

REQUEST: Provide full and complete copies of all CSAs entered during 2001 and 2002, or, in the alternative, if such CSAs are on file with the Commission, a list of those CSAs and their effective dates. For each CSA, provide:

- a. Customer name.
- b. Effective date.
- c. Expiration date.
- d. Description of services included.
- e. Unique conditions involving the service.
- f. Total value of the contract.
- g. A price-out of the contract
- h. A price-out of the same services as provided under tariff, if applicable.
- i. The net savings to the customer in total and on a per unit basis.
- j. Details concerning installation or other fees waived pursuant to the CSA.
- k. Details concerning recurring rates suspended or waived pursuant to the CSA.

RESPONSE: BellSouth is providing the responses to the above request on an enclosed CD-ROM. As described in BellSouth's confidentiality petition, portions of the Attachments to this response are considered proprietary.

CSAs not already on file with the Commission are provided on the enclosed proprietary CD (directory BST_R_PSCDR#1_ATT_032503) in one of two subdirectories as described below:

| Subdirectory | Description |
|-----------------|--|
| PDF Files | CSAs |
| Duplicate Files | Duplicate unsigned copy of CSAs with poor legibility |

Each file is named using the CSA case number. The PDF files were converted from TIF files that BellSouth utilizes for storage of signed contracts. To minimize file size for storage efficiency, the original TIF files are scanned at a low resolution making it difficult to create a searchable PDF file. For this reason, the resulting PDF files are not searchable.

RESPONSE: (continued)

- a. See file named "Attachment No.1 Proprietary.xls" on Proprietary CD and file named "Attachment No.1 Edited.xls" on Edited CD in directory BST_R_PSCDR#1a-f_ATT_032503.
- b. See above response to Item No. 1a.
- c. See above response to Item No. 1a.
- d. See above response to Item No. 1a.
- e. See above response to Item No. 1a.
- f. See above response to Item No. 1a.
- g. As ordered by the Commission, a 10% random sample was conducted to select those CSAs for the detailed price-outs requested in Items 1g to 1k. The 78 CSAs selected from the total universe of 780 cases by the sample are identified in file Attachment No.1.xls (CD directory BST_R_PSCDR#1_ATT_032503), Column B. The sample was taken using the RAND function from Excel to develop 85 random numbers between 1 and 780 [RAND()*(780-1)+1]. These values were frozen so that any worksheet recalculations (i.e. the F9 key) would not change the random values. Next, the initial 78 values were placed in ascending order using the Excel data sort tool. For any duplicate values, the next additional random value (i.e. the interval consisting of the 79th to 85th values) was used as a substitute to result in 78 different random cases within the sample. The sample has a confidence level of 95% assurance with a confidence interval of plus or minus 6%.

The resulting price-outs are furnished in directory BST_R_PSCDR#1g-k_032503 on the CD. Each file is named using the CSA case number. Searchable PDF and Excel files are provided in subdirectories Excel Files and PDF Files. The price-outs revealed

RESPONSE: (continued)

some discrepancies between the revenues filed with the Commission and the revenues computed in the price-out. This occurred for twelve of the seventy-eight CSAs in the sample. Notes in the appropriate price-outs explain the reasons for these discrepancies.

- h. See above response to Item No. 1g.
- i. See above response to Item No. 1g.
- j. See above response to Item No. 1g.
- k. See above response to Item No. 1g.

REQUEST: Provide a narrative description of your policies regarding entry into CSAs with specific customers, including a description of the manner in which those CSAs are filed or reported to the commissions for the states in which you operate. If you operate in multiple jurisdictions, compare and contrast applicable state requirements. Provide citations to applicable rules in other jurisdictions.

RESPONSE: BellSouth enters into CSAs with specific customers in order to provide competitive prices for the same or equivalent type of service being offered by competitors. In consideration of developing a CSA for a customer, BellSouth considers many factors in evaluating a specific situation. These include the competitive offer being considered, the volume of service, overall revenues at risk, customer willingness to pay and additional business opportunity.

The services offered through CSAs relate to a highly competitive segment of the business market. There are currently over 20 competitive providers serving various segments of the business market in Kentucky. Many of these competitors are large, fully integrated companies such as Adelphia Business Solutions, and NewSouth. These companies, like many others, are capable of offering a variety of telecommunications services under specifically tailored pricing plans.

