consultants who worked on the project, each contributed to the testimony, and I will try to answer the questions. Mr. Fowler, Mark Fowler is with me, I'll defer to him on the ones I'm not comfortable with but I'll make every effort.

Q At the time that the audit report was produced there were a couple of corrections made to the report, do you know whether all of those corrections have been filed into the record?

A I was under the impression that the corrections, which one chart that was mislabeled was included in everybody's distribution before it went out the door.

Q Do you have any changes to your testimony or to the audit report that has been filed?

A No.

Q I'd like to ask you some questions, as I referenced before, they are not exactly in the nature of cross-examination since you are a witness hired by the Commission.

A Okay.

Q You made several recommendations in your report and in your testimony and I wondered one of them referred to the need for better communication. What--between BellSouth and the Commission--what particularly did you have in mind or what recommendations do you have?

A Well, the entire series of issues in telecommunications that are before the Commission and the FCC and all of the utilities involved, they are so complex, so difficult to understand, as I think we have learned this morning and this afternoon, that it was our view that work shops or attempts to make sure that everybody was on the same educational level regarding types of models being used, the impact of various efforts at the federal level and ultimate at the state level. If that kind of communication could take place in a forum other than an official on the record forum, all the parties would be better prepared and better able to formulate strategies on a going-forward basis without doing any formats such as this where perhaps best solutions aren't put forth in the initial proposals.

Q You recommend eliminating the productivity factor determination, is that true?

A That is correct.

Q Why do you think elimination of this adjustment is appropriate in the current time frame?

A I think the report goes into some detail as to the FCC's CALLS report in discussing what value the productivity factor had. It was-- it served its purpose when initially put in place, so we are driving rates down to where they need to be. We discovered what we thought were a few problematic issues with using the productivity factor. First of all, you are depending on a number that is developed from a model that was never intended for being prospective--to be used on a prospective basis. It varies from jurisdiction to jurisdiction. The results of it are never known until some months after the time period is completed and then the way it was designed the implementation or the use of the revenues that dropped out from it were going toward rate reductions, which are somewhat counter productive, to try to stimulate competition. We went back and forth and--when we talked about getting rid of the productivity factor what we really mean is that we are looking at a better way to use the revenues that BellSouth generates through its improvements of productivity. I think we have seen that BellSouth is very capable of being innovative and bringing money to the bottom line when they are given an opportunity. What we hope is we come up with a method where those dollars were first known on a more definitive basis before hand and then used in a manner that brings more to the ratepayers in the state.

Q Is it your opinion that the use of the productivity adjustment money in the past four years has not been an effective way to increase the competitive market with the reduction of access charges then?

A Well, I think if the money had been used to reduce residential rates it would have been a disincentive to increasing competition, because as Mr. Gerwing indicated, virtually every indicator out there says that residential rates are lower than what they need to be to instill some competition. Now, the Commission, wisely, I think, allowed the company to use the money to reduce access charges and that helped. But on a going-forward basis I think the access charges will be resolved and then the question was what do you do with the benefits of this productivity increases and we were sort of in a quandary. And that's why when after the meeting with the Economic Development people we thought there might be a better way of utilizing those revenues.

Q Did you review BellSouth's rates and tariff structure to the extent that you feel comfortable telling the Commission that there aren't additional rates that BellSouth is charging that should be reduced rather than the incentive plan of capitol deployment?

A We clearly did not study rates to the degree that you would for a rate case. We did not look at any comprehensive current model results that would have told us where there was subsidies and where there weren't. I think Mr. Gerwing indicated this morning that even BellSouth today can't tell you what the exact level of subsidies are because they are just reaching some decisions as to what models to use and what inputs to include in them. I think what we saw from BellSouth in Kentucky, what we saw based on our understanding of the rest of the BellSouth system, in the industry in general, is that it was very likely that the residential rates, at least, were being subsidized. Whether the business rates were over subsidizing this is something we didn't go into any real detailed analysis on.

Q Your audit report recommends the elimination or the phase out of the TFP. BellSouth has proposed that it be eliminated on a flash-cut basis. Do you believe that phasing it out would be more appropriate in the current climate?

A We vacillated a bit ourselves. I think if you read our report and what some of the recommendations were and then read the testimony as of a month ago, initially we suggested that it could be cut out in the year 2000. I think based on what we are seeing, given that it is now June, it will be some period of time before we get a decision, given that the CALLS proposal has some rate increases, we are beginning to believe that perhaps a phase out is a better solution. The proposed transition rate plan that BellSouth provided in response to our audit did not have a lot of definition in it regarding the amount of dollars that would be used for infrastructure enhancement, for example, and only today in Mr. Gerwing's testimony that we learned what some of the real dollars are. I think even there there is some question as to what the net dollars would be. So, when we posed our testimony we tried to perhaps take a little harder position on when the rates increases for residential should go into effect and when the productivity factor should be phased out. And I think at this point we have got a little bit better idea but there are still some numbers that you probably need to better understand before you could come up with something that was certainly neutral on an overall basis.

