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BELLSOUTH TELECOMMUNICATIONS, INC.

SUPPLEMENTAL TESTIMONY OF WALTER S. REID

BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

DOCKET NO. 09032-89

AUGUST 23, 1996

Q. PLEASE STATE YOUR NAME, BUSINESS ADDRESS, AND POSITION WITH BELLSOUTH TELECOMMUNICATIONS, INC.

A. My name is Walter S. Reid and my business address is 675 West Peachtree Street N. E., Atlanta, Georgia. My position is Senior Director for the Finance Department of BellSouth Telecommunications, Inc. (hereinafter referred to as "BellSouth" or "the Company").

Q. ARE YOU THE SAME WALTER S. REID WHO FILED DIRECT TESTIMONY IN THIS DOCKET?

A. Yes. I filed direct testimony on behalf of BellSouth on August 12, 1996.

Q. WHAT IS THE PURPOSE OF YOUR SUPPLEMENTAL TESTIMONY?

1 A. The purpose of my supplemental testimony is to provide information relative to
2 the impact on this proceeding of the resale provisions of the Federal
3 Communications Commission's (hereinafter referred to as the "FCC" or "FCC's")
4 First Report and Order ("Order") in CC Docket No. 96-98, In the Matter of
5 Implementation of the Local Competition Provisions in the Telecommunications
6 Act of 1996, including Appendix B- Final Rules ("Rules"), which was released on
7 August 8, 1996. Specifically, I will provide the calculation of a wholesale
8 discount for retail services in Florida based on the FCC's criteria, as described in
9 its Order, for wholesale cost studies, and the Company's analysis of the accounts
10 for which the FCC allows for rebuttable presumptions. The Company does not
11 agree with the FCC's criteria regarding the determination of avoided/avoidable
12 costs, and it believes that BellSouth's study complies with the Act. However, in
13 order to provide the Commission with information relative to the impact of the
14 FCC's Order, I have prepared Exhibit WSR-3 to demonstrate this methodology
15 and to provide the calculations for the resulting Florida wholesale discount.
16 Based on this methodology, the wholesale discount applicable to all retail services
17 (business and residence) would be 19.7%.

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20 Q. IS THE COMPANY SUBSTITUTING THIS CALCULATION OF THE
21 WHOLESALE DISCOUNT FOR THE STUDY IT HAS FILED IN THIS
22 PROCEEDING?

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A. No. Exhibit WSR-3 does not replace the Company's study. The Company still supports its study as the most appropriate calculation of wholesale discount factors. However, Exhibit WSR-3 provides additional information to the Commission regarding the impact of the FCC's Order and Rules.

Q. PLEASE DESCRIBE EXHIBIT WSR-3.

A. The format for Exhibit WSR-3 shows in the first column of page 1, the accounts within the FCC's Uniform System Of Accounts (USOA), which the FCC has treated either as presumptively avoided direct expense accounts or as indirectly avoided overhead and general support expense accounts. The second column reports the amount of regulated expense for each account shown in column 1 as reported by BellSouth to the FCC on the ARMIS Report 43-03 for 1995 Florida operations. The third column reports for the direct avoided accounts, the Company's analysis regarding the amount of expense in these accounts which the Company believes may qualify as avoidable under the FCC's stated criteria in the Order. For the indirect accounts, the third column reflects an allocation to avoided expense based on the ratio of total avoided direct expenses to total expenses. The indirect expense allocation ratio is calculated in Column 2, below the total for overhead and general support expenses.

1 I have computed the wholesale discount at the bottom of Exhibit WSR-3. The
2 first step in this calculation was to add the indirect avoided expenses to the direct
3 avoided expenses to compute total avoided expenses. The next step was to
4 determine the revenues subject to discount. This amount was determined by
5 adding the residence and business revenues subject to discount from the
6 Company's study and adding to this total non-recurring revenues, contract service
7 arrangement (CSA) revenues, and grandfathered service revenues. The total of
8 these revenue amounts equals the revenues subject to discount. Finally, the
9 wholesale discount is calculated by dividing the avoided costs by the revenues
10 subject to discount. The calculation yields a wholesale discount of 19.7%
11 (\$351,571,000 of avoided costs divided by \$1,788,314,000 of revenues subject to
12 discount).

13
14 Q. WHAT IS THE BASIS FOR THE COMPANY'S ANALYSIS REGARDING
15 THE AMOUNTS SHOWN ON EXHIBIT WSR-3 FOR THE DIRECT
16 AVOIDED EXPENSE ACCOUNTS IN COLUMN 3?

17
18 A. The FCC's Order and Rules treat accounts 6611-6613 and 6621-6623 as
19 presumptively avoided, but allows the incumbent local exchange carrier ("LEC")
20 to rebut this presumption to the state commission (the Order at paragraph 917).
21 The amounts in Column 3 for the direct avoided expense accounts represents the

1 Company's analysis, utilizing the FCC's avoided/avoidable criteria, of the work
2 operations performed applicable to these accounts.

3
4 For account 6611 (product management), the Company analyzed each job
5 function and its associated costs. The majority of these functions are non-
6 avoidable. They include such functions as: developing rates and tariffs for new
7 services, developing product plans, enhancements of existing services, forecasting
8 demand for products and services, and support for these functions. These
9 functions comprise the majority of costs in account 6611. Therefore, most of the
10 cost in this account is non-avoidable.