The matrix set forth below provides a description of the manner in which the CSAs are filed and reported to the Commissions in BellSouth's nine state area, the applicable state requirements as well as all corresponding statutory and/or regulatory citations.

CSA REGULATORY FILING REQUIREMENTS

| STATE | CSA FILING REQUIREMENTS | REGULATORY REQUIRING DOCUMENTATION | GENERAL INFORMATION | COST SUPPORT REQUIRED | CONTRIBUTIO N ANALYSIS | FILE COPY OF SIGNED AGREEMENT |
|-------|---|---|---|-----------------------|------------------------------|-------------------------------------|
| AL | <p>The Company has to provide a copy of the CSA contract, which includes customer name, contract period, the cost data/summary, revenue data, and the competitive documentation to the PSC after the customer has signed the contract.</p> <p>The same applies to V&T CSAs. CSAs on IFBs can only be done if they are packaged with a non-basic service or product.</p> | <p>This information is filed as per the General Subscriber Services Tariff (GSST) A5.6.1B. "Rates, Charges, Terms and additional regulations, if applicable, for the contract service arrangements will be developed on an individual case basis, and will include all relevant costs, plus an appropriate level of contribution. After acceptance by the customer, the Company will furnish the proposal and appropriate support documentation to the Commission at least 15 days prior to implementation." The same wording is in the Private Line Services Tariff B5.7.1B.</p> | <p>CSAs may be offered on any non-basic service in the GSST and in the Private Line Tariff, as defined in Docket 24499, Order dated 9/20/95.</p> <p>CSAs may be offered for a basic service only if the basic service is offered as part of a package w/non-basic services</p> <p>See Footnote 1.</p> | Yes | Summary | Yes |
| FL | <p>The Company no longer has to provide anything to the FL PSC for CSAs on an individual basis. However, the Company provides cost support if/when the PSC requests such documentation. CSAs must cover the costs. CSAs can be done on IFBs only if the basic service (1FB) is offered as part of a package with non-basic services.</p> | <p>The elimination of the quarterly CSA report was ordered in Docket No. 010634-TL, Order No. PSC-01-1588-PAA-TL approved 8/31/2001.</p> | <p>CSAs may be offered on any non-basic service in the GSST & in the Private Line Tariff.</p> <p>CSAs may be offered for a basic service only if the basic service is offered as part of a package w/non-basic services.</p> <p>See Footnote ¹.</p> | No | None | No |

¹ A V&T Agreement is a CSA and is treated as such.

CSA REGULATORY FILING REQUIREMENTS

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| GA | <p>The Company provides a summary of each case on a monthly basis on the Georgia Monthly Filing Report which requires one line of data per case.</p> <p>The Company, under trade secret, provides customer name, customer specific information, a single summary number for revenue, and a single summary number for cost. A nondisclosure agreement must be signed before anyone can look at the trade secret copy. CSAs can also be done on 1FBs as long as it meets the CSA requirements.</p> | The monthly report was based on verbal agreement between BellSouth GA State Regulatory and the GA PSC Staff with verbal agreement from a GA PSC Commissioner in February 2001. | See Footnote 1 & ² . | Yes | 1 Line of Info per CSA (includes cost & rev) | No |
| KY | The Company provides a summary of each CSA on a monthly basis on the Kentucky Monthly Filing Report which requires one line of data per case. | This information is filed as per the Order in the Matter of BellSouth Telecommunications proposed changes in Procedures for filing Contract Service Arrangements and Promotions – Case No. 2001-077. | See Footnote 1 & 2. | Yes | 1 line of Info per CSA (includes cost & rev) | No |
| LA | CSAs are not filed w/LPSC. However, the PSC requires the Company to maintain the backup and cost support for each case in the event one is challenged. The backup info must meet the PSC standards if challenged. This means that in addition to customer name, location, description of service offered, terms & conditions of the contract, etc., the cost support must demonstrate that the service(s) has/have been offered at a rate level equal to or greater than the cost. Also, for CSAs, the competitive documentation must support offering the CSA in the first place. | The discounted tariff pricing through a CSA was mandated per LPSC Order No. U-22252-D dated 3-22-99. | See Footnote 1 & 2. | No | None | No |

² CSA may be offered on any service in the GSST & in the Private Line Tariff.