Q How might the Commission go about phasing out the TFP if it chose to do that? Would you suggest just a lowering the percentage rates or how would that phase out work in your mind?

A Let me make something clear. Part of what is being--part of the quid pro quo is the transition plan basically says we will give you a fixed amount of money for infrastructure replacement, for reduction of access fees in lieu of the service fund. If the plan went on, the amount of money that the productivity factor produces each year is dependent upon inflation, you can see that over the last three years it varied from three million to seven million. Each of those years you didn't know how much money was going to be available because of the inflation rate ultimately dictated that. So, part of what is being offered here is a fixed, known, defined benefit versus an unknown benefit that will accrue based on what future inflation is going to be. So, I think that needs to be factored in when you look at how you phase things out. You know, we are halfway through the year 2000. I think people can probably come up with a reasonable estimate for this year. There is certainly a lot of speculation as to what inflation is going to be over the next couple of years and the feds certainly doesn't-- seems to have ideas that it is going to go up and I'm trying to keep driving it down. So, I think in the final calculations the Commissioners need to make an assessment of how valuable it is to have a known benefit that is promised to you that is going to be ruled out as opposed to some unknown benefit that is going to be based upon the national inflation rate.

Q Do you see the benefit of such deployment proposal then as opposed to the inflation factor that is unknown to be that the Commission can determine a set value ahead of time?

A Well, I think largely yes. It is certainly easier based on the numbers that have been provided. You have to make some leaps of faith as to what that is worth in real dollars on a rate of return basis, I guess, to find out what you are really getting. But it is certainly easier to come up with some sense of the value of that than it is to sit and say, well, we may get something but it all depends on what inflation. Secondly, if you look at it in a more macro basis, you look at what is the leverage of what you get out of infrastructure enhancement as opposed to some minimal--let's say we reduce business rates. Do you really see a macroeconomic impact to the state because interest rates--

interest business rates go down by a couple of percent; probably not.

Q How can the Commission be assured that the money that is deployed in broadband capital investment would not have been deployed anyway? How is it that the Commission can actually get its hands on the benefit that is going to accrue to Kentucky from this plan?

A I think Mr. Gerwing mentioned the company's business plan. And all companies, in particular those that are competitive, they look to the potential profit before they begin to deploy capital. To date I don't think there has been a widespread effort in the areas that are being emphasized to deploy capital for broadband initiatives. So, I feel comfortable that the company is saying we are going to spend money that we wouldn't ordinarily spend. To what degree that changes over the next couple of years as technology costs come down and uses utilization increase, it is hard to speculate. And I think the need to revisit the issue and the amount of money and how it is being spent in terms of technology is probably appropriate. I think there was some discussion about, you know, every couple of years coming back to look to see whether--are you in the right places, is the type of technology appropriate, the number of dollars being spent are appropriate, comparing them to other states, probably is the best way to resolve that. But at this point in time you have to simply look at it from a business man standpoint and the answer is without some type of incentive companies aren't going to invest in those areas because there is no potential return.

Q On page four of your testimony you mention the effort that has been made to move forward with the limited rate rebalancing. Do you have any recommendations with regard to the proposed rebalance made by BellSouth?

A As management consultants it really pains us to ever suggest rates should increase. We tend to look for ways to reduce cost, reduce operating expenses and keep rates low. By the same token when you look at the industry and you start talking about competition, rate rebalancing is probably both necessary to stimulate competition and probably will be required as the FCC moves along with some of its other initiatives. So, what we have struggled with between our original proposal and what we put in the testimony, I guess on page 12 or 13, was whether the rate rebalancing should be done over two years, should it be done over three or four years, should you delay it a little bit because of potential increases to bills that ratepayers will see due to the CALLS proposal, I don't have a real good answer there. I think how much--how quickly it goes depends on what the company is willing to give on the other side of the equation.

Q On the deployment side?

A On the deployment side, certainly the access fee reduction, and I think Mr. Gerwing indicated that the estimate the Universal Service Fund risk that they are talking is based on some current projects and whether those numbers will change up or down in the future, whether their risk is higher or less may be better defined.

