ORIGINAL

BEFORE THE

FLORIDA PUBLIC SERVICE COMMISSION

REBUTTAL TESTIMONY OF

ART LERMA

ON BEHALF OF

AT&T COMMUNICATIONS OF THE SOUTHERN STATES, INC.

Docket Nos. 960833-TP/960846-TP/971140-TP/960757-TP/960916-TP

Filed: December 9, 1997

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I. INTRODUCTION AND QUALIFICATIONS:

Q. PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.

A. My name is Art Lerma and my business address is Promenade I, Room 5082, 1200 Peachtree Street, Atlanta, Georgia, 30309.

Q. PLEASE STATE YOUR CURRENT POSITION AND THE SCOPE OF YOUR RESPONSIBILITIES.

A. I am employed by AT&T as Regional Regulatory Chief Financial Officer for the Southern States region. I am currently responsible for AT&T's financial regulatory matters and for certain local exchange carrier ("LEC") cost analysis functions in nine southern states including Florida.

Q. PLEASE DESCRIBE YOUR EXPERIENCE.

A. I have 23 years experience in the telecommunications industry. I began my career in 1974 with Southwestern Bell Telephone Company ("SWBT") as a supervisor in Accounting Operations with responsibility for accounts receivable processing and revenue journalization. For the next nine years, I held various line and staff positions at SWBT Accounting Centers, where I was responsible for data

processing operations, toll operations, customer billing and collection, payrolls, accounts payable, and the production of corporate books and records. In July of 1983, I transferred to AT&T and accepted the position of Manager - Accounting Regulatory Support with responsibility for AT&T financial regulatory matters in Texas. Since 1983, I have been responsible for AT&T financial regulatory matters and have been involved in the review of LEC cost information filed before public utility regulatory agencies in the southern and southwestern portions of the country.

Q. PLEASE DESCRIBE YOUR EDUCATIONAL BACKGROUND.

A. I have a Bachelor of Arts degree in Mathematics from Trinity University in San Antonio, Texas. I have also received a Master of Business Administration from St. Edwards University in Austin, Texas with a concentration in General Business and Telecommunications Management.

Q. HAVE YOU TESTIFIED PREVIOUSLY BEFORE ANY OTHER REGULATORY COMMISSION OR AUTHORITY?

A. Yes. In addition to testifying before the Florida Public Service Commission ("FPSC), I have also testified in numerous proceedings involving cost issues before public regulatory commissions in Alabama, Arkansas, Georgia, Kentucky, Louisiana, Mississippi, North Carolina, South Carolina, Tennessee, and Texas.

II. PURPOSE:

Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY IN THIS PROCEEDING?

A. The purpose of my testimony is to evaluate certain cost factors and labor rates applied in the calculation of Total Element Long Run Incremental Costs ("TELRIC") rates in the BellSouth Telecommunications, Inc. ("BST") TELRIC cost study. I provide an assessment and, where possible, I recommend adjustments consistent with my findings.

Specifically, I have reviewed the following calculations in the BST cost study: the common cost, shared cost, and shared labor rate factors produced in the shared and common cost model; TELRIC labor rates; and other loading factors.

Based on my analysis, I make a recommendation on the use of BST's proposed cost factors and labor rates. I also rebut certain statements reflected in the direct testimony of BST witness Walter S. Reid.

III. RECOMMENDATIONS:

Q. SHOULD THE FLORIDA PUBLIC SERVICE COMMISSION ("FPSC") ACCEPT BST's SHARED AND COMMON COST MODEL?

A. No. The FPSC should not rely on BST's shared and common cost model to calculate the shared costs, common costs, or labor rates for use in developing UNE prices. The reason that the FPSC should not rely on BST's shared and common cost model is that the model is not forward looking, the accuracy of the

outputs cannot be confirmed, and the model contains numerous methodological errors.

Q. DOES YOUR TESTIMONY CONTAIN ANY RECOMMENDED UNBUNDLED NETWORK ELEMENTS ("UNE") RATES FOR CONSIDERATION BY THE FPSC?

A. No. The FPSC should establish rates based upon the recommendations of AT&T/MCI witness Wayne Ellison who has incorporated my adjustments and those proposed by other AT&T and MCI witnesses. Due to the lack of available data, I have not been able to calculate and propose adjustments to address all of the deficiencies in the Florida BST UNE Cost Study that I have noted in my testimony. My testimony provides only limited adjustments which are reflected on Rebuttal Exhibits ALR-1 through ALR-6.

ANALYSIS OF SHARED AND COMMON COST MODEL

Q. IS BST's SHARED AND COMMON COST MODEL AN ACCEPTABLE MEANS FOR CALCULATING THE SHARED COSTS, THE COMMON COSTS, OR THE SHARED LABOR RATES FOR USE IN DEVELOPING PRICES FOR BST's UNEs? IF NOT, WHY NOT?

A. No. BST's shared and common cost model is an unreliable and unacceptable means for calculating the shared costs, the common costs, or the shared labor rates that are used to establish prices for BST's unbundled network elements for the following reasons:

(1) BST's shared and common cost model is inadequate to determine the long-run shared and common costs of an efficient, forward-looking, least-cost network because the shared and common cost model is based largely upon the embedded historical costs of BST's existing network;

(2) The accuracy of the outputs of BST's shared and common cost model cannot be confirmed because: (a) many inputs to the model are based upon untested and unwarranted data extrapolations; (b) many other model inputs lack an adequate evidentiary basis; and (c) BST's shared and common cost model is so unduly complex and so insufficiently integrated that it is neither auditable nor readily understandable by persons familiar with the industry and its costs; and

(3) BST's model contains numerous methodological errors. Examples include the following: BST's model (a) improperly treats recurring costs as non-recurring in its shared labor factors; (b) uses improper attribution bases for attributing shared and common costs; and (c) includes unsupported costs for a local carrier service center ("LCSC") that should not be recovered in UNE prices. I will explain each of these deficiencies in more detail below.

Q. IS BST's SHARED AND COMMON COST MODEL ADEQUATE FOR DETERMINING THE LONG-RUN SHARED AND COMMON COSTS OF AN EFFICIENT, FORWARD-LOOKING, LEAST-COST NETWORK?"

A. No. BST's shared and common cost model does not yield the long-run shared and common costs of an efficient, forward-looking, least-cost network. The model is

not based upon a "bottoms-up" assessment of the costs that would be incurred by BST in a competitive environment using industry best practices and least-cost methods. Instead, BST's shared and common cost model is based upon BST's embedded or historic costs and largely projects the costs that would be incurred if BST simply did "business as usual" in 1997, 1998, and 1999.

Q. PLEASE PROVIDE EXAMPLES OF HOW THE SHARED AND COMMON COST MODEL IS NOT FORWARD-LOOKING.

A. I will provide two examples. The first example relates to BST's estimate of expenses for the years 1997, 1998, and 1999 in Account Nos. 6110 (Network Support), 6120 (General Support), 6510 (Other Property, Plant and Equivalent), 6540 (Access), 6610 (Marketing), 6620 (Services), and 67xx (General and Administrative, excluding 6727), in which it applied an inflation factor that did not account for any productivity improvements. The second example relates to BST's estimate of expenses for the years 1997, 1998, and 1999, in Account Nos. 62xx (Central Office), 6310 (Information Origination / Termination), 6410 (Cable and Wire Facilities), 6530 (Network Operations), and 6727 (Research and Development), in which BST applied a growth rate that purportedly accounted for certain productivity improvements.

Q. PLEASE EXPLAIN THE FIRST EXAMPLE IN WHICH BST ESTIMATED EXPENSES FOR THE YEARS 1997, 1998, AND 1999 IN ACCOUNT NOS. 6110, 6120, 6510, 6540, 6610, 6620, AND 67xx (EXCLUDING 6727).

A. BST estimated expenses in these accounts by: (1) taking the expenses incurred by BST during the first ten months of 1996; (2) extrapolating 1996 expenses from the ten months of historical expenses; (3) normalizing the extrapolated 1996 data to adjust for non-regulated business, the impact of the Olympics and Hurricane Fran, for the effects of a projected 11,300 employee workforce reduction, and for the effects of a compensated absence issue; (4) inflating the normalized and extrapolated 1996 data by a 3.4% inflation factor to measure 1997 expenses; (5) normalizing the inflated 1997 expenses to adjust for the effects of the projected 11,300 employee workforce reduction; (6) inflating the inflated and normalized 1997 expenses by a 3.5% inflation factor to measure 1998 expenses; (7) normalizing the inflated 1998 expenses to adjust for the effects of the projected 11,300 employee workforce reduction; and (8) inflating the normalized and inflated 1998 expenses by a 3.5% inflation factor to measure 1999 expenses.

Q. DOES BST's USE OF "INFLATION" AND NORMALIZATION ADJUSTMENTS FOR THESE ACCOUNTS RENDER BST's COST STUDY FORWARD LOOKING?

A. No. Contrary to the conclusion of BST witness Walter S. Reid (Reid direct testimony, p.7, lines 16-18) that the application of these factors converts the data to forward-looking costs, the study is not forward-looking because it is not representative of an efficient least cost network based on current technology. Except for the effects of Hurricane Fran, the Olympics, a single announced ongoing downsizing initiative, and the compensated absences issue, BST's shared and common cost model assumes that BST will incur the same expenses in 1997, 1998, and 1999 that it incurred during the first ten months of 1996 and that the

amount of those expenses will increase with inflation at a rate of approximately 3.5% per year. BST's shared and common cost study for Account Nos. 6110, 6120, 6510, 6540, 6610, 6620, and 67xx (excluding 6727), simply ignores the fact that competition, technology, and improved productivity will result in further reductions in BST's shared and common costs beyond the levels experienced in 1996.

Indeed, the BST cost study states that the inflation rates used for those accounts -- called "Telephone Plant Indexes" ("TPIs") -- "are not intended to be forecasts of technology changes or productivity improvements. ...Use of these inflation rates implicitly makes the assumption that history will more or less repeat itself." (BST's Florida cost study, Vol.1, Sec.4, p. 34).

Q. AT A MINIMUM, WHAT CHARACTERISTICS MUST BE MET FOR THE BST SHARED AND COMMON COST MODEL TO BE PROPERLY FORWARD-LOOKING FOR USE IN SETTING TELRIC RATES?

A. BST's shared and common cost model cannot simply assume that normalized and annualized 1996 expense levels will increase with inflation. To the contrary, a forward-looking model must consider all reduced expense levels and productivity improvements: (1) that inevitably result when a member of a regulated, monopoly industry becomes subject to competition; (2) that would result from the application of current, least-cost technology across BST's entire network; (3) that would result from BST's adoption of industry best practices; and (4) that would result from additional workforce reduction, outsourcing, and reengineering initiatives that will occur as BST encounters competition. BST's shared and

common cost model completely ignores these factors with respect to Account Nos. 6110, 6120, 6510, 6540, 6610, 6620, and 67xx (excluding 6727).

Q. YOU REFERRED EARLIER TO A SECOND EXAMPLE IN WHICH BST ESTIMATED EXPENSES FOR THE YEARS 1997, 1998, AND 1999, IN ACCOUNT NOS. 62xx, 6310, 6410, 6530, AND 6727. IS THIS ESTIMATE OF EXPENSES FORWARD-LOOKING?

A. No, it is not. BST's shared and common cost study is not adequately forward looking even though BST's estimate for these accounts purports to consider certain productivity improvements. This is so because the study fails to fully consider the amount of cost reduction that should be expected in a competitive environment. Indeed, the model even fails to consider all of the cost reduction initiatives identified by BST. For these accounts, BST's shared and common cost model estimated 1997, 1998, and 1999 expenses in the manner previously described on pages 7 and 8 of my testimony, except that the "growth rate" used for each year purportedly considered the impact of changes in demand (called "load changes"), service enhancements (called "service initiatives"), and "productivity changes," as well as the effects of inflation. Based upon these factors, BST's shared and common cost study used growth rates of 5.1% for 1997, 4.5% for 1998, and 4.2% for 1999, for Account Nos. 62xx, 6310, 6410, 6530, and 6727. However, the supporting documentation for BST's shared and common cost study indicates that additional "re-engineering initiatives," "organizational alignment initiatives," and "productivity changes" not considered in the development of the growth rates would result in cost reductions of 4.4% in 1997, 4.3% in 1998, and 2.8% in 1999. (See BST's response to AT&T's First Set of

Data Requests, SCPSC Docket No. 97-374-C, Item No. 281, page 9 of Rebuttal Exhibit ALR-11. This BST response to an AT&T data request in South Carolina is being used throughout this testimony because a Florida equivalent response was not available at the time this testimony was prepared. This information is of a regional nature and is the same information used by BST in all states that BST has filed its TELRIC UNE cost model.) Had BST considered those cost reductions, their "growth rates" would be .7% in 1997, .2% in 1998, and 1.4% in 1999. These growth rates would have been even lower if BST had fully considered the effects of competition.