CSA REGULATORY FILING REQUIREMENTS

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|-----------|--|---|---------------------|--|---|--|
| MS | CSAs are not provided to the Commission but are subject to provision upon request of the PSC, but so far have not been requested. | This information is filed as per the General Subscriber Services Tariff A5.6.1B. The same wording is in the Private Line Services Tariff B5.7.1B. | See Footnote 1 & 2. | No filing is required, but send an email to MS Regulatory indicating the Rate Authorization has been released. | None | No |
| NC | The Company files a list of case numbers with service description for CSAs once a month, along with a sample copy of a blank CSA contract. | The contract information is filed as per the Order Authorizing Price Regulation; DOCKET NO. P-55, SUB 1013; dated 6/2/96. Page 5, Para. VI. B. | See Footnote 1 & 2. | No | None | No |
| SC | On a monthly basis, the Company provides a list showing the agreement date and the case number of all CSA contracts signed during the month to the Commission. Individual contracts and cost information are not furnished to the Commission. From the list furnished to them, the Commission Staff selects three (3) cases to sample/audit. The Staff requests BellSouth to furnish them a copy of the signed contract and revenue/cost information on these three cases. CSAs can also be done on 1FBs. | A BellSouth letter to the PSC in June 2001 and the PSC acknowledgement in a Commission Directive (June 12, 2001) is the authority to file the case number and contract date monthly with the PSC Staff. | | No | 1 line of Info per CSA (case # & date). (Signed Contract & Revenue /Cost summary is provided on selected 3 cases selected by the Commission to be sampled/ audited per month) | Normally, No. (But, Signed Contract & Revenue /Cost summary is provided on selected 3 cases selected by the Commission to be sampled/ audited per month) |
| TN | All special contracts are filed with the Tennessee Regulatory Authority as tariffs. These filings include an Executive Summary (a brief one page summary), a tariff page, a copy of the signed contract (which includes a Tennessee Addendum wherein both parties acknowledge that various competitive alternatives are available), and under separate cover, proprietary cost support. The cost support includes a USOC-specific analysis to show contribution and revenue to ensure that the special contract is above cost. These Tariffs are filed in A5 and B5. | The requirement for TRA review and approval of special contracts is set forth in the Authorities Rules, specifically the General Public Utilities Rules, Chapter 1220 – 4 –1 - .07: SPECIAL CONTRACTS. | See Footnote 1 & 2. | Yes | Detailed (under proprietary cover). | Yes |

REQUEST: To what extent should a telecommunications carrier be permitted to price its services differently depending on the existence of a competitor that is willing to serve some customers but not others?

- a. If you believe different pricing in such instances is appropriate, what level of objective evidence showing the actual existence of a competitive offer for the services in question should be required?
- b. If you do not believe that different pricing in such instances is appropriate, what would be the financial result to carriers who would no longer be able to price services based on competition?

RESPONSE: In competitive markets where competitors are willing to serve some customers and not others, a telecommunications carrier must be permitted flexibility to differentiate among customers. For instance, ILECs' competitors can and do target specific classes of customers in specific geographic areas where they believe the ILEC may be vulnerable. The ILEC should be free to target a competitive response to the same customer or group of customers.

Tailoring the price of a service to a specific customer or group of customers can improve overall efficiency and increase overall consumer welfare. Given this, ILECs operating in competitive markets should be allowed considerable latitude in determining their individual pricing strategies. For instance, in a competitive environment, several variables and customer characteristics are relevant when determining what price is to be offered. One relevant variable is the nature and extent of the competition itself. Others may include the volume of services requested by the customer, the total billed revenue of the customer and the impact the loss of that revenue will have on the carrier's business. Price differentiation among customers may also be based upon other criteria relevant to competitive issues such as the potential that a particular customer will generate additional revenue by purchasing integrated service packages or bundles.

RESPONSE: (Con't)

It would be unwise to sustain a regulatory policy where a telecommunications carrier (even if that carrier is an ILEC) that discounts to some customers must discount to all customers. Under such a regulatory structure, it would be uneconomic for sellers that face competition only for some customers to reduce prices to all customers. Competitive rivals would, of course, be aware of such a regulatory restriction, and would not find it necessary to compete as vigorously to obtain customers. The result of such a requirement would be that consumers would be deprived of the low prices as well as the enhanced and innovative services that result from competition on the merits.