Q You had been concerned about the quantification of the benefit of the deployment broadband and it hadn't been specified. You've heard the testimony this morning about the amounts to be spent over the next few years above that which had been budgeted. Does that allay your concerns? Or do you think that the Commission actually needs more detail about the deployment

A I think additional detail that could potentially be available is useful. And there is perhaps two side to the equation. What the company is saying is that we are willing to spend this incremental money in areas that we ordinarily would not invest, and that's quid pro quo. To simply take that number and assume that that is the benefit, I think is not quite correct, because there will, of course, be revenue generated by those who take advantage of the broadband. So, you have to net that out. So, when you talk about--what was the total 19 million or some number in that range of potential investment--I'm not sure that you can simply look at that as the total number. You need to ask what that means in net dollars. I would suggest that perhaps the company can provide some indication of what their business plans suggest revenue would be.

Q Is there any way that you could help the Commission to get a handle on whether the proposal by BellSouth to change its Price Cap Plan and the benefits that would accrue to Kentucky from that proposal are equal to or better than the current plan or the benefits that have already been derived? I mean, are we talking apples and apples or is there anyway to know?

A From what I heard today I think we are pretty close. I don't think--if the numbers that will be invested for broadband, in fact, are incremental numbers and the timing is done and the typical benefits to the state accrue, I think it is a very good deal for the state. I think as a number of people suggested earlier, since BellSouth really doesn't know what the exact cost is going to be, they are estimating cost based on today's technology. Tomorrow's technology or today's technology tomorrow may be less expensive or may be different and I'm not sure you want to give up some hard dollars or some potentially hard dollars that would have accrued through the productivity factor for some soft dollars that may, in fact, not be the same numbers if the cost for implementation go down in the future. So, it is-- again, I think that is why this needs to be done with some expectation that there is a review, and if it turns out that the cost for implementation was much less or the revenue that is being received is significantly more than the business plan originally estimated, then you need to revisit it and bring it back to the table.

Q Your testimony describes how profitability as measured by return on equity is not a viable regulatory measure under the Price Regulation Plan. What would you propose this Commission base its decisions regarding these rates to determine fair, just, and reasonable rates if it doesn't use any rate of return analysis?

A Well, when you go to a Price Regulation Plan what you are giving up is rate of return as the primary measure of a utility's success as a utility. In fact, the type of rates of return in the increases to a certain degree prove that the program worked, that the company took the initiative, did all the things to become profitable and competitive, which will ultimate drive their cost down as more and more of their products are moved to the competitive side of the business. Ultimately you are looking for reliability and quality of service, those can be measured. You know, we talked a little bit about service standards and reliability and they need to be changed, I think some new ones need to be incorporated, but as you go to a more and more competitive market environment, you are going to end up with market based prices which are really what you are ultimately looking for. And that is going to be--that is going to drive their profitability where it needs to be, or it will end up where it is based on their ability as a business to be successful.

Q Is it your view that the Commission should not then even consider the fact that, as you stated in your testimony, the return on equity as approximately 35% now and that that shouldn't even be considered when evaluating whether to have this rate rebalancing, whether there is a need for it or anything of that nature?

A Well, let me just back up. The 35% that is in our testimony is intended to show a trend. That is not rate of return on equity that would be used for any kind of regulatory basis. We used that operating income, if you were doing it on a regulatory basis you would probably go towards more net income which would take into account a number of other things, it would be lower. I think the company comes up with about 29% versus our 35%. Needless to say, the curve certainly shows that the company has been extremely successful in the last four years in improving their profitability. Now, to get to the question, yes, I think the Commission should be aware that BellSouth can be extremely innovative and extremely successful when the right carrots are put in front of them, and that is what has occurred. And, to that degree, I think there is no reason why the Commission shouldn't continue to push BellSouth to provide its customers with as much as possible and have to work hard to achieve the profitability they think they need to achieve. So, that is why when you look at our testimony on page 13, we took a much tougher position regarding rate reductions than what was in our original report. It was largely because--well, partly because we didn't have a good definition of the numbers and, secondly, because I think BellSouth has demonstrated that they can be a very innovative and successful company when pushed.

Q Does that innovation and success maybe lead you to think that this Commission should not need to be in a position to raise the residential rates?

A Well, you would still run into a quandary. It is real easy for all of us to sit here and say, well, great, they are profitable and we don't need to raise residential rates. All you do is put off rate rebalancing for another couple of years. I think the real issue is how do you raise residential--how do you achieve rate rebalancing? Do you do it slowly over a couple of years, do you do it in a couple of 10% increases in certain rate groups? My own--our professional opinion is that you should really work toward a rate rebalancing. We included it as an additional objective because I think it will stimulate competition faster and it will take away some potential rate shock two or three years down the road. The company proposed it be done over two years, I think I would look at what period of time you want the extension of the PRP or TRP, or whatever you want to call it from now on, to go, and maybe look at, you know, a longer period of time, recognizing, of course, that the more you stretch it out, the fewer dollars that the company is getting up front for access charge reduction and Universal Service Fund.