Q. YOU STATED EARLIER THAT "COMPETITION, TECHNOLOGY, AND PRODUCTIVITY WILL REDUCE BST's SHARED AND COMMON COSTS." PLEASE EXPLAIN WHY THAT IS SO.

A. Competition, technology, and improved productivity will reduce BST's shared and common expenses below normalized 1996 levels for a number of reasons. First, the onset of competition is a powerful incentive for a formerly regulated monopoly such as BST to reduce its overhead expenses and increase its productivity. Otherwise, BST would find itself unable to compete against its "leaner and meaner" competition. Although the onset of competition should impact shared and common expenses across-the-board at BST, it should have a particularly significant impact on BST's general and administrative ("G&A") costs, such as those recorded in Account Nos. 6711, 6712, and 6721-28. Automated Results Mechanized Information System ("ARMIS") results for the Bell Operating Companies indicate that G&A expenses per line have been trending downward anywhere from 22% to about 54% depending on the

individual BOC. (See Rebuttal Exhibit ALR-9). In contrast, BST's shared and common cost study pretends that competition will not impact BST's G&A expenses at all.

Second, network operating expenses, such as those recorded in Account Nos. 6512, and 6530-6535, will also be reduced by the use of modern, least-cost technology across BST's network. In a least-cost, forward-looking environment, modern network equipment will replace antiquated systems that are more costly to operate and more susceptible to breakdown. The antiquated systems that are reflected in BST's historical costs require extensive staffing at end offices for repair, maintenance, upgrade, and supervisory work. With modern equipment, however, network surveillance can be executed from a central facility. New technologies will allow for substantial savings from new management network standards, intranets, and the like. Also, in a wholesale environment, some of the repair service functions resulting from customer trouble reports and related plant administration work will be performed by competing local exchange companies like AT&T. In addition, current trends show network operations expenses declining. They can be expected to decline even more. For these reasons, network operations expenses can be expected to be reduced by approximately 50%. Rebuttal Exhibit ALR-1 to my testimony reflects a 50% reduction to the 1996 normalized level of expenses in the shared and common cost model for Account Nos. 6512, 6531, 6532, 6533, 6534, and 6535. Rebuttal Exhibit ALR-8 provides supporting documentation for the 50% reduction in network operations expenses.

Q. YOU EARLIER TESTIFIED THAT BST's SHARED AND COMMON COST MODEL IS NOT AN ACCEPTABLE MEANS OF CALCULATING THE SHARED COSTS, THE COMMON COSTS, AND THE SHARED LABOR RATES TO BE USED IN PRICING BST's UNEs BECAUSE THE ACCURACY OF THE MODEL'S OUTPUTS CANNOT BE CONFIRMED. PLEASE EXPLAIN THE BASIS FOR THIS TESTIMONY.

A. Although BST has constructed a complex and elaborate shared and common cost model, the outputs of that model are only as credible as the data inputs, assumptions, and extrapolations upon which the model are based. The FPSC should not accept BST's shared and common cost model as a basis for determining the shared costs, the common costs, and the shared labor rates to be used in pricing BST's UNEs because: (a) many inputs to the model are based upon untested and unwarranted data extrapolations; (b) many other inputs to the model are unsupported by any data that would permit a verification of the accuracy and reasonableness of the inputs; and (c) the model is so complex and poorly integrated that it cannot be adequately tested. Simply put, BST has not provided the FPSC with sufficient data to assess the data inputs, assumptions, and extrapolations upon which the shared and common cost model is based. In such circumstances, the model's outputs cannot be accepted as reliable, reasonable, or appropriate. The elegance of a model is irrelevant if the data inputs, extrapolations, and assumptions underlying the model are unsupported or incorrect.

Perhaps an analogy will help drive home the skepticism with which BST's shared and common cost model should be viewed. That model is like an elaborate

mansion built upon a foundation of dubious structural strength. Although the mansion's facade will be impressive to a first-time visitor, no one should purchase the mansion for use as a home before being given adequate proof of the soundness of the foundation.

Q. YOU EARLIER TESTIFIED THAT BST's SHARED AND COMMON COST MODEL IS UNACCEPTABLE IN PART BECAUSE IT RELIES UPON UNTESTED AND UNWARRANTED DATA EXTRAPOLATIONS. PLEASE EXPLAIN WHAT YOU MEAN BY "DATA EXTRAPOLATIONS."

A. By "data extrapolations," I mean those instances where BST has gathered data relating to a relatively brief period of time or a relatively few examples of a cost incurrence, and used that data to project what the costs would be for a longer period of time or for a greater universe of cost incurrences.

Q. PLEASE EXPLAIN THE IMPACT THAT UNTESTED AND UNWARRANTED DATA EXTRAPOLATIONS CAN HAVE ON A COST STUDY.

A. Untested and unwarranted data extrapolations can lead to erroneous conclusions about the level of costs that will be incurred. The cost study filed by BST in Florida demonstrates that the use of "data extrapolations" can lead to incorrect conclusions about the amount of costs that will be incurred, even when the period upon which the extrapolation is based is very close in time to the period to which the extrapolation is being applied. For example, Rebuttal Exhibit ALR-7 to my testimony is a copy of page 240 of Appendix H to BST's Revised Exhibit P-1 in

Daonne Caldwell's Direct Testimony filed in Georgia Docket No. 7061-U. It refers to a forecast of "pole rental" income based on "actuals through June, 1996." The cost study indicates, however, that "[a]ctual activity increased significantly in August. Therefore, we should overrun the forecast."

In this example, BST's extrapolated forecast failed to correctly predict future "pole rental" income because it failed to account for the increase in "pole rental" income. Similarly, the extrapolations in BST's shared and common cost study lead to incorrect cost projections because they fail to account for the expense reductions and productivity increases that will result from competition.

Q. DOES THE SERVICE ORDER STUDY USED IN THE SHARED AND COMMON COST MODEL INCLUDE EXAMPLES OF UNTESTED AND UNWARRANTED DATA EXTRAPOLATIONS? PLEASE EXPLAIN.

A. Yes. BST's service order study relies on untested and unwarranted data extrapolations. That study, used to identify the amount of non-recurring costs to be excluded from attribution as shared and common costs, is separated into two parts, both of which rely heavily on untested and unwarranted data extrapolations. The first part estimates the amount of service order related costs for the years 1997-1999. The second part estimates the central office non-recurring costs for these years.

Q. PLEASE EXPLAIN HOW THE USE OF THE SERVICE ORDER STUDY TO ESTIMATE SERVICE ORDER-RELATED COSTS FOR OUTSIDE PLANT NON-RECURRING COSTS IS BASED ON DATA EXTRAPOLATIONS WHOSE REASONABLENESS AND APPROPRIATENESS HAVE NOT BEEN DEMONSTRATED BY BST.

A. With respect to outside plant non-recurring costs, BST estimated the non-recurring costs that would be incurred region-wide from 1997 through 1999 by BST's outside plant workforce by extrapolating from a study of the work performed by a small portion of the applicable workforce during a single month in 1996. For example, the Florida portion of the POTS I & M (Plain Old Telephone Service Installation and Maintenance) service order study for outside plant forces was based on the activities during only one month of just 1.2% of the appropriate workforce (30 technicians of a universe of 2530), while, across the BST region, less than 4% of the applicable workforce was included in the sample. BST's cost study provides no information that would permit the FPSC to assess whether the workforce sample in BST's study was statistically representative or whether the one-month sampling period was representative of the outside plant service order activities in 1996, let alone in 1997 through 1999. (Florida BST Cost Study, CD-ROM version 1.2, blstric.fl\ Appendix E \svcord.xls). Absent such information, BST has failed to demonstrate that its extrapolation is a reasonable or reliable basis for estimating non-recurring outside plant costs.

Q. PLEASE EXPLAIN HOW THE USE OF THE SERVICE ORDER STUDY TO ESTIMATE NON-RECURRING CENTRAL OFFICE COSTS IS ALSO BASED UPON UNTESTED AND UNWARRANTED EXTRAPOLATIONS FROM NONREPRESENTATIVE DATA.

A. BST estimated its non-recurring central office costs by extrapolating from a study of the non-recurring costs incurred by central office employees during a two-month period in 1996. Moreover, BST excluded all Florida data from its supposedly "region-wide" study because of unexplained problems with the Florida data, despite the fact that Florida accounts for more of BST's business than any other state. No effort was made to identify the problem with the Florida data, or to perform a study that was free of the problem. BST's cost study provides no information that would permit the FPSC to assess whether the two-month sampling period was representative of the central office service order activities in 1996, let alone in 1997 through 1999, or whether a sample that excludes Florida can be representative of region-wide activity. Absent such information, BST has failed to demonstrate that its extrapolation is a reasonable or reliable basis for estimating non-recurring outside plant costs.

Q. PLEASE PROVIDE OTHER EXAMPLES OF UNTESTED AND UNWARRANTED DATA EXTRAPOLATIONS FROM BST's SHARED AND COMMON COST MODEL.

A. First, BST used an unsupported extrapolation to estimate the amounts of salaries and wages that would be capitalized in various accounts in 1997 through 1999. This data is needed to develop salary and wage ratios for apportioning attributable costs among specified investment or expense accounts and for accumulating

salary and wage cost pool data used in developing shared labor cost factors . BST's extrapolation is based upon data from only a three-month period in 1996. BST's cost study provides no information that would permit the FPSC to assess whether the data from the three-month period is representative of salary and wage capitalization in 1996, let alone the salary and wage capitalization that should be expected in 1997 through 1999.

Second, as I mentioned earlier in my testimony, BST utilized the costs incurred in various accounts during the first ten months of 1996 as the starting point for its calculation of the costs expected to be incurred in 1997-99 in those accounts. It then extrapolated those ten-month amounts to full-year 1996 costs by multiplying the ten-month costs by a factor of 1.2. BST provides no rationale for its use of this "annualized" data, rather than using actual full-year data for 1996 (which was available well prior to the filing of the Florida BST TELRIC cost study), and it provides no information that would permit the FPSC to determine whether the "annualized" 1996 costs are in fact representative of the actual costs incurred in 1996.

Q. YOU TESTIFIED EARLIER THAT BST's SHARED AND COMMON COST STUDY IS UNACCEPTABLE BECAUSE MANY OF THE DATA INPUTS TO THE MODEL ARE UNSUPPORTED AND THEREFORE NOT VERIFIABLE. PLEASE PROVIDE EXAMPLES.

A. There are numerous examples where BST's data inputs are not supported by documentation that would permit the FPSC to assess their accuracy and

reasonableness. In effect, BST is asking the FPSC to accept its data inputs without establishing their appropriateness or accuracy.

To demonstrate just how pervasive unsupported data inputs are in BST's shared and common cost study, I'd like to discuss just one part of that study: the calculation by BST of the amount of expenses that it estimates will be incurred in various accounts in 1997, 1998, and 1999. These costs are used to calculate the Expense/Salary & Wage Development Factors that are extensively used in BST's shared and common cost model. I discussed the eight-step process earlier in my testimony on page 7. The documentation relevant to this process is set forth in BST's response to AT&T's First Set of Data Requests, SCPSC Docket No. 97-374-C, Item No. 281, pages 12-14 of Rebuttal Exhibit ALR-11.

BST has failed to provide adequate supporting data for each element of its calculation of the costs estimated to be incurred in 1997 through 1999 that it used in developing the Expense/Salary & Wage Development Factors. First, as I explained in response to an earlier question, BST supplied no data justifying its extrapolation of the full-year 1996 costs from the ten months of data. Second, it failed to support the "normalizing" adjustments that it made to the annualized 1996 data and made, to a limited extent, to the estimated 1997-99 costs. Finally, it failed to provide adequate support for the inflation factors/growth rates that it utilized in estimating the costs to be incurred from 1997-99.

Q. PLEASE EXPLAIN HOW THE INFLATION RATES AND GROWTH FACTORS THAT ARE PART OF THE EXPENSE/SALARY AND WAGE DEVELOALENT FACTORS ARE UNSUPPORTED.