When effective competition exists in any given market, direct evidence of a specific competitive offering is unnecessary. In Kentucky, it is objectively verifiable that there are competitive providers offering substitute or functionally equivalent telecommunications services to customers or groups of customers in competition with BellSouth for a variety of services in practically every market. For instance, the number of CSAs that BellSouth has in place in Kentucky (as shown in response to Item No. 1) indicates the number of times BellSouth has found it necessary to lower its prices for a service in order to respond to a competitive situation. This represents only a portion of the contracts that BellSouth actually offered to customers, because customers have frequently chosen a competitor's service despite BellSouth's attempt to compete for the customer's business.

- REQUEST: Would you support or oppose a policy requiring that all customers for regulated services in the same geographic area or market receive the same prices, on the theory that if a competitor is in the area it may reasonably be assumed that a competitive offer is available to all customers in the area?
- a. If such a policy were adopted, how should the geographic area or market for which prices should be uniform be defined?
 - b. If you oppose such a policy explain the reasons for your opposition.

RESPONSE: BellSouth would oppose a policy requiring that all customers in the same geographic area receive the same prices for regulated competitive services. In a fully competitive environment, it is not necessary to develop additional regulatory policies to govern the way in which competitive services, although regulated, are offered. This Commission has confirmed in its competition proceedings that BellSouth has opened its markets for local competition, and has put in place the framework for competition in any geographic area BellSouth serves in Kentucky. BellSouth has lost over 200,000 lines to competitors, and a majority of those lines were for BellSouth business customers. It is the customers in this competitive business market who are the recipients of the CSAs at issue in this proceeding. Continued flexibility in the way BellSouth and other ILECs that experience such competition are allowed to price their services is critical to this transition into a fully deregulated market.

CSAs permit an ILEC like BellSouth to reduce prices to customers that face competition without simultaneously reducing prices to all customers, and this flexibility permits the ILEC to compete more aggressively for customers where competition exists. If BellSouth did not have this flexibility, BellSouth would frequently find it uneconomical to meet competition. This is because, if BellSouth were required to reduce its price to all customers in order to lower a price to customers that faced competition, BellSouth would reduce its profit on all customers in order to win the business of those customers that face competition. Also, competitors would know that BellSouth was restrained in its ability to

RESPONSE: (Con't)

discount and would feel less need to price aggressively. CSAs thus promote competition generally, not just from regulated ILECs like BellSouth, but from all carriers.

Also, Competitive Local Exchange Carriers (CLECs), unlike the ILECs, are able to pick the geographic areas, the customers that they will serve and the services that they will offer. A policy that requires ILEC's to provide all customers in a geographic area the same price for services offered at lower prices on a limited basis, such as those included in the CSAs filed currently, would effectively limit competition in that area by eliminating BellSouth as a competitive alternative. The overall effect on consumers is fewer choices and less aggressive price competition in the market.

Pricing flexibility like that allowed under the current CSA process, and possible in other alternative pricing plans (such as a metro plan with a range of rates established for a specific geographic area, in which the actual rate offered to an individual customer would depend, in part, on what competitive alternatives were available to that customer), allows all providers to compete for those customers. Such competition would therefore benefit consumers because of the multiple provider options and resulting lower prices that would be available to them.

Further, if the Commission were nonetheless to adopt a policy of requiring uniform pricing throughout a geographic area or market, there would be obvious difficulties in drawing the boundaries of the area or market. Of course, the guiding principle should be to draw the boundaries "to match" the area in which the competitive offer exists. Because there are many different providers offering telecommunications services in Kentucky, each of which operates in different areas and targets different groups of

RESPONSE: (Con't)

customers, and these providers are continually introducing new offers into the market, it may not be easy to define the geographic area in which any offer applies.

REQUEST: Would a requirement that all CSAs be filed publicly with the Commission ensure transparency and permit both customers and CLECs the access necessary to buy, resell, and notify the Commission of alleged violations of law?