Q What are the consequences, as you see it, for this Commission not rebalancing rates or are there any?

A Probably rate shock three or four years down the road. Instead of a 20% rate increase over two or three or four years now, end up with perhaps 20% or more in the future from a pure rate standpoint. Secondly, you are not going to see any competition in the residential area, at least in the existing type of services, as long as you have that kind of an imbalance.

Q Do you think there would be any effect in the long run on the incentive to invest in our state if rates aren't rebalanced?

A I think there will be an impact in the long run of other CLECs to invest in infrastructure that will serve residential customers, except in the places where, you know, Louisville perhaps where there is a great enough density and it is close enough that they can be profitable.

Q But you would agree that to the extent that the Commission delays this inevitable, if it is inevitable, rate increase, there is benefit to those that aren't paying that rate?

A Absolutely.

Q Did your consulting group look at the entire telephone company market in Kentucky in reaching a recommendation?

A We looked at recent actions and activities of some of the other large telephone companies. We didn't do a comprehensive study of all the rates or all of the utilities, and I recognize that there is fairly broad range of types of plans and programs in place there.

Q Do you have any sense, based on your analysis done for this proceeding, whether rebalancing rates for only BellSouth would have any effect on other incumbent carriers in Kentucky?

A I don't know, Mark may have a better sense of looking at some of the rate comparisons in more depth than I did, so maybe you can hold off your question.

Q Okay. I'll take that up with him. One of your recommendations was to not redefine the baskets, or at least you were questioning BellSouth's redefinition of the service baskets. What is your--have your thoughts changed on that or what is your recommendation?

A A little bit, yes, they have somewhat. When the response of our audit came out initially we were surprised to see BellSouth proposed a complete new definition of their baskets because during the audit there was never any discussion of that. There had never been any petitions by the--by BellSouth to move products from one basket to the other. And, in fact, we made a recommendation suggesting that they reassess whether items in each basket were appropriate. So, we were rather surprised and didn't see an overwhelming reason for it. Since that time we have had BellSouth put in some greater description of why they were proposing it and in reading the CALLS proposal we recognize that if you do away with the productivity factor it really doesn't matter, and if the baskets that are currently being proposed by BellSouth probably come a little bit closer to what the CALLS proposal would envision.

Q I believe that you also indicated that the presumptive validity of tariffs may not be necessary at this time; is that still your viewpoint?

A Well, I think we propose in our report that presumptive validity be included. We looked at all of the other states that BellSouth had PRPs in and every other state was part of the plan. It hadn't been a specific problem, to date, in Kentucky because there hadn't been any cost--there hadn't been any products moved into non-competitive--or competitive side with costs that somebody might have objected to. Our view, however, was that we didn't want to see an administrative nightmare occur where the company tried to change their cost to be competitive and competitors were using the regulatory process to slow it down. It is more of a housekeeping issue than anything. It hasn't been a problem to date but it would be nice to have it in there in the future.

Q You mentioned the two new objectives that you proposed. One is the movement toward incremental and market rates and the other is insuring that competition is not hindered by the plan. How did these objective fair during the last four years? Did you propose these because these were issues that were of concern or--

A Well, I think it was more a matter of updating the plan. The plan, PRP, as it was originally designed, was formulated in, I guess, in early 1995 when the plan went into effect in mid 1995, so it was before the `96 Telecommunications Act. With four years of hindsight and looking at what the objectives that were stated in the original plan we just felt that the plan was better served by adding these two--I don't think that we would say that these two objectives were hurt during the first four years of the plan, but on a going-forward basis we felt it would be enhanced.

Q Do you think that the current Price Regulation Plan has impeded competition in Kentucky?

A I think my answer would be no. And I say that because the company and the Commission wisely did not move money in the last two years, at least to reduce rates and widen the gap of rate balancing. And I'm hesitating on the answer because I think the advent of competition probably is more dependant on other factors than the Price Regulation Plan, technologies, consumer requirements and so on. So, it more a matter of the plan probably didn't stimulate competition a great deal but it didn't necessarily hurt it.

Q Do you think that the plan as proposed by BellSouth would stimulate competition more appropriately?

A It's an incremental improvement. Certainly, the rate rebalancing goes a long way towards taking some barriers to competition away. Again, I think the primary drivers for successful competition will come from outside the plan. It will be new technologies, new opportunities, changes in the economy itself.

Q Do you work generally in several different states or different regions of the country?

A Yes.