A. The inflation rates and growth factors that are part of the expense/salary and wage development factors are the most significant examples of unsupported data inputs in BST's development of costs. For Account Nos. 6110, 6120, 6510, 6540, 6560, 6610, 6620, and 67xx (excluding 6727), the inflation rates/growth factors used were 3.4% in 1997, 3.5% in 1998, and 3.5% in 1999. BST's response to AT&T's First Set of Data Requests, SCPSC Docket No. 97-374-C, Item No. 281, page 8 of Rebuttal Exhibit ALR-11 identifies the source of these rates/factors as the "BellSouth Regional Telephone Plant Index, RL95-10-015BT, attachment C, Union Wages." This reference raises several concerns. First, the referenced document does not appear in the Florida BST cost study. Indeed, there appears to be no support for the 3.4%, 3.5%, and 3.5% rates in that section even though various inflation forecasts for labor costs appear there. Second, BST's cost study never explains the manner in which the inflation factors/growth rates were derived, and fails to provide or identify the source of the data inputs or assumptions (if any) that underlie the forecasts. Third, BST never explains, and it is not immediately apparent, why an inflation forecast relating to "Union Wages" is appropriate for use with the expenses in Account Nos. 6110, 6120, 6510, 6540, 6560, 6610, 6620, and 67xx (excluding 6727). Fourth, as noted earlier in my testimony, the inflation rates/growth factors utilized by BST for these accounts do not reflect the cost reductions that should be expected from the onset of competition.

Similarly, BST failed to supply adequate supporting documentation for the inflation rates/growth factors used to determine estimates of 1997-99 expenses for Account Nos. 62xx, 6310, 6410, 6530, and 6727. For these accounts, BST used inflation rates/growth factors of 5.1% in 1997, 4.5% in 1998, and 4.2% in 1999. BST's response to AT&T's First Set of Data Requests, SCPSC Docket No. 97-374-C, Item No. 281, page 8 of Rebuttal Exhibit ALR-11 is the sole supporting documentation for those rates/factors, which were calculated by summing the estimated percentage impact on costs in each year of: (a) load changes (primarily increases in average access lines in service ("AALIS")); (b) the cost of a service-improvement initiative; (c) the impact of salary and wage increases for non-management employees; and (d) the impact of productivity changes related to "network operations."

The use of the rates/factors to inflate the expenses in Account Nos. 62xx, 6310, 6410, 6530, and 6727 is unacceptable for several reasons. First, BST supplied no supporting data whatsoever for any of the subfactors identified in the previous paragraph, that were used to derive the inflation rates/growth factors for 1996 through 1997 for those accounts. Second, there is no support in the section of the Florida BST cost study (CD-ROM version 1.2, blstric.fl\ Appendix E\ flfactors.xls, TPI-A, TPI-B, TPI-C) for the non-management salary and wage subfactor. BST has simply failed to demonstrate the reasonableness or appropriateness of the inflation rates/growth factors used for Account Nos. 62xx, 6310, 6410, 6530, and 6727.

Q. DOES BST's SHARED AND COMMON COST MODEL RELY ON UNSUPPORTED DATA INPUTS FOR OTHER ELEMENTS OF ITS CALCULATION OF THE COSTS EXPECTED TO BE INCURRED FROM 1997-99? IF SO, PLEASE PROVIDE EXAMPLES.

A. Yes. BST also failed to provide adequate supporting data for the adjustments that were used to "normalize" the annualized 1996 costs prior to their being inflated to 1997, 1998, and 1999 costs. For example, BST provided the FPSC with no data supporting its estimates of the impact of the Olympics and Hurricane Fran on the amount of costs incurred in 1996 in various accounts, and provided no explanation of the methodology or assumptions (if any) used in deriving those estimates. Similarly, BST has neither provided nor explained the basis for its estimates of the impact of a 11,300-employee workforce reduction on costs incurred in 1996, and to be incurred in 1997 through 1998. Moreover, BST failed to explain the basis on which it selected these "normalizing" adjustments, and offered no justification for its failure to make other adjustments. I find it particularly likely, for example, that BST will be engaging in additional workforce reductions prior to the year 2000, which will result in additional cost reductions not considered by BST in the shared and common cost model. I understand from an article in the August 7, 1997, edition of the Atlanta Journal-Constitution, that BST is in the process of finalizing an outsourcing arrangement with EDS and Andersen Consulting. ("BellSouth Job Shift Riles Union, Multibillion-Dollar Outsourcing Deal Will Touch 2,000 workers," Atlanta Journal-Constitution, August 7,1997, p. E1). Although a BST spokesman claims that this action will not result in job cuts, it is evident that some of BST's workers may be hired by the consultants, while others may not. Consequently, the charges

from EDS and Andersen Consulting will be contract expenses instead of payroll expenses. So, in addition to the fact that the contract expenses could result in cost savings to BST, contract expenses could be booked in different account categories from the accounts in which the current payroll expenses are reflected in BST's embedded costs.

Similarly, BST has failed to provide any auditable data supporting the $15 million in costs that BST expects to incur for the operation of a Local Carrier Service Center ("LCSC"). Putting aside the question of whether such costs should be included in the shared and common cost study, BST has provided the FPSC with no data with which to support its estimate of the amount of LCSC expenses that may be incurred in the future.

Q. ARE OTHER ELEMENTS OF BST's SHARED AND COMMON COST MODEL ALSO UNDERMINED BY THE LACK OF SUPPORTING DATA?

A. Yes. This same lack of adequate support pervades BST's calculation of the Investment Development Factors which are used to adjust booked investment to a projected level of investment based on current cost. In the shared and common cost model, the wholesale portion of this projected investment is reflected in the denominator of the common cost and shared cost factors. It is also the same projected investment that is used to calculate the carrying charges (cost of money, depreciation, income taxes and ad valorem taxes) that are reflected in the model. These factors are determined in part using projections of the net additions to investment that will be made in various BST accounts from 1997 through 1999

(BST's Florida Cost Study, Appendix E, pp. 1430-1432). However, the methodology utilized to derive the projections used in calculating investment development factors is inadequately explained in BST's cost study. BST relied upon "out-years" budgets for these projections. Again, however, BST's own cost study provides a basis for being skeptical about BST's budget projections. For example, in the memorandum that appears on page 5 of Rebuttal Exhibit ALR-11 to Item No. 281 of BST's response to AT&T's First Set of Data Requests, SCPSC Docket No. 97-374-C, a BST official explains that BST did not use its 1997-99 budgets to derive the Expense/Salary & Wage Development Factors "due to the ever-present problem of inadequate out-years' budgets."

Q. YOU TESTIFIED EARLIER THAT BST's SHARED AND COMMON COST APPLICATION IS UNACCEPTABLE IN PART BECAUSE IT IS SO UNDULY COMPLEX AND SO INSUFFICIENTLY INTEGRATED THAT IT IS NEITHER AUDITABLE NOR READILY UNDERSTANDABLE BY PERSONS FAMILIAR WITH THE INDUSTRY AND ITS COSTS. PLEASE EXPLAIN THE BASIS FOR THIS TESTIMONY.

A. In describing the standards that should be applied to a cost study, BST witness Mr. William P. Zarakas has testified that "development of economic costs are understandable and auditable." (Zarakas testimony, p. 12, line 5). BST's shared and common cost model, however, is so complex and poorly integrated that it cannot be independently tested. The simplest way to demonstrate the difficulty one would have in testing BST's model is by providing some concrete examples.

Q. PLEASE PROVIDE SOME CONCRETE EXAMPLES OF THE DIFFICULTIES OF TESTING BST's SHARED AND COMMON COST MODEL.

A. One very important example of the difficulty of testing BST's shared and common cost model involves BST's decision to calculate non-recurring costs disparately in different parts of their TELRIC cost model. On the shared and common cost side of the model, BST has attempted to remove non-recurring costs, based on embedded costs, for limited number of cost pools in a combination of ways including the application of service order factors and direct assignment. BST attempted to remove non-recurring costs from the shared and common cost model because it intends to recover them in proposed non-recurring prices derived from separate non-recurring cost studies also filed in this proceeding. However, BST has not provided any data with which to compare and test the reasonableness of the non-recurring costs removed from the shared and common cost model versus the projected non-recurring costs resulting from BST's separate non-recurring cost studies. BST did not use the non-recurring costs identified in the shared and common cost side to calculate its proposed non-recurring prices. Instead, BST calculated the non-recurring costs anew by taking actual data and multiplying those numbers by a labor rate to calculate the projected non-recurring costs.

This decision causes two serious problems. First, due to BST's inconsistent methodologies for calculating the non-recurring costs, there exists the danger that BST could be removing a lesser number on the shared and common side than the numbers that it calculates in its non-recurring cost calculation. Simply put, this

raises the specter of double recovery of non-recurring costs. The second problem is that there is no way to determine whether the first problem occurred. BST's choice to use two different methodologies makes the model unusable for the purpose of verifying BST's non-recurring cost calculations. BST's model may double count some of the non-recurring costs. Furthermore, any adjustments made to one set of the calculations would not translate to the other set, creating another hurdle to a thorough testing of the data.

The next example of the difficulty of testing BST's shared and common cost model concerns the process of attributing shared costs to various investment accounts, which is at the heart of the model. An appropriate way to test BST's attributions is to track the amounts from each shared cost account all the way through BST's reclassification and attribution process to ensure that each dollar of shared cost is attributed only once and consistent with the attribution basis chosen by BST. Complicating this desired test is the fact that it needs to be performed at the individual cost pool or sub-pool basis. Unfortunately, BST has structured its shared and common cost application in a way that makes this verification extremely difficult. During his deposition, BST expert Charles B. Lee even admitted, "I don't know that I could do it sitting here with you." (Reid and Lee Deposition Transcript, Georgia Docket No. 7061-U, p. 112, see Rebuttal Exhibit ALR-10).

Much of the problem with the BST model is that many cells are populated without formulas, and instead are simply numbers calculated off-line and then hard input into the model. During their panel deposition in the Georgia Cost Docket, BST

employees Walter S. Reid and Charles B. Lee, Jr., unwittingly demonstrated the complexity of testing the shared and common cost model. Despite the fact that both men described their knowledge of the study as comprehensive, neither could initially explain the source of the calculation of certain cells; rather, they blamed the errors in their calculations as mathematical "rounding errors." (It took until the second day of the deposition for BST's experts, Messrs. Reid and Lee, to understand the source of the BST's own calculations in their own model.) When Messrs. Reid and Lee attempted to demonstrate how to track one of the cost pools through the shared and common cost study, they arrived at a calculation that would disaggregate the value of one of the account pools into three subpools. The proportion of that pool that was disaggregated, however, to each subpool was not apparent from simply looking at the model. In the cell of the computer model where there should have been a formula that would permit the Commission to verify the attribution to the subpools, BST failed to provide a formula; rather, BST inserted the result of a calculation performed outside the shared and common cost model. The frequent use of hard inputs such as this makes it extremely difficult to verify the results of BST's model. Lee admitted, "I'm just not sure we have a mathematical representation of how we get from there to there." (Reid and Lee Deposition Transcript, Georgia Docket No. 7061-U, p. 151, see Rebuttal Exhibit ALR-10). Messrs. Reid's and Lee's failure occurred because the formulas that they needed to replicate the calculations in the model were inaccessible to them, just as they are to the Commission. Only through a time intensive manual process by an individual very familiar with the model can the simple exercise of tracking the initial dollar values of the accounts through the primary and secondary attributions be achieved. Even then, BST admits the process is very

difficult and can only be done by backtracking the values from the attributed cost pools back through the front of the study where the dollars started in the accounts initially. BST expert Lee admitted that this process is "very tedious work." (Reid and Lee Deposition Transcript, Georgia Docket No. 7061-U, p. 113, see Rebuttal Exhibit ALR-10).

Q. YOU EARLIER TESTIFIED THAT BST's MODEL CONTAINS NUMEROUS METHODOLOGICAL ERRORS. PLEASE PROVIDE AN EXAMPLE OF A METHODOLOGICAL ERROR.

A. BST erred in the method it used to calculate its shared labor factors. BST's model included recovery of recurring costs. Therefore, the shared and common cost model must be modified to produce shared labor factors that exclude recurring costs. BST's shared labor factors are used to determine a portion of shared costs that BST believes should be recovered via the TELRIC labor rates used to price out non-recurring costs. However, costs generally are non-recurring if they are transactional in nature, such as those resulting from transactions involving the installation of a new customer line. BST improperly assumed that recurring wholesale expenses in account/cost pools that are attributed based on salary and wages should be recovered via the shared labor rate factors and subsequently, the labor rates applied to calculate non-recurring prices.