RESPONSE: If the Commission continues to regulate CSAs, BellSouth believes that its current publicly filed contract summary information is sufficient and an appropriate publication of information. Under the current summary filing process, BellSouth provides the contract number, customer name, type of service and total cost and revenue for each CSA. The current process provides an acceptable balance between the costly and laborious task of filing (for the Company) and processing (for the Commission) every contract in detail and supplying the appropriate information for the Commission's review.

With regard to transparency for CLECs, in a competitive environment it is very likely that a CLEC would become aware of a CSA for a customer during a competitor's normal course of doing business with its customers or potential customers. Subject to the terms of the CLEC's interconnection agreement, the CLEC may request to resell a CSA in question.

As one of many competitors in the marketplace, BellSouth is concerned about the availability of detailed CSA information filed with the Commission that in essence creates for competitive providers a "customer shopping list". The information contained in BellSouth's CSA filings are an easy starting place for a competitor to review potential customers, evaluate the types of services these customers are purchasing and the magnitude of revenue potential that exists with these customers. In a competitive market, which is the case for telecommunications services in Kentucky, this type of information is a treasure trove for a competitor's sales force to use in developing a market plan and targeting its services for specific customers. The filing of customer specific information places BellSouth at a market disadvantage by making such detail available to its competitors.

REQUEST: What criteria should govern whether a regulated service should be sold by tariff only or by CSA? Explain fully.

RESPONSE: The presence or absence of competition is the primary criteria that should be considered in deciding if CSAs or some other means of pricing flexibility should be allowed in the marketing of a service. By definition, CSAs are only offered when a tariff rate must be lowered to reach a comparable rate from a competitor.

Clearly in a competitive market, an end user is able to choose among service providers for the services needed. A major decision factor for an end user will be the consideration of the price of the service(s) being offered. Pricing flexibility encourages competition in the marketplace that ultimately provides pricing benefits to the consumer. From the customer's perspective, competition results in lower prices, improved value propositions, and wider selection. The flexibility for market participants to compete on the basis of price is beneficial to the net welfare of customers.

From a market participant's (seller's) perspective, pricing flexibility like that provided with CSAs allows a service provider to respond to competition by making prudent economic responses and is a critical tool that allows BellSouth to remain a viable competitor in this highly competitive marketplace. Any price above cost, even if discounted from a tariff rate, provides contribution for the company. Without the flexibility to compete on the basis of price, a market participant is excluded from participation in the competitive marketplace. Such an anticompetitive exclusion would have a significant negative impact upon the revenues of such a market participant and upon consumers, who would lose the competition that BellSouth would bring to the market.

The provision of price flexibility to market participants encourages competition in the telecommunications marketplace, a condition that is desirable to the public and an objective that should guide regulatory policy. Restricting any market participant from the use of pricing flexibility dilutes the power of the competitive marketplace and ultimately precludes the benefits that competition brings to the end user.

RESPONSE: (Con't)

As the telecommunications market becomes more competitive, the Commission should actually create more pricing flexibility within the tariff structure in addition to the availability of CSAs.

REQUEST: Discuss the impact on competition in particular and on the telecommunications industry in Kentucky in general that would result from deregulation of CSAs.

RESPONSE: Full deregulation of CSA's will have a positive effect on this market segment because it will ensure that customers in this market receive the full benefits of competition. Providers serving these customers must be free to creatively package services, competitively price services, and quickly implement these solutions for customers.

Generally, CSA customers are sophisticated business customers with specialized needs. A number of telecommunications service providers serve this class of customers. Because this market segment is fully competitive, CSA customers expect to receive offers of special price and service plans from a number of service providers. They also expect to negotiate agreements with providers in order to ensure that they obtain the best price for the services required to support their business operations. Hence, protection via regulation for this class of customers is unnecessary. In fact, having a layer of regulation in this process for some or all bidders is not only unnecessary but any regulation ultimately prevents CSA customers from fully realizing the benefits inherent in a competitive market such as innovative services and lower prices.

The majority of states within the BellSouth region have already moved to a more flexible CSA filing requirement. Specifically, Florida, Louisiana and Mississippi do not require the filing of CSA information. Further details on such requirements are found in the Attachment to Item No. 2 of these responses.