11
12 In this analysis for accounts 6612 (sales), and 6613 (advertising), the Company
13 treated as non-avoidable those 1995 expenses recorded in the accounts which
14 were related to carrier services, public services, and operator services. A
15 significant portion of the expense in these accounts is treated as avoidable.

16
17 For accounts 6621 (call completion) and 6622 (number services), the Company
18 treats these expenses in the analysis as non-avoidable for resale purposes. To the
19 extent AT&T takes over the operator services functions from BellSouth by direct
20 routing of local telephone calls to its operators (see AT&T witness Mr. Art
21 Lerma's direct testimony at page 11, lines 7-9), it is taking over a line of business
22 with its own revenue stream. Call completion and number service expenses are

1 appropriately not treated as avoided because they are not associated with the retail
2 lines of business that the Company would retain under AT&T's scenario. If on the
3 other hand AT&T continues to secure operator services from BellSouth, these
4 expenses are non-avoidable because the functions will continue to be performed
5 as currently.

6
7 Finally, for account 6623 (customer services), the Company utilized the data from
8 its avoided cost study for this account but added as avoidable certain indirect and
9 other expenses. The amount treated as non-avoidable includes customer service
10 expenses associated with carriers, public services, and operator services. In
11 addition the Company included additional amounts as non-avoidable for customer
12 services functions that would be required for alternative local exchange
13 companies.

14
15 Q. HOW DID YOU DETERMINE THE SPECIFIC OVERHEAD AND GENERAL
16 SUPPORT ACCOUNTS TO INCLUDE ON EXHIBIT WSR-3?

17
18 A. In paragraph 918 of the Order, the FCC stated: "General support expenses
19 (accounts 6121-6124), corporate operations expenses (accounts 6711, 6612 (sic.),
20 6721-6728), and telecommunications uncollectibles (account 5301) are presumed
21 to be avoided in proportion to the avoided direct expenses identified in the
22 previous paragraph." I have used these accounts on Exhibit WSR-3, with the

1 exception of account 6612 which is most likely a typographical error and should
2 have been account 6712 (planning).

3

4 Q. WHAT IS THE BASIS FOR THE CALCULATION OF THE INDIRECTLY
5 AVOIDED ALLOCATION FACTOR?

6

7 A. The indirectly avoided allocation factor is computed as the ratio of direct avoided
8 expenses to total expenses. The basis for this factor comes from the section of the
9 FCC's Order at paragraph 918, which I previously mentioned. In addition, in
10 paragraph 929 of the Order, the text concerning the calculation of the default
11 range for wholesale discounts states: " We have, therefore, substituted a more
12 straightforward approach in which we apply to each indirect expense category the
13 ratio of avoided direct expense to total expenses."

14

15 Q. DOES THIS CONCLUDE YOUR TESTIMONY?

16

17 A. Yes.

FLORIDA **CALCULATION BASED ON CRITERIA IN FCC'S**
REPORT & ORDER RELEASED ON AUGUST 8, 1996

<u>COL. 1</u> (000) <u>ACCOUNTS DIRECT AVOIDED</u>	<u>COL. 2</u> <u>1995 REG</u>	<u>COL. 3</u> <u>AVOIDED</u> <u>AMOUNT</u>
A/C 6611 PRODUCT MGT.	29,517	5,883
A/C 6612 SALES	72,454	62,355
A/C 6613 PRODUCT ADV.	32,172	30,766
A/C 6621 CALL COMPLETION	17,871	-
A/C 6622 NUMBER SERVICES	58,783	-
A/C 6623 CUSTOMER SERV.	278,324	182,467
TOTAL DIRECT AVOIDED	489,121	281,471
		<u>ALLOC.</u> <u>AMOUNT</u>
<u>ACCOUNTS INDIRECTLY AVOIDED</u>		
<u>OVERHEAD ACCOUNTS</u>		
A/C 6711 EXECUTIVE	10,091	1,101
A/C 6712 PLANNING	3,904	426
A/C 6721 ACCOUNTING & FINANCE	28,412	3,101
A/C 6722 EXTERNAL RELATIONS	25,108	2,741
A/C 6723 HUMAN RESOURCES	39,435	4,304
A/C 6724 INFORMATION MGT.	148,221	16,179
A/C 6725 LEGAL	13,571	1,481
A/C 6726 PROCUREMENT	8,453	923
A/C 6727 RESEARCH & DEV.	7,997	873
A/C 6728 OTHER GEN. & ADM.	141,658	15,462
A/C 5301 UNCOLLECTIBLES	47,835	5,221
TOTAL OVERHEAD ACCOUNTS	474,685	51,813
<u>GENERAL SUPPORT ACCOUNTS</u>		
A/C 6121 LAND & BUILDING	71,665	7,822
A/C 6122 FURN. & ARTWORKS	5,471	597
A/C 6123 OFFICE EQPT.	6,433	702
A/C 6124 GEN. PURPOSE COMP.	83,973	9,166
TOTAL GENERAL SUPPORT	167,542	18,288
TOTAL O'HEAD & GEN. SUPPT.	642,227	70,100
TOTAL DIRECT AVOIDED	281,471	
TOTAL EXPENSES	2,578,713	
ALLOCATION FACTOR	0.109151736	
TOTAL AVOIDED COSTS		351,571
REVENUES SUBJECT TO DISCOUNT		1,788,314
WHOLESALE DISCOUNT		19.7%