Q. DOES BST's COST ATTRIBUTION APPROACH RESULT IN RECURRING COSTS BEING IMPROPERLY TREATED AS NON-RECURRING COSTS? PLEASE EXPLAIN.

A. Yes. BST has relied on a cost attribution approach that results in wholesale expenses for specified account/cost pools being recovered through shared labor factors as non-recurring costs without any showing that recurring expenses have been excluded. Although some of the costs in the specified cost pools may in fact include some increment of non-recurring costs, BST has provided no way to determine that increment. As stated in Walter S. Reid's direct testimony, the shared and common cost model relies primarily on the use of the cost attribution principles as specified in the Cost Allocation Manual ("CAM") filed with the FCC (Reid testimony, p.5, lines 8 – 11). Some accounts/cost pools in the CAM are attributed to other expense or investment accounts based on salary and wages. BST's assumption that costs attributed based on salary and wages should be recovered in labor rates used to calculate non-recurring costs is unwarranted and unsupported.

Q. PLEASE PROVIDE AN EXAMPLE OF AN ACCOUNT/COST POOL THAT INCLUDES RECURRING COSTS THAT ARE IMPROPERLY RECOVERED IN THE SHARED LABOR RATE FACTORS.

A. Account 2112 (Motor Vehicles) is a good example. Investment-related costs resulting from Account 2112 are recurring costs that should not be recovered in non-recurring rates. In the shared and common cost model, the wholesale expenses for all cost pools in Account 2112 are attributed based on salary and wages. In the shared and common cost model, as stated previously, attribution based on salary and wages signifies that the amounts in Account 2112 are to be recovered in the shared labor rate factors that produce the shared cost labor

portion of BST's TELRIC labor rates. These labor rates are subsequently used to calculate non-recurring costs.

Q. HOW SHOULD SHARED COSTS IN ACCOUNT 2112 (MOTOR VEHICLES) BE RECOVERD?

A. Due to the fact that the amounts in Account 2112 are recurring costs, they should be recovered in recurring rates. In BST's shared and common cost model, each of the cost pools in Account 2112 should be attributed on some cost causative basis other than salary and wages. This results in recovery of the costs in Account 2112 via the shared cost factor, which in BST's model, recovers recurring shared costs.

Q. HAS BST TREATED OTHER ACCOUNTS/COST POOLS THAT INCLUDE RECURRING COSTS IN A FASHION SIMILAR TO THE MOTOR VEHICLES EXAMPLE?

A. Yes. In fact, the amounts in numerous cost pools for various accounts are attributed based on salaries and wages without any showing that the costs in these accounts are non-recurring in nature. Those accounts include 6121 (land and buildings), 6124 (general purpose computers), 6512 (provisioning), 6534 (plant administration), 6535 (engineering), 6711 (executive), 6723 (Human Resources), 6724 (information management), 6726 (procurement), 1120 (materials and supplies), 2116 (other work equipment), 2121 (Buildings), 2122 (furniture), 2123 (office equipment), 2681 (Capital leases), and 2682 (leasehold improvements). Nowhere in the shared and common cost model or in supporting documentation is a determination made that some of the amounts in these cost pools are recurring

and should be excluded from the calculation of shared labor factors used to calculate non-recurring costs.

Q. HAVE YOU CALCULATED AN ADJUSTMENT TO THE SHARED LABOR RATE FACTORS IN THE BST MODEL THAT CORRECTS THE PROBLEM THAT YOU HAVE NOTED?

A. Yes. That information is provided on Rebuttal Exhibit ALR-2. This adjustment reflects alternative attribution bases for those cost pools attributed using salary and wages. This adjustment has the effect of reducing the shared labor factors to zero.

Q. IS BST PREVENTED FROM RECOVERING ANY OF THE COSTS FOR THOSE ACCOUNTS/COST POOLS APPEARING ON REBUTTAL EXHIBIT ALR-2?

A. No. The changed attribution basis shifts recovery from the shared labor rate factors to the shared cost factors used to calculate recurring TELRIC rates. Should BST be able to provide the FPSC with a reliable and auditable method with which to identify those non-recurring costs that are legitimate for recovery through the shared labor rate factors, then the shared labor factors could be adjusted accordingly. The data supplied to date by BST to the FPSC is insufficient to permit a determination of the amount, if any, of non-recurring costs in those accounts.

Q. IN ADDITION TO THE EMBEDDED COSTS REFLECTED IN THE BST SHARED AND COMMON COST MODEL, ARE THERE OTHER COSTS THAT ARE INAPPROPRIATE FOR RECOVERY IN THE COMMON COST, SHARED COST, AND SHARED LABOR FACTORS? PLEASE EXPLAIN.

A. Yes. BST has included recovery of new forecasted costs for what it calls the Local Carrier Service Center ("LCSC") costs that should not be recovered in the shared cost or common cost factor. BST has included $15,536,528 in new expenses for which it has arbitrarily assumed that 25% are recurring in nature and 75% are non-recurring in nature. Based on the testimony of Mr. Thomas Hyde, none of the expenses of this new center should be reflected in the UNE prices that are being established in this proceeding. In addition, BST has not provided sufficient information to allow for validation of any of these costs. For these reasons, I recommend that the costs be removed from consideration in the shared and common cost model.

Q. DOES THE METHOD BY WHICH DEREGULATED PUBLIC COIN COSTS ARE REMOVED ALSO UNDERMINE BST's SHARED AND COMMON COST MODEL?

A. Yes. BST's adjustment to remove deregulated public coin costs is another example of a methodological error. A review of this adjustment indicates that BST failed to remove any increment of G&A expenses in account series 67xx (BST's Florida Cost Study, Appendix E, pp. 1427-1428). The public coin data inputs filed in this proceeding differ from the inputs included in the Florida Payphone Subsidy Study dated February 20, 1997. Florida Payphone Subsidy

Study identified a portion of corporate operations expense in Account 67xx that represented a burden on BST's payphone business and then removed it from the regulated costs. The requirements of Section 276 of the Telecommunications Act of 1996 made it necessary for BST to complete these payphone subsidy studies for multiple jurisdictions. Because of Section 276, BST had already developed the methodology and the ability to determine these costs on a regional basis. Therefore, BST has no excuse for its failure to remove from the shared and common cost model the same level of corporate expenses in accounts 67xx as were identified in the payphone subsidy study. The development of a new methodology for the payphone adjustment in this proceeding is obviously self-serving. Further, not only is it different from the previous payphone subsidy study provided to the FPSC, but it is also not supported by that study.

Q. PLEASE DESCRIBE THE ADJUSTMENTS THAT YOU HAVE MADE TO THE BST SHARED AND COMMON COST MODEL.

A. The adjustments that I have made do not address all of the deficiencies in BST's shared and common cost model which are explained in my testimony. I was able to propose adjustments only in those instances where BST provided the FPSC with sufficient data. The adjustments and supporting documentation for those issues that could be quantified are as follows:

Rebuttal Exhibit ALR-1 provides revised expense development factors and supporting calculations that remove growth from inflation, reduce G&A expenses by 27%, and reduce network operating expenses by 50% (Rebuttal Exhibit ALR-8

provides supporting documentation for the 50% reduction; Rebuttal Exhibit ALR-9 provides supporting documentation for the 27% reduction);

Rebuttal Exhibit ALR-2 describes the alternative attribution bases used to shift recovery of costs from the shared labor cost factors which recover non-recurring costs, to the shared cost factors that recover recurring costs;

Rebuttal Exhibit ALR-3 describes the removal of the LCSC costs; and

Rebuttal Exhibit ALR-4 provides a comparison of the original and revised shared cost, common cost and shared labor rate factors. The revised factors also reflect AT&T's recommended change in carrying costs that results when the cost of money and depreciation rates are adjusted.

V. ANALYSIS OF LABOR RATES:

Q. HAS BST DEVELOPED LABOR RATES REFLECTIVE OF A FORWARD-LOOKING COMPETITIVE ENVIRONMENT?

A. No. As with the rest of the shared and common cost model, BST once again assumes that embedded wage and salary expense is the appropriate starting point for determining labor rates that will be applicable in a forward looking environment. In this case, BST's labor rates are calculated from 1995 salaries and wages and the actual hours worked.

Q. WHY IS IT IMPROPER TO USE 1995 EMBEDDED SALARIES, WAGES, AND HOURS TO CALCULATE THE LABOR RATES TO BE USED IN CALCULATING TELRIC RATES?

A. A couple of examples will help illustrate why the use of 1995 salary and wage information is improper for setting TELRIC labor rates. First, BST is currently involved in implementing an announced downsizing initiative whereby 11,300 employees will be off the payroll by the end of 1997. Some of the downsizing is made possible because of a trend in the outsourcing of work exemplified by BST's negotiations regarding an outsourcing agreement with EDS and Andersen Consulting involving 2000 employees. Further, outsourcing can be expected in an environment in which BST will be needing to trim costs to allow it to compete more aggressively with new competitors. To the extent that employees who are downsized have been replaced by outsourcing expenses in 1996 or later, the 1995 salary and wage expense is no longer representative of forward-looking salary and wage expenses in a competitive environment.

Second, reengineering initiatives that have occurred in 1995 and 1996, or later, have resulted in productivity improvements that can result in both changes to the number of people required to do a job, the salary grade of the individual performing the job in cases where skillset requirements have been reduced, and the amount of time that it takes to complete the job. It is evident from this example that use of 1995 salaries and wages and the corresponding hours are not representative of forward-looking environment and should not be the basis for determining forward-looking labor rates.

Q. IS IT IMPROPER FOR BST TO APPLY INFLATION FACTORS TO ITS CALCULATION OF LABOR RATES?

A. Yes. The application of inflation factors to booked salary and wages for 1995 assumes business as usual in a monopoly environment instead of the competitive environment in which BST will be operating. In a competitive environment, BST will have continued pressure to hold payroll costs down. The application of inflation factors to historical salaries is not representative of the forward-looking labor rates that should be calculated for use in developing TELRIC rates.

Q. ARE THERE ANY CATEGORIES OF COSTS THAT BST HAS INCLUDED IN ITS DIRECTLY ASSIGNED LABOR RATES THAT ARE INAPPROPRIATE? PLEASE EXPLAIN.

A. Yes. BST's calculation of directly assigned labor rates includes commissions and incentive awards paid to employees for the sale of retail services. These Commissions are not a wholesale cost that should be reflected in labor rates. Unfortunately, BST has not included supporting documentation that allows for a removal of these payments.

Q. WHAT ADJUSTMENTS HAVE YOU MADE TO THE CALCULATION OF THE TELRIC LABOR RATES?

A. For the reasons previously stated, I have eliminated the inflation factors from the calculation of directly assigned labor rates. In addition, as explained earlier in my testimony, adjustments that I calculated for the shared and common cost model produced revised shared labor rate factors. Due to the lack of available data, I have not been able to calculate and propose adjustments to address all the

deficiencies in the BST calculation of labor rates. Rebuttal Exhibit ALR-5 reflects calculations that I have been able to quantify.

Q. ARE THESE THE TELRIC LABOR RATES RECOMMENDED BY AT&T IN THIS PROCEEDING?

A. No. Due to the lack of available data, I have not been able to calculate and propose adjustments to address all the deficiencies in the BST calculation of labor rates. There are issues that could not be quantified or adequately addressed. While the resulting labor rates are an improvement over the TELRIC labor rates proposed by BST, the labor rates reflected in the AT&T NonRecurring Cost ("NRC") model, as presented by AT&T witness John P. Lynott, are the labor rates that should be approved by the Commission.

VI. ANALYSIS OF PLANT SPECIFIC EXPENSE FACTORS:

Q. DID BST BASE THE CALCULATION OF THE PLANT SPECIFIC EXPENSE FACTORS ON EMBEDDED COSTS? PLEASE EXPLAIN.

A. Yes. In a fashion similar to the development of the shared and common cost factors, the inputs are based on partial year 1996 data which purportedly is normalized for the same events as the shared and common cost factors, including the effects of Hurricane Fran, the Olympics, and a compensated absence issue. As in the case of the shared and common cost model, growth factors are also applied. Here too, data extrapolations are utilized which are untested. For example, the factors are calculated at the field reporting code ("FRC") or subaccount level based on a 1995 study. Data from that study is used to

determine what percentage each FRC is of the total account, but does not show that these relationships can be expected to be unchanged in 1996 or the future.