Q And have you seen any plans or recommendations by other Bell operating companies that you think this Commission should consider?

A I can't think of anything that I've seen right now, Mark may have a comment or two on that when he gets on. He is probably a little bit more familiar. We looked at and, I think, in our report included the PRPs we saw throughout the country, you know, and made a number of comments and observations on those. We seen a couple of changes, I think you mentioned Louisiana, what took place there. Quite frankly, I think a great deal has changed in the last week.

Q With the CALLS proposal?

A Absolutely. Louisiana probably was--made an appropriate decision to not take any real action other than to extend their plan when they had to make their decision a month or two ago. And today they are looking at a better defined arena to work in, so it makes a lot more sense to be more pro-active in going forward than perhaps Louisiana or was it North Carolina had been just a few months ago.

Q Are you aware of other states that have already rebalanced their rates and what kind of effect that has had?

A I know that it has been taking place, we've discussed it, I don't have the information at the tip of my fingers. Mark may be able to shed more light on that.

MS. DOUGHERTY:

That's all of my questions.

CHAIRMAN HELTON:

Attorney General.

CROSS EXAMINATION

BY MS. CHEUVRONT:

Q As usual most of my questions were covered, so let me get organized for a minute. On page 49 of your report you say that competition has come in the form of new products and services and I believe you just said that on the stand. Were you saying that BellSouth can't offer new products and services, or am I just misreading this statement?

A Let me refresh my memory.

Q Or reading too much into it?
A Page 49 under the subtitle Competitors?
Q Isn't it one, two, three, Regulation, Chapter 3 in your Audit Report?
A Right.
Q Yes.
A You said page 49?
Q Yeah.
A Well, the purpose of this section here was really--was an industry discussion of industry structural changes. And I think to answer your question, when you talk about new products and services, BellSouth, like any other company out there today, will base the implementation of new products and services on their business plan and whether they think they can make money. A lot of what we talked about this morning was their willingness to invest in regions of the state that might not ordinarily be profitable. But quid pro quo, so to speak, is that they will make the investment with much more risk towards potential profitability of that investment than they ordinarily would. Beyond that, I think, and, again, Mr. Gerwing said when we talked about those

products for broadband implementation, it may be different products than what are envisioned today. So, I think BellSouth is certainly willing to look at new products and services, but under today's environment they want to look at it when its got a reasonable prospect for profitability.

Q I just wanted to make it clear that you weren't saying that they weren't able?

A Oh, no, no.

Q And that's the way--as I said, in my mind that is the way I read it. I just wanted to make it clear that that is not what you were saying. You talked about there not being competition and the IXCs not entering the market, you--at first I thought you were saying it was just because of the rates but I think you went on and elaborated on it and it had a lot more to do with just the rates was not what was causing the lack of competition in Kentucky. But, then, I also heard you make mention--you do know on page 97 and 98 where you all have your little rate chart of all the BellSouth states--are you familiar with that?

A Yes.

Q Earlier this morning I believe you were here when Mr. Gerwing said there is competition in Florida and Georgia. As we see from your rate charts, Georgia has the third highest business rates and Florida has the lowest business rate with Kentucky being just next; on the residential side, Florida has the lowest residential rates. So, rates may really not have a lot to do with whether the IXCs want to come in or enter competition?

A Well, I think we better be careful of the timing here. You know, these rates were published rates, tariffs based on what we saw a year ago. The activities that have taken place in the last--and they probably went into effect a few years ago. So, you are comparing rates that may be three years old with the competition that has taken place in the last 12 months. I'm not sure what time frame Mr. Gerwing was referring to when he talked about those two states being the states with perhaps the greatest competition at this point. So, I just want to be careful, though, that we don't take some old numbers and try to reach a conclusion that there is no correlation between these numbers and where people--

Q He did say that he wasn't aware whether they had changed or not. Do you--from the way it sounds today the only states you work in are BellSouth states?

A No, no, no.

Q Okay.

A It is just that as part of this audit we took a very close look at all of the programs that BellSouth had in each of their states. So, we are much more familiar with those rates and programs than some of the other large utilities.

Q Just from knowledge from past work, are you aware of any other rates in non-BellSouth states or how they compare to rates being offered in other non-BellSouth states or companies?

A I've got all kinds of statistics and given rates.

Q Just general.

A Well, they are all over the place. I mean, depending on cost structure, levels of subsidies, what efforts have been taken. I think in Chapter 2 we looked at a lot of different programs and, again, here we were looking at Price Regulation Plans as opposed to basic, this wasn't a rate study by any means. So, the little bit that is in there about rates was sort of put in there to bring up a point. We didn't make any attempt to compare rates in Kentucky with the rest of the industry. That's pretty common information, there is a lot of data basis that have that out, you know, that type of information, I just haven't really looked at any of it in months, so I would be hazarding big time guesses.