Moreover, deregulation of certain competitive services will have similar positive effect. Certain services such as MegaLink, PRI and Frame Relay are being provided to customers in Kentucky by a number of competitive providers including AT&T, MCI Worldcom, Sprint, Cinergy, US LEC, Adelphia, NewSouth, Xpedius. For the provision of Frame Relay service and MegaLink, service, BellSouth also competes against providers of microwave, digital radio and fiber networks.

RESPONSE: (Con't)

The sheer number of CSAs for these types of services is evidence that sufficient competition exists to warrant complete deregulation of these services. For instance, over 50% of the CSAs in Kentucky involve PRI services. In addition, of the more than 3,000 Frame Relay customer connections BellSouth provides in Kentucky, over 65% are provided via CSAs. Two thirds of the time, BellSouth has been forced to offer a rate lower than the tariff rate in order to meet the rate of a competitor.

Full deregulation of these services will allow market forces to ensure that customers receive the best products and services at the competitive prices.

REQUEST: At what level of availability of competitive alternatives in a given market should a service be deregulated pursuant to KRS 278.512? Is it feasible to deregulate a service in one market area of Kentucky and not in another?

RESPONSE: A service should be deregulated when effective competition exists in any given market. Effective competition is present when there are functionally equivalent, competitively priced services available in any given market from an unaffiliated provider. Competitive conditions exist today in many service markets in Kentucky. For instance, as set forth in Item No. 7 above, services such as Frame Relay, PRI and MegaLink are currently being offered by a number of competitive telecommunication providers. BellSouth faces competition in Kentucky not only from CLECs (BellSouth has entered into over 500 interconnection agreements) and resellers, but also from municipals and providers of cable service and wireless service. This Commission has created the conditions for this competition by ensuring open access to BellSouth's network and eliminating nearly all cost barriers to entry for potential competitors. Competitors can now enter the market at relatively low costs by targeting certain customers and certain markets. In these target markets, competitors can undercut BellSouth's prices, collect a profit and exit the market at relatively low cost if they desire. BellSouth's pricing, in turn is also disciplined due to the ability of companies to enter and exit the market.

Due to the manner in which competitors target some markets or market segments as opposed to others, BellSouth believes it may be feasible to deregulate a service in one market area of Kentucky and not in another. Competitive entry has been greatest where pre-entry profit margins have been the largest, namely for large business services and/or for both residential and business services in lower cost urban markets. Therefore, it is possible that competition for services in these markets or market segments has developed and matured more quickly than rural markets that are generally more costly to serve.

REQUEST: What procedures should take place during a Commission case to determine whether a service is sufficiently competitive to be deregulated?

RESPONSE: A Kentucky statute (KRS 278.512) provides a procedure that generates sufficient information for the Commission to make a determination of whether a service is sufficiently competitive to warrant exemption from regulation.

Under the guidelines provided in KRS 278.512, a regulated telecommunications carrier may request that the Commission exempt a specific service from regulation by providing information relative to the criteria established in paragraph (3) (a) through (i) of that statute. The criteria address various aspects of the competitive market for the service, as well as potential effects on other services, customers, and market participants. BellSouth believes that the criteria identified in this statute adequately identify the relevant information that the Commission needs to make an informed decision.

The following excerpt from KRS 278.512 contain the criteria:

- (3) In determining public interest, the commission shall consider the following:
 - (a) The extent to which competing telecommunications services are available from competitive providers in the relevant market;
 - (b) The existing ability and willingness of competitive providers to make functionally equivalent or substitute services readily available;
 - (c) The number and size of competitive providers of service;
 - (d) The overall impact of the proposed regulatory change on the continued availability of existing services at just and reasonable rates;
 - (e) The existence of adequate safeguards to assure that rates for services regulated pursuant to this chapter do not subsidize exempted services;

RESPONSE: (Con't)

- (f) The impact of the proposed regulatory change upon efforts to promote universal availability of basic telecommunications services at affordable rates and upon the need of telecommunications companies subject to the jurisdiction of the commission to respond to competition;
- (g) Whether the exercise of commission jurisdiction inhibits a regulated utility from competing with unregulated providers of functionally similar telecommunications services or products;
- (h) The overall impact on customers of a proposed change to streamline regulatory treatment of small or nonprofit carriers; and
- (i) Any other factors the commission may determine are in the public interest.