Q. DO YOU AGREE WITH THE METHOD BY WHICH BST HAS CALCULATED ITS PLANT SPECIFIC EXPENSE FACTOR THAT INCLUDES THE COST OF MATERIAL USED AND DIRECT LABOR FOR MAINTENANCE AND REARRANGEMENT EXPENSE?

A. No. As in the case of the inputs to the shared and common cost model, the inputs should be based on forward-looking expenses based on least cost technology. Instead, BST has once again assumed a business-as-usual environment and applied growth factors to the embedded cost data to calculate what it considers to be forward-looking factors.

Q. IS IT APPROPRIATE FOR BST TO FURTHER APPLY INFLATION GROWTH FACTORS TO THE EMBEDDED EXPENSES FROM WHICH THE PLANT SPECIFIC FACTORS ARE CALCULATED?

A. No. Similar to the rationale previously explained in my testimony regarding network operating expenses in the shared and common cost model, network operating expenses will be reduced in a competitive forward-looking environment. The series of accounts that is included in the calculation of the plant specific factor (Account Nos. 6121-6441 and 6531) should experience negative growth instead of inflation because expense levels are tied to older plant equipment included in embedded costs. Competition should drive these expenses downward as new technology is deployed.

Q. HAVE YOU ADJUSTED THE CALCULATION OF THE PLANT SPECIFIC FACTOR?

A. Yes. I adjusted the BST calculation of the 1997-99 amounts to remove the inflation/growth factors, shown on Rebuttal Exhibit ALR-6. Although these accounts will experience negative growth, I did not have sufficient data to estimate the amount of that negative growth. Therefore, to be conservative, the adjustments that I propose merely remove BST's inflation factors.

Q. DOES THIS CONCLUDE YOUR TESTIMONY?

A. Yes it does.

BELLSOUTH
STATE OF FLORIDA
REVISED 1997-99 EXPENSE DEVELOPMENT FACTORS

Account	Descriptor	Original Expense/ Dev Factor	Revised Expense/ Dev Factor
6112	Motor Vehicle	0.6776	0.6329
6114	Special Purpose Vehicl	0.6776	0.6329
6115	Garage Work Eqpt	0.6776	0.6329
6116	Other Work Eqpt	0.6776	0.6329
6121	Land & Building	0.8484	0.7910
6121	Land & Building CO	0.8489	0.8205
6122	Furniture & Art	0.8484	0.7910
6123	Offfice Eqpt	0.8484	0.7910
6124	General Purpose Computer	0.8484	0.7910
6211	Analog Electronic SWX	0.9263	0.8857
6212	Digital Electronic SWX	0.9322	0.8912
6220	Operator Systems	0.9296	0.8888
6231	Radio Systems	0.9296	0.8888
6232	Circuit Eqpt Other--Analog Cir Other	0.9290	0.8882
6232	Circuit Eqpt Other-Digital DDS	0.9298	0.8889
6232	Circuit Eqpt Other-Pair Gain	0.9298	0.8890
6232	Circuit Eqpt Digital Cir Other	0.9294	0.8886
6311	Station ApparatusExp	0.8739	0.7929
6341	Large PBX	0.8739	0.7929
6362	Other Term EqptExp	0.8741	0.8357
6411	Poles	1.0869	1.0391
6421	Aerial Cable Fiber	1.0655	1.0187
6421	Aerial Cable Fiber-Metallic	1.1006	1.0523
6421	Aerial Cable Fiber-/Ln Assgn	1.1006	1.0523
6422	Underground Cable-Fiber	1.0983	1.0501
6422	Underground Cable-Metallic	1.1006	1.0523
6423	Buried Cable-Fiber	1.1008	1.0525
6423	Buried Cable-Metallic	1.1007	1.0524
6423	Buried Cable-Line Assgn	1.1007	1.0524
6424	Submaring Cable-Fiber	1.1006	1.0523
6424	Submaring Cable-Line Assgn	1.1006	1.0523
6426	Intrabldg Network Fiber	1.1124	1.0635
6426	Intrabldg Network Metallic	1.1006	1.0523
6441	Conduit	1.0791	1.0316
6512	Provisioning	1.1097	0.5114
6531	Power	0.9171	0.4052
6532	Network Adm	0.9171	0.4052
6533	Testing	0.9171	0.4052
6534	Plant Oper Adm	0.9171	0.4052
6535	Engineering	0.9171	0.4052
6611	Product Mgmt	1.0516	0.9803
6612	Sales	1.0516	0.9803
6613	Product Advertising	1.0516	0.9803

BELLSOUTH
STATE OF FLORIDA
REVISED 1997-99 EXPENSE DEVELOPMENT FACTORS

Account	Descriptor	Original Expense/ Dev Factor	Revised Expense/ Dev Factor
6621	Call Completion	0.9799	0.9135
6622	Number Services	0.9799	0.9135
6623	Customer Services	0.9968	0.9634
6711	Executive	0.7629	0.5165
6712	Planning	0.7629	0.5165
6721	Accounting & Finance	0.7629	0.5165
6722	External Relations	0.7629	0.5165
6723	Human Resources	0.7629	0.5165
6724	Information Mgmt	0.7629	0.5165
6725	Legal	0.7629	0.5165
6726	Procurement	0.7629	0.5165
6727	R&D	1.0005	0.6581
6728	Other G&A	0.7629	0.5165
6540	Access	0.8376	0.8009

Note: Adjustments made:
Elimination of Growth Rates
50% Reduction in Network Operating Expenses
27% Reduction in General and Administrative Expenses
Revisions reflect only adjustments that could be quantified. Due to lack of available data, other deficiencies noted in the testimony of Art Lerma are not addressed.

BELLSOUTH
REVISED EXPENSE/S&W DEVELOPMENT FACTOR

		(C1) Account 611X Network Sup (Original)	(C2) Account 611X Network Sup (Revised)	(C3) Account 612X Gen'l Supp (Original)	(C4) Account 612X Gen'l Supp (Revised)	(C5) Acct 6121 L&B CO (Original)	(C6) Acct 6121 L&B CO (Revised)	(C7) Acct 6211 Analog Swx (Original)	(C8) Acct 6211 Analog Swx (Revised)	(C9) Acct 6212 Digital Swx (Original)	(C10) Acct 6212 Digital Swx (Revised)	(C11) Acct 6220 Oper Sys (Original)	(C12) Acct 6220 Oper Sys (Revised)	(C13) Acct 6231 Radio (Original)	(C14) Acct 6231 Radio (Revised)
1	Total 10/96 YTD	11,630,000	11,630,000	485,526,000	485,526,000										
2	10/96 Annualized	13,956,000	13,956,000	582,631,200	582,631,200										
3	Annual P64	(755,000)	(755,000)	(23,607,000)	(23,607,000)										
4	FR Regulated	13,201,000	13,201,000	559,024,200	559,024,200										
5	Normalizing Adj														
6	Olympic	0	0	0	0										
7	Hurricane	(1,466,000)	(1,466,000)	0	0										
8	Pension	(96,000)	(96,000)	(4,309,000)	(4,309,000)										
9	1996 Normalized	11,639,000	11,639,000	554,715,200	554,715,200										
10	Proj Growth Rate	0.034	0.000	0.034	0.000										
11	1997 Proj Bef Force Red	12,034,726	11,639,000	573,575,517	554,715,200										
12	Force Reduction	0	0	(23,321,000)	(23,321,000)										
13	1997 Projection	12,034,726	11,639,000	550,254,517	531,394,200										
14	Proposed Reduction	0	0	0	0										
15	1997 Proj Reduced	12,034,726	11,639,000	550,254,517	531,394,200										
16	1998 Proj Growth Rate	0.035	0	0.035	0										
17	1998 Proj bef Force Red	12,455,941	11,639,000	569,513,425	531,394,200										
18	Force Reduction	0	0	(7,086,000)	(7,086,000)										
19	1998 Projection	12,455,941	11,639,000	562,427,425	524,308,200										
20	1999 Proj Growth Rate	0.035	0.000	0.035	0.000										
21	1999 Projection	12,891,899	11,639,000	582,112,385	524,308,200										
22	1995 Actuals	18,389,361	18,389,361	665,861,617	665,861,617	25,703,031	25,703,031	62,833,013	62,833,013	370,949,234	370,949,234	24,480,592	24,480,592	2,112,828	2,112,828
23	1997 Projection	12,034,726	11,639,000	550,254,517	531,394,200	21,252,464	20,553,640	57,130,466	54,358,198	341,018,596	324,470,596	22,300,045	21,217,931	1,924,634	1,831,241
24	1998 Projection	12,455,941	11,639,000	562,427,425	524,308,200	21,722,621	20,988,040	57,534,030	55,056,488	341,056,160	326,369,631	22,514,560	21,545,033	1,943,148	1,859,472
25	1999 Projection	12,891,899	11,639,000	582,112,385	524,308,200	22,482,914	21,722,622	59,948,795	57,532,433	355,277,880	340,957,658	23,460,168	22,514,557	2,024,759	1,943,147
26	3 Year Average	12,460,856	11,639,000	564,931,442	526,670,200	21,819,333	21,088,101	58,204,430	55,649,040	345,784,212	330,599,262	22,758,258	21,759,174	1,964,180	1,877,953
27	Expense/S&W Dev Factor	0.6776	0.6329	0.8484	0.7910	0.8489	0.8205	0.9263	0.8857	0.9322	0.8912	0.9296	0.8888	0.9296	0.8888

Source: BST's response to AT&T's First Set of Data Requests, SCPSC Docket No. 97-374-C, Item No. 281, attachment ALR-11, pages 12, 13 and 14.

Note:
Assume no inflation
Assume 50% reduction in account 653X and 6510
Assume 27% reduction in account 67XX

Exhibit
Docket Nos: 960833-TP/960846-TP/960757-TP/971140-TP/960916-Tp
Lerma Rebuttal Exhibit ALR-1
Revised Expense Development Factors
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BELLSOUTH
REVISED EXPENSE/S&W DEVELOPMENT FACTOR

		(C1) Acct 6232 Analog Circ Oth (Original)	(C2) Acct 6232 Analog Circ Oth (Revised)	(C3) Acct 6232 Circ DDS (Original)	(C4) Acct 6232 Circ DDS (Revised)	(C5) Acct 6232 Pair Gain (Original)	(C6) Acct 6232 Pair Gain (Revised)	(C7) Acct 6232 Digital Cir Other (Original)	(C8) Acct 6232 Digital Cir Other (Revised)	(C9) Acct 631X, 634X Station Appar/ Lg PBX (Original)	(C10) Acct 631X, 634X Station Appar/ Lg PBX (Revised)	(C11) Acct 6362 Oth Term (Original)	(C12) Acct 6362 Oth Term (Revised)
1	Total 10/96 YTD									252,199,000	252,199,000		
2	10/96 Annualized									302,638,800	302,638,800		
3	Annual P64									(167,688,000)	(167,688,000)		
4	FR Regulated									134,950,800	134,950,800		
5	Normalizing Adj												
6	Olympic									(6,001,000)	(6,001,000)		
7	Hurricane									(2,336,000)	(2,336,000)		
8	Pension									0	0		
9	1996 Normalized									126,613,800	126,613,800		
10	Proj Growth Rate									0.051	0.000		
11	1997 Proj Bef Force Red									133,071,104	126,613,800		
12	Force Reduction									306,000	306,000		
13	1997 Projection									133,377,104	126,919,800		
14	Proposed Reduction									0	0		
15	1997 Proj Reduced									133,377,104	126,919,800		
16	1998 Proj Growth Rate									0.045	0		
17	1998 Proj bef Force Red									139,379,073	126,919,800		
18	Force Reduction									(10,394,000)	(10,394,000)		
19	1998 Projection									128,985,073	116,525,800		
20	1999 Proj Growth Rate									0.042	0.000		
21	1999 Projection									134,402,447	116,525,800		
22	1995 Actuals	14,767,091	14,767,091	1,337,368	1,337,368	92,354,557	92,354,557	70,949,183	70,949,183	151,338,099	151,338,099	37,847,721	37,847,721
23	1997 Projection	13,441,780	12,789,515	1,218,390	1,159,267	84,142,533	80,059,499	64,615,434	61,479,956	133,377,104	126,919,800	33,362,853	31,743,913
24	1998 Projection	13,571,083	12,986,682	1,230,111	1,177,140	84,951,939	81,293,722	65,237,001	62,427,752	128,985,073	116,525,800	32,264,240	30,874,671
25	1999 Projection	14,141,066	13,571,081	1,281,774	1,230,109	88,519,909	84,951,928	67,976,943	65,236,989	134,402,447	116,525,800	33,619,246	32,264,152
26	3 Year Average	13,717,976	13,115,759	1,243,425	1,188,839	85,871,460	82,101,716	65,943,126	63,048,233	132,254,875	119,990,467	33,082,113	31,627,645
27	Expense/S&W Dev Factor	0.9290	0.8882	0.9298	0.8889	0.9298	0.8890	0.9294	0.8888	0.8739	0.7929	0.8741	0.8357

Source: BST's response to AT&T's First Set of Data Requests, SCPSC Docket No. 97-374-C, Item No. 281, attachment ALR-11, pages 12, 13 and 14.