Q Well, one of the things we commonly hear and you are probably the first person I've heard expand on why there is no competition in Kentucky is because our residential rates are so low and they need to get higher. And I was just curious on--if there is residential competition in other states how--you know, if they are that difference where you can compare, is that really what is causing competition not to be in Kentucky?

A It is really complex. In fact, Mark looked at an ILE--CLEC, I'm sorry, in Colorado and it was interesting because that CLEC basically had an exclusive franchise because nobody wanted to compete with him and I think it is written up in Chapter 3 or 4 of the report, it is a little discussion of it. Yeah, there is competition there. A CLEC came in and is providing local service to a small subdivision, fortunately it is the only competitor there, so it is a much more complex issue than simply what the rates are. Knowing whether there is subsidies, although the subsidies is probably the driving factor that would act as a barrier.

Q I don't--didn't hear you say--and if I remember reading in your audit report, and I think also in your testimony, you suggested an initial rate increase of not more than 10% and then today you basically said because maybe rate shock down the road, and then you thought freezing was a good idea. Do you still believe freezing is a good idea

A Well, the idea was to--when we were putting the report together, eight, nine months ago, we were toying with the idea of let's get some initial increases in, let's bring the residential rates a little bit closer to cost and then freeze them and see what the market is doing, whether there is any impacts. So, that is basically where we were coming from and, you know, I think the discussions today went to can you slow it down and do it over a longer period of time. Mr. Gerwing indicated you can skin the cat a lot of different ways and it is just a matter of what is most palatable at the time.

Q Well, do you still think that even though this was written eight or nine months ago that possibly freezing them to see what the market is doing may still be a good idea?

A I think we proposed going along, which is what the company's proposal is, rate increases for two years and then a rate freeze for the next two.

Q They proposed inflation, rate increase 10%

over two years and then increase it.
A Okay, well.
Q That's why I wanted to get your--
A I guess after a 10% increase 2% doesn't look bad.
Q It depends all of the other little surcharges you are putting on that bill, I guess.
A Right.
Q I just have one final question. I asked Mr. Gerwing this morning and it is basically just since you have knowledge from all over the state if maybe you have any ideas. As it appears from this alleged competition, it is only helping the low income and any large long distance user, an Internet user or anybody that wants advanced technology. And you even said--I can't remember if it was in the audit report, the testimony--that the POTs customers will not see any noticeable rate reductions because of competition. It appears from what I see and what I hear is, though it is not a rate, the bill is rising because of competition. Do you have any suggestions on what could possibly be done to help these POTs customers?

A I would refer back to the CALLS decision because that addressed that. In fact, some of the final changes that were made to that proposal were changes that took into account we are doing audits on the long distance side giving way with minimum bills and so on in order to give some rate relief to users of-- minimal users. I'm not real familiar with the exact structure here but the more you can make the bill variable for customers with minimal usage, the better it suits their spending habit, the usage habits.
Q I'm not that familiar with the CALLS proposal either, and the more I hear today the less I'm familiar with it. But from my naivety knowledge and from what I read on the consumer side, it sounds like that they took away something that was competitive, the long distance side. You could, you know, maybe go to another long distance user, some weren't charging minimum fees, some were, obviously, some were charging USF percentage, some flat fees, you don't even have to have a long distance user any more if you don't want to,

so that already eliminated that side. If you wanted to, if you actually shopped around and knew the right questions to ask and took a lot of what they took away there and put it on to the regular interstate field, so it seems like it may not necessarily have helped the POTs customers?

A No, I think you need to look a little deeper and I'm not an ex--I read it once and that was late last night, so I'm certainly not an expert. But my understanding, at least from the Executive Summary, is that a minimal usage customer who opts through AT&T or Sprint to take a plan with no minimum payment should see a monthly decrease in their overall bills. I'm generalizing but I think that is my recollection in reading that.

Q I know that is what it says but some of the charts I have seen--what I'm saying is this part was competitive that they took away. And they took--and they added it to something that is not competitive. So, if you had already worked and gotten the long distance part that they have taken away out of your

bill, then it actually increased your bill
some?

A I'm probably not a good witness on that.

MS. CHEUVRONT:

And I'm maybe not even stating it right. So, I have no further questions.

CHAIRMAN HELTON:

Mr. Kitchings?

MR. KITCHINGS:

Yes, Chairman, thank you.