Note: Assume no inflation
Assume 50% reduction in account 653X and 6510
Assume 27% reduction in account 67XX

Exhibit
Docket Nos: 960833-TP/960846-TP/960757-TP/971140-TP/960916-TP
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Revised Expense Development Factors
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BELLSOUTH
REVISED EXPENSE/S&W DEVELOPMENT FACTOR

		(C1) Acct 6411 Poles (Original)	(C2) Acct 6411 Poles (Revised)	(C3) Acct 6421 Aerial Fiber (Original)	(C4) Acct 6421 Aerial Fiber (Revised)	(C5) 6421 Aerial Metall Ln Assn (Original)	(C6) 6421 Aerial Metall Ln Assn (Revised)	(C7) Acct 6422 Undgrd Fiber (Original)	(C8) 6422 ndergrd Fibe (Revised)	(C9) Acct 6422 Undgrd Metal (Original)	(C10) 6422 ndergrd Met (Revised)	(C11) Acct 8423 Buried Fiber (Original)	(C12) Acct 6423 Buried Fiber (Revised)
1	Total 10/96 YTD												
2	10/96 Annualized												
3	Annual P84												
4	FR Regulated												
5	Normalizing Adj												
6	Olympic												
7	Hurricane												
8	Pension												
9	1996 Normalized												
10	Proj Growth Rate												
11	1997 Proj Bef Force Red												
12	Force Reduction												
13	1997 Projection												
14	Proposed Reduction												
15	1997 Proj Reduced												
16	1998 Proj Growth Rate												
17	1998 Proj bef Force Red												
18	Force Reduction												
19	1998 Projection												
20	1999 Proj Growth Rate												
21	1999 Projection												
22	1995 Actuals	57,026,329	57,026,329	1,109,042	1,109,042	246,592,786	246,592,786	2,799,139	2,799,139	60,587,957	60,587,957	4,106,855	4,106,855
23	1997 Projection	64,007,841	60,901,847	1,156,937	1,100,798	265,718,398	252,824,356	3,009,930	2,863,873	65,266,080	62,118,059	4,426,212	4,211,429
24	1998 Projection	61,414,327	58,769,691	1,169,525	1,119,163	268,609,750	257,042,823	3,042,682	2,911,657	65,996,474	63,154,521	4,474,374	4,281,698
25	1999 Projection	60,528,777	58,089,037	1,218,646	1,169,526	279,891,571	268,609,953	3,170,476	3,042,683	68,766,376	65,996,524	4,662,302	4,474,378
26	3 Year Average	61,983,648	59,253,525	1,181,703	1,129,828	271,406,573	259,492,377	3,074,363	2,939,404	66,683,644	63,756,368	4,520,963	4,322,502
27	Expense/S&W Dev Factor	1.0869	1.0391	1.0655	1.0187	1.1006	1.0523	1.0983	1.0501	1.1006	1.0523	1.1006	1.0525

Source: BST's response to AT&T's First Set of Data Requests, SCPSC Docket No. 97-374-C, Item No. 261, attachment ALR-11, pages 12, 13 and 14.

Note:
Assume no inflation
Assume 50% reduction in account 653X and 6510
Assume 27% reduction in account 67XX

Exhibit _____
Docket Nos: 960833-TP/960846-TP/960757-TP/971140-TP/960916-TP
Lemma Rebuttal Exhibit ALR-1
Revised Expense Development Factors
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BELLSOUTH
REVISED EXPENSE/S&W DEVELOPMENT FACTOR

		(C1) 6423 Buried Met/ Line Assn (Original)	(C3) 6423 Buried Met/ Line Assn (Revised)	(C4) 6424 Submar/Fib Line Assn (Original)	(C5) 6424 Submar/Fib Line Assn (Revised)	(C6) Acct 6426 Intrbld Fib (Original)	(C7) Acct 6426 Intrbld Fib (Revised)	(C8) 6426 Intrbld Met/ Line Assn (Original)	(C9) 6426 Intrbld Met/ Line Assn (Revised)	(C10) Acct 6441 Conduit (Original)	(C11) Acct 6441 Conduit (Revised)	(C12) Account 64XX C&W (Original)	(C13) Account 64XX C&W (Revised)
1	Total 10/96 YTD											881,637,000	881,637,000
2	10/96 Annualized											1,057,964,400	1,057,964,400
3	Annual P64											(364,000)	(364,000)
4	FR Regulated											1,057,600,400	1,057,600,400
5	Normalizing Adj												
6	Olympic											(7,576,000)	(7,576,000)
7	Hurricane											(7,109,000)	(7,109,000)
8	Pension											0	0
9	1996 Normalized											1,042,915,400	1,042,915,400
10	Proj Growth Rate											0.051	0.000
11	1997 Proj Bef Force Red											1,096,104,085	1,042,915,400
12	Force Reduction											1,103,000	1,103,000
13	1997 Projection											1,097,207,085	1,044,018,400
14	Proposed Reduction											0	0
15	1997 Proj Reduced											1,097,207,085	1,044,018,400
16	1998 Proj Growth Rate											0.045	0
17	1998 Proj bef Force Red											1,146,581,404	1,044,018,400
18	Force Reduction											(37,435,000)	(37,435,000)
19	1998 Projection											1,109,146,404	1,006,583,400
20	1999 Proj Growth Rate											0.042	0.000
21	1999 Projection											1,155,730,553	1,006,583,400
22	1995 Actuals	349,532,026	349,532,026	124,515	124,515	15,025	15,025	621,950	621,950	9,825,133	9,825,133	1,018,239,153	1,018,239,153
23	1997 Projection	376,658,990	358,381,532	134,173	127,662	16,363	15,569	670,160	637,640	10,910,417	10,380,987	1,097,207,085	1,044,018,400
24	1998 Projection	380,757,517	364,361,260	135,631	129,790	16,541	15,829	677,452	648,279	10,503,136	10,050,848	1,109,146,404	1,006,583,400
25	1999 Projection	396,749,630	380,757,802	141,329	135,632	17,236	16,541	705,906	677,453	10,392,276	9,973,393	1,155,730,553	1,006,583,400
26	3 Year Average	384,722,046	367,833,531	137,044	131,028	16,713	15,980	684,506	654,458	10,601,943	10,135,076	1,120,694,681	1,019,061,733
27	Expense/S&W Dev Factor	1.1007	1.0524	1.1006	1.0523	1.11237	1.06354	1.1006	1.05227	1.07906	1.03155	1.10062	1.00081

Source: BST's response to AT&T's First Set of Data Requests, SCPSC Docket No. 97-374-C, Item No. 281, attachment ALR-11, pages 12, 13 and 14.

Note: Assume no inflation
Assume 50% reduction in account 653X and 6510
Assume 27% reduction in account 67XX

Exhibit
Docket Nos: 960833-TP/960846-TP/960757-TP/971140-TP/960916-TP
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Revised Expense Development Factors
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BELLSOUTH
REVISED EXPENSE/S&W DEVELOPMENT FACTOR

		(C1) Account 6510 Other Provis (Original)	(C2) Account 6510 Other Provis (Revised)	(C3) Account 653X Ntwk Oper (Original)	(C4) Account 6530 Ntwk Oper (Revised)	(C5) Account 6610 Cust Op Mktg (Original)	(C6) Account 6610 Cust Op Mktg (Revised)	(C7) Account 6620 Cust Op Svces (Original)	(C8) Account 6620 Cust Op Svces (Revised)	(C9) Acct 6623 Cust Svc (Original)	(C10) Acct 6623 Cust Svc (Revised)
1	Total 10/96 YTD	7,520,000	7,520,000	808,406,000	808,406,000	494,095,000	494,095,000	1,027,104,000	1,027,104,000		
2	10/96 Annualized	9,024,000	9,024,000	970,087,200	970,087,200	592,914,000	592,914,000	1,232,524,800	1,232,524,800		
3	Annual P64	(388,000)	(388,000)	(75,788,000)	(75,788,000)	(52,887,000)	(52,887,000)	(48,867,000)	(48,867,000)		
4	FR Regulated	8,636,000	8,636,000	894,299,200	894,299,200	540,027,000	540,027,000	1,183,657,800	1,183,657,800		
5	Normalizing Adj										
6	Olympic	0	0	(5,999,000)	(5,999,000)	(9,850,000)	(9,850,000)	0	0		
7	Hurricane	0	0	(4,361,000)	(4,361,000)	0	0	0	0		
8	Pension	0	0	(57,369,000)	(57,369,000)	(804,000)	(804,000)	(49,232,000)	(49,232,000)		
9	1996 Normalized	8,636,000	8,636,000	826,570,200	826,570,200	529,373,000	529,373,000	1,134,425,800	1,134,425,800		
10	Proj Growth Rate	0.034	0.000	0.051	0.000	0.034	0.000	0.034	0.000		
11	1997 Proj Bef Force Red	8,929,624	8,636,000	868,725,280	826,570,200	547,371,682	529,373,000	1,172,996,277	1,134,425,800		
12	Force Reduction	(516,000)	(516,000)	993,000	993,000	(13,095,000)	(13,095,000)	(28,713,000)	(28,713,000)		
13	1997 Projection	8,413,624	8,120,000	869,718,280	827,563,200	534,276,682	516,278,000	1,144,283,277	1,105,712,800		
14	Proposed Reduction	0.000	0.500	0.000	0.500	0	0	0	0		
15	1997 Proj Reduced	8,413,624	4,060,000	869,718,280	413,781,600	534,276,682	516,278,000	1,144,283,277	1,105,712,800		
16	1998 Proj Growth Rate	0.035	0	0.045	0	0.035	0	0.035	0		
17	1998 Proj bef Force Red	8,708,101	4,060,000	908,855,603	413,781,600	552,976,366	516,278,000	1,184,333,192	1,105,712,800		
18	Force Reduction	(128,000)	(128,000)	(33,729,000)	(33,729,000)	(17,217,000)	(17,217,000)	(37,753,000)	(37,753,000)		
19	1998 Projection	8,580,101	3,932,000	875,126,603	380,052,600	535,759,366	499,061,000	1,146,580,192	1,067,959,800		
20	1999 Proj Growth Rate	0.035	0.000	0.042	0.000	0.035	0.000	0.035	0.000		
21	1999 Projection	8,880,404	3,932,000	911,881,920	380,052,600	554,510,944	499,061,000	1,186,710,499	1,067,959,800		
22	1995 Actuals	7,771,760	7,771,760	965,621,470	965,621,470	514,959,407	514,959,407	1,182,914,195	1,182,914,195	917,002,730	917,002,730
23	1997 Projection	8,413,624	4,060,000	869,718,280	413,781,600	534,276,682	516,278,000	1,144,283,277	1,105,712,800	894,978,344	865,549,656
24	1998 Projection	8,580,101	3,932,000	875,126,603	380,052,600	535,759,366	499,061,000	1,146,580,192	1,067,959,800	906,815,161	876,149,914
25	1999 Projection	8,880,404	3,932,000	911,881,920	380,052,600	554,510,944	499,061,000	1,186,710,499	1,067,959,800	940,506,321	908,701,759
26	3 Year Average	8,624,710	3,974,667	885,575,601	391,295,600	541,515,664	504,800,000	1,159,191,323	1,080,544,133	914,099,942	883,467,110
27	Expense/S&W Dev Factor	1.1097	0.51142	0.91710	0.40523	1.0516	0.9803	0.9799	0.9135	0.9968	0.9634

Source: BST's response to AT&T's First Set of Data Requests, SCPSC Docket No. 97-374-C, Item No. 281, attachment ALR-11, pages 12, 13 and 14.

Note:
Assume no inflation
Assume 50% reduction in account 653X and 6510
Assume 27% reduction in account 67XX

Exhibit
Docket Nos: 960833-TP/960846-TP/960757-TP/971140-TP/960916-TP
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Revised Expense Development Factors
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BELLSOUTH
REVISED EXPENSE/S&W DEVELOPMENT FACTOR

		(C1) Account 6727 R&D (Original)	(C2) Account 6727 R&D (Revised)	(C3) Account 67XX Oth Corp (Original)	(C4) Account 67XX Oth Corp (Revised)	(C5) Account 6540 Access (Original)	(C6) Account 6540 Access (Revised)
		25,844,000	25,844,000	1,220,869,000	1,220,869,000		
1	Total 10/96 YTD	31,012,800	31,012,800	1,465,042,800	1,465,042,800		
2	10/96 Annualized	0	0	(93,607,000)	(93,607,000)		
3	Annual P64	31,012,800	31,012,800	1,371,435,800	1,371,435,800		
4	FR Regulated						
5	Normalizing Adj	0	0	(2,000,000)	(2,000,000)		
6	Olympic	0	0	0	0		
7	Hurricane	0	0	(262,495,000)	(262,495,000)		
8	Pension	31,012,800	31,012,800	1,106,940,800	1,106,940,800		
9	1996 Normalized						
		0.051	0.000	0.034	0.000		
10	Proj Growth Rate	32,594,453	31,012,800	1,144,576,787	1,106,940,800		
11	1997 Proj Bef Force Red	34,000	34,000	(84,309,000)	(84,309,000)		
12	Force Reduction						
		32,628,453	31,046,800	1,060,267,787	1,022,631,800		
13	1997 Projection	0	0.27	0	0.27		
14	Proposed Reduction	32,628,453	22,664,164	1,060,267,787	746,521,214		
15	1997 Proj Reduced						
		0.045	0	0.035	0		
16	1998 Proj Growth Rate	34,096,733	22,664,164	1,097,377,160	746,521,214		
17	1998 Proj bef Force Red	(1,110,000)	(1,110,000)	(16,131,000)	(16,131,000)		
18	Force Reduction	32,986,733	21,554,164	1,081,246,160	730,390,214		
19	1998 Projection						
		0.042	0.000	0.035	0.000		
20	1999 Proj Growth Rate	34,372,176	21,554,164	1,119,089,775	730,390,214		
21	1999 Projection						
		33,312,168	33,312,168	1,424,562,574	1,424,562,574	56,246,944	56,246,944
22	1995 Actuals						
		32,628,453	22,664,164	1,060,267,787	746,521,214	45,501,000	44,004,836
23	1997 Projection	32,986,733	21,554,164	1,081,246,160	730,390,214	47,094,000	45,501,449
24	1998 Projection	34,372,176	21,554,164	1,119,089,775	730,390,214	48,742,000	47,093,720
25	1999 Projection	33,329,121	21,924,164	1,086,867,907	735,767,214	47,112,333	45,533,335
26	3 Year Average						
		1.0005	0.6581	0.7629	0.5165	0.6376	0.80953
27	Expense/S&W Dev Factor						

Source: BST's response to AT&T's First Set of Data Requests, SCPSC Docket No. 97-374-C, Item No. 281, attachment ALR-11, pages 12, 13 and 14.

Note:
Assume no inflation
Assume 50% reduction in account 653X and 6510
Assume 27% reduction in account 67XX

Exhibit _____
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Revised Expense Development Factors
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BELLSOUTH
STATE OF FLORIDA
Alternative Attribution Basis

Account	Account Descripton	Category/Cost Pool Description	Original Attribution	Revised Attribution
6121	Land and Building	Rents-Distribution Services	S&W for 23XX - 24XX, 63XX - 64XX	Included with account 2121
6121	Land and Building	Rents-Customer Oper,Gen Off	S&W for 661X & 6623	Included with account 2121
6121	Land and Building	Rents-Ntwk Oper,Gen Off	S&W for 61XX, 65XX, excl 6121 & 6124	Included with account 2121
6121	Land and Building	Rents-Corporate Oper	S&W for 67XX	Included with account 2121
6121	Land and Building	Rents-Operator Services	S&W for 6621 & 6622	Included with account 2121
6121	Land and Building	Rents-Ntwk Oper,Data Ctr	S&W for 6124	Included with account 2121
6124	General Purpose Computer	General Support	S&W for all accounts	22XX - 24XX, 62XX - 64XX
6124	General Purpose Computer	General	S&W for all accounts	22XX - 24XX, 62XX - 64XX
6124	General Purpose Computer	Non-CDP	S&W for all accounts	22XX - 24XX, 62XX - 64XX
6512	Provisioning	Provisioning	S&W for 65XX - 67XX	65XX excluding 6540
6534	Plant Operations Adm	Support Operations	S&W for all accounts	22XX - 24XX, 62XX - 64XX
6534	Plant Operations Adm	Other	S&W for all accounts	22XX - 24XX, 62XX - 64XX
6534	Plant Operations Adm	Billing from BBS for BST rel wk	S&W for 22XX - 24XX, 62XX - 64XX	22XX - 24XX, 62XX - 64XX
6535	Engineering	General Support-L&B	S&W for all accounts	22XX - 24XX, 62XX - 64XX
6535	Engineering	General Supervision & Planning	S&W for 22XX - 24XX, 62XX - 64XX	22XX - 24XX, 62XX - 64XX
6535	Engineering	Billings form BBS for BST rel work	S&W for 22XX - 24XX, 62XX - 64XX	22XX - 24XX, 62XX - 64XX
6711	Executive	Plant Operations	S&W for 22XX - 24XX, 62XX - 64XX	22XX - 24XX, 62XX - 64XX
6711	Executive	Corporate Operations	S&W for 67XX	67XX excluding 6711
6723	Human Resources	Human Resources	S&W for all accounts	22XX - 24XX, 62XX - 64XX
6724	Information Management	General Support	S&W for all accounts	22XX - 24XX, 62XX - 64XX
6724	Information Management	Corporate	S&W for all accounts	22XX - 24XX, 62XX - 64XX
6724	Information Management	General	S&W for all accounts	22XX - 24XX, 62XX - 64XX
6726	Procurement	Other	S&W for 65XX - 67XX	65XX excluding 6540
1220	Materials	Company Comm Eqpt	S&W for all accounts	22XX - 24XX, 62XX - 64XX
2112	Motor Vehicle	Distribution Services	S&W for 23XX - 24XX, 63XX - 64XX	22XX - 24XX, 62XX - 64XX
2112	Motor Vehicle	Central Office	S&W for 22XX, 62XX	22XX, 62XX
2112	Motor Vehicle	Network Operations	S&W for 6112-6123, 651X-653X	65XX excluding 6540
2112	Motor Vehicle	Customer Operations	S&W for 6611-6623	66XX

Exhibit _____
Docket Nos: 960833-TP/960846-TP/960757-TP/971140-TP/960916-TP
Lerma Rebuttal Exhibit ALR-2
Alternative Attribution Basis

BELLSOUTH
STATE OF FLORIDA
Alternative Attribution Basis

Account	Account Descripton	Category/Cost Pool Description	Original Attribution	Revised Attribution
2112	Motor Vehicle	Corporate Operations	S&W for 6711-6728	67XX excluding 6711
2116	Other Work Equipment	Plant Specific	S&W for 22XX - 24XX, 62XX - 64XX	22XX - 24XX, 62XX - 64XX
2116	Other Work Equipment	Customer, Corp & Plant Specific	S&W for 65XX-67XX	65XX excluding 6540
2116	Other Work Equipment	Embedded Investment Sm Val	S&W for 22XX - 24XX, 62XX - 64XX	22XX - 24XX, 62XX - 64XX
2121	Buildings	Distribution Services	S&W for 23XX, 24XX, 63XX, 64XX	22XX - 24XX, 62XX - 64XX
2121	Buildings	Customer Oper - Genl Off Space	S&W for 6611,6612,6613,6623	66XX
2121	Buildings	Network Oper - Genl Off Space	S&W for 611X,6122,6123,651X,653X	65XX excluding 6540
2121	Buildings	Corporate Operations	S&W for 67XX	67XX excluding 6711
2121	Buildings	Customer Operations	S&W for 6621,6622	662X
2121	Buildings	Network Operations	S&W for 6124	Include with 6124
2122	Furniture	Plant	S&W for 22XX-24XX, 62XX-64XX	22XX - 24XX, 62XX - 64XX
2122	Furniture	Other	S&W for 65XX-67XX	65XX excluding 6540
2122	Furniture	Embedded Investment Sm Val	S&W for 65XX-67XX	65XX excluding 6540
2122	Furniture	Hotel Furnishings	S&W all accounts	22XX - 24XX, 62XX - 64XX
2123	Office Equipment	Plant	S&W for 22XX-24XX, 62XX-64XX	22XX - 24XX, 62XX - 64XX
2123	Office Equipment	Other	S&W for 65XX-67XX	65XX excluding 6540
2123	Office Equipment	Company Comm Eqpt	S&W all accounts	22XX - 24XX, 62XX - 64XX
2123	Office Equipment	Embedded Investment Sm Val	S&W all accounts	22XX - 24XX, 62XX - 64XX
2681	Capital Lease	Building - Other	S&W all accounts	22XX - 24XX, 62XX - 64XX
2681	Capital Lease	Motor Vehicle	S&W for 22XX-24XX, 62XX-64XX	22XX - 24XX, 62XX - 64XX
2682	Leasehold Improvements	Building - Other	S&W all accounts	22XX - 24XX, 62XX - 64XX

Exhibit _____
Docket Nos: 960833-TP/960846-TP/960757-TP/971140-TP/960916-TP
Lerma Rebuttal Exhibit ALR-2
Alternative Attribution Basis
Page 2 of 2

BELLSOUTH
STATE OF FLORIDA
LOCAL CARRIER SERVICE CENTER (LCSC)

The following amounts have been removed form account 6623 for LCSC:

Wholesale non-recurring	$11,614,199
Wholesale recurring	3,872,612
Total	$15,486,811

BellSouth file: LCSC and Retail-Wholesale Proportions were adjusted by accessing the Methodology section of BS cost study and zeroing out the LCSC addition.

BELLSOUTH
STATE OF FLORIDA
REVISED COMMON COST FACTOR

		Original Calculation	Revised Calculation
(1)	Costs common to both wholesale and retail operations	$842,009,415	$606,350,914
(2)	Total costs	$18,406,709,466	$15,310,001,103
(3)	Total costs excluding costs common to both wholesale and retail	$17,564,700,051	$14,703,650,189
(4)	Directly assigned and directly attributed retail costs	$1,843,296,174	$1,546,794,599
(5)	Retail portion of allocated common costs	$88,363,179	$63,786,904
(6)	Total retail costs	$1,931,659,353	$1,610,581,503
(7)	Wholesale portion of allocated common costs	$753,646,236	$542,564,010
(8)	Directly assigned and attributed wholesale common costs	$88,687,124	$72,941,144
(9)	Total wholesale common costs	$842,333,360	$615,505,154
(10)	Total directly assigned and directly attributed wholesale costs	$15,632,716,753	$13,083,914,446
(11)	Wholesale common cost factor	5.39%	4.70%

Notes: Original Calculation per CD-ROM - Methodology
Revised calculation per file: finalfl.usr
Revisions reflect only adjustments that could be quantified. Due to lack of available data, other deficiencies noted in the testimony of Art Lerma are not addressed.