CROSS EXAMINATION

BY MR. KITCHINGS:

Q Good afternoon Mr. Drabenski, I'm Langley Kitchings with BellSouth and I do, in fact, I have just a few, very, very brief questions for you. I'd like to take you first to your testimony, I believe it is on page 13, you have made reference to it once or twice and I just want to make sure we are all together on this. This is the second bullet point on line 12. Are you with me?

A Yes.

Q In that statement you are not suggesting, are you, that a rate rebalance is not needed?

A No, I'm not.
Q You are, in fact, still in favor of a rate rebalance?
A Yes.
Q Isn't it true, Mr. Drabenski, that in your findings in the audit report and in your testimony you represent the--or agree that a total fact of productivity needs to be done away with?
A Yes.
Q And, in fact, you would also support the notion that a Universal Service Fund needs to be undertaken and properly done as soon as possible, wouldn't you?
A Making it general, I would agree with you.
Q And you are also familiar with BellSouth's broadband deployment offer in this PRP that we have put forth, aren't you?
A Correct.
Q And you would support that that is a good thing for the State of Kentucky and its associates, wouldn't you?
A I'd like to think we first proposed it.
Q Okay. So, I'm originally from Mississippi and we have a saying down there about

shelling down the corn, it is kind of getting to the bottom line. So, when we shell down the corn from all of this, is it fair to say that you support a rate rebalance?

A Yes.

Q You support the doing away with total factor productivity?

A In some manner, correct.

Q Okay. You support the broadband deployment?

A Yes.

Q And you support a Universal Service Fund?

A I believe the issue needs to be addressed, yes.

MR. KITCHINGS:

Thank you. I don't have anything further, Chairman. Thank you.

CHAIRMAN HELTON:

Ms. Dougherty?

MS. DOUGHERTY:

Nothing further.

CHAIRMAN HELTON:

Ms. Cheuvront?

MS. CHEUVRONT:

No.

CHAIRMAN HELTON:
Mr. Holmes?
VICE CHAIRMAN HOLMES:
I just have a question, you talk about the difficulty of getting at the same subsidies. How do you ever know what the exact amount of subsidy is or is there any way to determine--
A Well, first of all, you have to use some type of model to come up with an estimate. So, right off the bat you know you've got a wrong answer. Then if you want to get closer and closer to the right answer you have to go with finer and finer geographic areas so that you are beginning to match the actual cost investment with the users. And that becomes more and more complex, so you ultimately get down to, I believe, every call center having its own cost associated with it. And I mean at some point in time you could--you know, every house, depending on how many feet of wire they have, has a separate cost element. I think everybody agrees you certainly can't do it on a statewide basis because you know it is wrong. Even trying to do it on a

politically geographic basis, counties, is wrong, because you have urban versus suburban.

VICE CHAIRMAN HOLMES:

Well, I guess what I'm getting at until we get competition we really won't know what the subsidies are.

A When you can get the market rates then you know what it is worth. And you can only get the market rates when you have competition.

CHAIRMAN HELTON:

Thank you Mr. Drabenski.

MS. DOUGHERTY:

We have just very few questions for Mr. Fowler.

(WITNESS DULY SWORN)

The witness, MARK FOWLER, having first been duly sworn, testified as follows:

DIRECT EXAMINATION

BY MS. DOUGHERTY:

Q Mr. Fowler, did you participate in the audit that has been made a part of this record?

A Yes, I did.

Q And in the testimony that has been filed

approximately May 4, 2000?
A Yes, I did participate.
Q Do you have any experience to tell us what states, if any, have already rebalanced their rates and what effect that has had?
A Yes, I would like to address that. The problem with addressing it as a rebalance is rebalance by definition would mean that you had some implicit subsidy. Many states don't have the differential between the actual cost, or what we think are actual cost, and then the regulatory rate, in which case you don't have a rebalance issue per se. So, to just simply say are there states that have done a specific rate case, or rebalancing, is almost impossible to say. In fact, I don't know of any that called it that. There are in each rate case, particularly those that have come up recently, movements towards bringing rates towards market or cost, in fact, which could be called a rebalance. But are they called that specifically, not that I'm aware of.
Q And do you know what effect those rate

changes in the states have made on the market?

A In the market particularly or are you speaking to residential or business or both?

Q Both.

A For the most part in the residential area there is very limited competition anywhere in the U.S. as a result of rates or anything else.

Q And what about the rate changes for the business?

A Rate changes on the business side, I think-- I'd say basically the same, that the competition is being driven by factors other than rate changes or the rate changes that have taken effect thus far.

Q So, is it your testimony that the rate rebalancing that is proposed here will not actually affect or bring about competition in the residential market?

A I would say it would not bring about competition, it removes--makes one step towards removing a hindrance to competition. And it moves rates towards the direction of where they need to be to be in a competitive environment, which is basically towards market where it is caused.

Q Do you have any opinion about the effect of the rate changes proposed by BellSouth in this proceeding that they might have--the effect they might have on other ILECs, that is, rebalancing Bell's rates but not rebalancing other ILECs rates?

A We did look at that particularly early on in particular with respect to Cincinnati Bell. And we, in fact, decided that to consider that in what we were doing was to place unnecessary shackles on us and what we were recommending to the Commission on a going-forward basis, for the simple reason that we had far better information than was the case in the rates during the rate setting for the other ILECs. So, we went forward and tried to, in fact, move forward on a clean slate without considering that.

Q I understand you are familiar with the CALLS Order that has recently been released from the FCC?

A As much as I could be reading it over the weekend, yes.

Q Can you tell us what the impact of that may be on

BellSouth's proposal from your view point?

A From my view point the impact is more at a high level and more philosophical in that the FCC in that Order is saying that we do not have a perfect order in this case but the time has come to move forward and remove implicit subsidies and make those subsidies explicit, and to make every effort possible to move towards a cost basis or a market cost. And it is time to stop, basically, haggling over these things and let's make a move forward. That any move forward is better than continued inactivity.

Q And from your view point as a management consultant, do you agree with that?

A Absolutely.

Q Is it your testimony that the FCC's adoption of the CALLS II proposal makes this plan, as proposed by BellSouth, more attractive for adoption in Kentucky?

A I think it lends additional credibility to making the kinds of moves that we proposed in the report, yes.

Q Does the plan as adopted by the FCC make continuation of the current Price Cap Plan of BellSouth's more or less attractive?

A I think it makes it less attractive in that some of the uncertainty and the hindrances that were there and that let us, during our report, to even negotiate and haggle among ourselves as to what should be done are no longer there. The path is much clearer at this point as to where federal action is going and I think that says now the door is open for state regulators to take similar action.

MS. DOUGHERTY:

Thank you, Mr. Fowler. I have no more questions.

MR. KITCHINGS:

No questions.

CHAIRMAN HELTON:

Thank you Mr. Fowler. Are there any other matters? The transcripts will be ready on the 20; is that correct Vivian?

COURT REPORTER:

It will be filed on the 21st.

CHAIRMAN HELTON:
Be filed on the 21st. Do the parties wish to file post hearing briefs? Do you see the need for post hearing briefs?
MS. CHEUVRONT:
Unless you feel it is necessary, we don't.
CHAIRMAN HELTON:
Mr. Kitchings, Mr. Mershon?
MR. KITCHINGS:
I'll defer to Mr. Mershon on that one.
MR. MERSHON:
I think with where we stand now, if you don't think we will need to file a brief, I think we would like to look at the transcript. Like I say, right now we probably wouldn't, since Ann is not filing one I don't believe we need to add anything more to this.
CHAIRMAN HELTON:
So then--
MS. DOUGHERTY:
We had a couple of items that you all were going to produce.
MR. MERSHON:
Yes.

MS. DOUGHERTY:

Can you provide those? You don't need the transcript to provide those I assume?

MR. MERSHON:

No, we do not. Assuming that we have it down what exactly--what exactly you want us to file, and I'm pretty sure we do. So, can we have a couple of weeks to get those in?

MS. DOUGHERTY:

Well, that would make the case submitted on the 21st for the Commission's decision; correct?

CHAIRMAN HELTON:

Unless Mr. Mershon decides that--he did not preclude filing a brief, so unless he does that it would not be submitted on the 21st.

MS. DOUGHERTY:

Do you want to just let us know then?

MR. MERSHON:

Yes, we will let you know.

MS. DOUGHERTY:

Okay.

MR. MERSHON:

Right now we don't plan on filing a brief.

CHAIRMAN HELTON:

If there are no further matters, we are adjourned.

(OFF THE RECORD)

CERTIFICATE

STATE OF KENTUCKY)
COUNTY OF FRANKLIN)

I, VIVIAN A. LEWIS, a Notary Public in and for the state and county aforesaid, do hereby certify that the foregoing testimony was taken by me at the time and place and for the purpose previously stated in the caption; that the witnesses were duly sworn before giving testimony; that said testimony was first taken down in shorthand by me and later transcribed, under my direction, and that the foregoing is, to the best of my ability, a true, correct and complete record of all testimony in the above styled cause of action.

WITNESS my hand and seal of office at Frankfort, Kentucky, on this the 19th day of June, 2000.

Vivian A. Lewis

VIVIAN A. LEWIS
Notary Public
Kentucky State-at-Large

My commission expires: 7-23-01