Exhibit _____
Docket Nos: 960833-TP/960846-TP/960757-TP/971140-TP/960916-TP
Lerma Rebuttal Exhibit ALR-4
Revised Common Cost Factor
Page 1 of 3

BELLSOUTH
STATE OF FLORIDA
REVISED SHARED COST FACTORS

Account	Descriptor	Original Rate	Revised Rate
2121	Land and Building	0.0006	0
2211	Analog Electronic	0.0457	0.0556
2212	Digital Electronic	0.0334	0.0315
2215	Electromechanical	0.0362	0.0510
2220	Operator Systems	0.0381	0.0508
2231	Radio Systems	0.0257	0.0380
2232	Circuit Eqpt	0.0354	0.0397
2232	Circuit Eqpt	0.0317	0.0311
2232	Circuit Eqpt	0.0285	0.0314
2232	Circuit Eqpt	0.0288	0.0314
2232	Circuit Eqpt	0.0650	0.0513
2311	Station Apparatus	0.8410	0.2828
2341	Large PBX	0.0556	0.0565
2362	Other Terminal Eqpt	0.1169	0.065
2411	Poles	0.0161	0.0198
2421	Aerial Cable	0.0383	0.0244
2421	Aerial Cable	0.0228	0.0185
2422	Underground Cable	0.0237	0.0203
2422	Underground Cable	0.0173	0.0185
2423	Buried Cable	0.0301	0.0232
2423	Buried Cable	0.0183	0.0189
2424	Submarine Cable	0.0137	0.0195
2424	Submarine Cable	0.0138	0.0198
2426	Intrabldg Network Cable	0.0164	0.0189
2426	Intrabldg Network Cable	0.0183	0.0196
2441	Conduit Systems	0.0126	0.0176

Note: Revised rates reflect the following changes
- Elimination of growth rates
- 50% reduction in Network Operations Expenses (653X and 651X)
- 27% reduction in 67XX expenses (executive, planning, accounting & finance, etc.)
- Elimination of the Local Carrier Service Center (LCSC) expenses
- Elimination of the salary and wages attribution methodology

Revisions reflect only the adjustments that could be quantified. Due to lack of available data, other deficiencies noted in the testimony of Art Lerma are not addressed.

BELLSOUTH
STATE OF FLORIDA
REVISED SHARED LABOR FACTORS

	Original Factors	Revised Factors
Address & Facility Inventory (AFIG)	0.4858	0
Installation & Maintenance Center (IMC)	0.4858	0
Installation & Maintenance Spec Svcs	0.4858	0
CO Installation & Maintenance - Circ. & Fac.	0.2751	0
Trunk & Carrier Group (TCG)	0.4569	0
Circuit Provisioning Group (CPG)	0.2751	0
Access Customer Advocate Center (ACAC)	0.4280	0
Work Management Center (WMC)	0.4304	0
Network Plug-In Administration (PICS)	0.2751	0
Outside Plant Engineering	0.4858	0
Customer Point of Contact - ICSC	0.4437	0
Network Services Clerical	0.4851	0
OSPC	0.4858	0
OPAC	0.4858	0
CRT	0.4858	0
COIM - SW. EQ.	0.2751	0
RCMAG	0.2751	0
SW/TRK Based Trans	0.2751	0
COIMA- SFTWR	0.2751	0
NRC	0.4304	0
PAR	0.4304	0
EBAC	0.4304	0
BRC	0.4304	0
RRC	0.4304	0
FG10	0.2091	0
FG20	0.4304	0
CABS Acctg	0.4437	0
POTS Op	0.3106	0
DA Op	0.3106	0
Coin Coll	0.4437	0
Coll Rep - Res	0.4437	0
Coll Rep - Bus	0.4437	0
BO Svc Rep - Res	0.4437	0
BO Svc Rep - Bus	0.4437	0
Compt Cler	0.4437	0
Acct Exec	0.4437	0
Systems Des	0.4437	0
Svc Cons	0.4437	0
Total IOT & OSP	0.4858	0
Total COE	0.2751	0
Other than IOT, COE & OSP	0.4859	0

Note: Revised factors were the result of eliminating the salary and wage attribution methodology. Revisions reflect only the adjustments that could be quantified. Due to lack of available data, other deficiencies noted in the testimony of Art Lerma are not addressed.

ANALYSIS OF BELLSOUTH'S COST STUDY
1997 - 1999 TELRIC LABOR RATES

Calculation of Telric Rates
with revised Shared Labor Factors and inflation rate

PLANT WORK CENTERS	JFC/PAY BAND	DIRECT S & W (A)	OTHER DIRECT (B)	SHARED LABOR FACTOR (C)	SHARED COSTS (D=A*C)	LABOR RATE (E=A+B+D)	1997-1999 INFLATION FACTOR (F)	TOTAL (G=E*F)
ADDRESS & FACILITY INVENTORY (AFIG)	400X 4M1X	$23.82	$7.09	0.0000	0	$30.91	1.0000	$30.91
INSTALLATION & MTCE CENTER (IMC)	401X	$24.85	$7.04	0.0000	0	$31.89	1.0000	$31.89
INSTALL & MTCE - POTS	410X	$28.08	$9.95	0.0000	0	$38.03	1.0000	$38.03
INSTALL & MTCE - SPEC SVCS (SSIM)	411X	$29.97	$10.08	0.0000	0	$40.05	1.0000	$40.05
OUTSIDE PLANT CONSTRUCTION (OSPC)	420X 421X	$29.09	$11.91	0.0000	0	$41.00	1.0000	$41.00
OUTSIDE PLANT ADMIN CENTER (OPAC)	424X	$22.48	$7.76	0.0000	0	$30.24	1.0000	$30.24
CABLE REPAIR TECHNICIAN (CRT)	422X 423X 425X 426X	$31.20	$11.85	0.0000	0	$43.05	1.0000	$43.05
CO INSTALL & MTCE FIELD - SWITCH EQUIP	430X	$29.98	$11.17	0.0000	0	$41.15	1.0000	$41.15
CO INSTALL & MTCE FIELD - CIRCUIT & FAC	431X	$28.35	$10.96	0.0000	0	$39.31	1.0000	$39.31
RECENT CHANGE LINE TRANSLATIONS (RCMAG)	4321 4N1X	$25.14	$9.67	0.0000	0	$34.81	1.0000	$34.81
SWITCH & TRUNK BASED TRANSLATIONS	4320 4N2X	$31.03	$10.58	0.0000	0	$41.61	1.0000	$41.61
CO INSTALL, MTCE & ADMIN - SOFTWARE	4322 4323 4324	$36.05	$11.43	0.0000	0	$47.48	1.0000	$47.48
TRUNK & CARRIER GROUP (TCG)	4331 4342 473X 4N5X	$30.37	$10.39	0.0000	0	$40.76	1.0000	$40.76
NETWORK RELIABILITY CENTER (NRC)	4330 4341 4LXX	$24.62	$10.11	0.0000	0	$34.73	1.0000	$34.73
PROACTIVE ANALYSIS & REPAIR CTR (PAR)	4332 4PXX	$24.21	$7.67	0.0000	0	$31.88	1.0000	$31.88
CIRCUIT PROVISIONING GROUP (CPG)	470X 4N4X	$25.20	$8.59	0.0000	0	$33.79	1.0000	$33.79
ACCESS CUSTOMER ADVOCATE CENTER (ACAC)	471X 4AXX	$27.43	$8.24	0.0000	0	$35.67	1.0000	$35.67
EQUIPMENT BILLING ACCURACY CONT (EBAC)	472X 4N3X	$23.82	$9.58	0.0000	0	$33.40	1.0000	$33.40
BUSINESS REPAIR CENTER (BRC)	4BXX	$27.72	$7.82	0.0000	0	$35.54	1.0000	$35.54
RESIDENCE REPAIR CENTER (RRC)	4RXX	$23.26	$7.42	0.0000	0	$30.68	1.0000	$30.68
WORK MANAGEMENT CENTER (WMC)	4WXX	$24.57	$7.07	0.0000	0	$31.64	1.0000	$31.64
ENGINEERING FORCE GROUPS	**JFC/PAY BAND**							
LAND AND BUILDINGS (FG10)	30XX 350X	$47.47	$17.34	0.0000	0	$64.81	1.0000	$64.81
NETWORK & ENGINEERING PLANNING (FG20)	31XX 34XX 3AXX 3BXX	$43.73	$15.05	0.0000	0	$58.78	1.0000	$58.78
NETWORK PLUG-IN ADMINISTRATION (PICS)	341X 3A2X	$25.07	$8.89	0.0000	0	$33.96	1.0000	$33.96
OUTSIDE PLANT ENGINEERING (FG30)	32XX 356X	$35.17	$11.81	0.0000	0	$46.98	1.0000	$46.98
COST GROUPS	**JFC/PAY BAND**							
CABS ACCOUNTING	1200	$25.88	$12.09	0.0000	0	$37.97	1.0000	$37.97
CUSTOMER POINT OF CONTACT - ICSC/LSCS	2300	$25.95	$13.29	0.0000	0	$39.24	1.0000	$39.24
POTS OPERATOR	2120	$24.00	$6.04	0.0000	0	$30.04	1.0000	$30.04
DIRECTORY ASSISTANCE OPERATOR	2940	$20.60	$5.59	0.0000	0	$26.19	1.0000	$26.19
COIN COLLECTOR	2600	$28.96	$5.91	0.0000	0	$34.87	1.0000	$34.87
COLLECTIONS REP - RESIDENCE	2E40	$24.53	$6.05	0.0000	0	$30.58	1.0000	$30.58
COLLECTIONS REP - BUSINESS	2840	$24.63	$6.31	0.0000	0	$30.94	1.0000	$30.94
BUS OFC SVC REP - RESIDENCE	2E50 2E70	$26.38	$6.40	0.0000	0	$32.78	1.0000	$32.78

Exhibit
Docket Nos: 960833-TP/960846-TP/960757-TP/971140-TP/960916-TP
Lerma Rebuttal Exhibit ALR-5
1997-1999 TELRIC Labor Rates

Exhibit
Docket Nos: 960833-TP/960846-TP/960757-TP/971140-TP/960916-TP
Lerma Rebuttal Exhibit ALR-5
1997-1999 TELRIC Labor Rates
Page 2 of 2

COST GROUPS (Continued)	JFC/PAY BAND	DIRECT S & W (A)	OTHER DIRECT (B)	SHARED LABOR FACTOR (C)	SHARED COSTS (D=A*C)	LABOR RATE (E=A+B+D)	1997-1999 INFLATION FACTOR (F)	TOTAL (G=E*F)
BUS OFC SVC REP - BUSINESS	2850 2870	$27.64	$6.38	0.0000	0	$34.02	1.0000	$34.02
COMPTROLLERS CLERICAL	1240 1250 1260 1270	$23.96	$11.77	0.0000	0	$35.73	1.0000	$35.73
NETWORK SERVICES CLERICAL	2700 2730	$24.52	$6.02	0.0000	0	$30.54	1.0000	$30.54
ACCOUNT EXECUTIVE	NOT APPLICABLE							
WITH SALES COMPENSATION		$54.90	$12.88	0.0000	0	$67.78	1.0000	$67.78
WITHOUT SALES COMPENSATION		$44.60	$10.46	0.0000	0	$55.06	1.0000	$55.06
SYSTEMS DESIGNER	NOT APPLICABLE							
WITH SALES COMPENSATION		$50.05	$11.74	0.0000	0	$61.79	1.0000	$61.79
WITHOUT SALES COMPENSATION		$46.02	$10.79	0.0000	0	$56.81	1.0000	$56.81
SERVICE CONSULTANT	NOT APPLICABLE	$33.49	$7.86	0.0000	0	$41.35	1.0000	$41.35
Network Pay Band 56	NWPB56	$28.27	$12.43	0.0000	0	$40.70	1.0000	$40.70
Network Pay Band 57	NWPB57	$28.27	$12.43	0.0000	0	$40.70	1.0000	$40.70
Network Pay Band 58	NWPB58	$32.19	$13.48	0.0000	0	$45.67	1.0000	$45.67
Network Pay Band 59	NWPB59	$35.33	$14.33	0.0000	0	$49.66	1.0000	$49.66
Network Pay Band 61	NWPB61	$44.94	$16.94	0.0000	0	$61.88	1.0000	$61.88
Network Wage Scale 10	NWWS10	$20.21	$10.25	0.0000	0	$30.46	1.0000	$30.46
Marketing Pay Band 56	MKPB56	$27.41	$11.93	0.0000	0	$39.34	1.0000	$39.34
Marketing Pay Band 57	MKPB57	$27.41	$11.93	0.0000	0	$39.34	1.0000	$39.34
Marketing Pay Band 58	MKPB58	$31.81	$13.12	0.0000	0	$44.93	1.0000	$44.93
Marketing Pay Band 59	MKPB59	$35.14	$14.04	0.0000	0	$49.18	1.0000	$49.18
Marketing Pay Band 61	MKPB61	$45.12	$16.75	0.0000	0	$61.87	1.0000	$61.87
Marketing Wage Scale 10	MKWS10	$19.96	$9.90	0.0000	0	$29.86	1.0000	$29.86
IT Pay Band 54	ITPB54	$27.00	$10.86	0.0000	0	$37.86	1.0000	$37.86
IT Pay Band 55	ITPB55	$27.26	$10.73	0.0000	0	$37.99	1.0000	$37.99
IT Pay Band 56	ITPB56	$31.44	$11.87	0.0000	0	$43.31	1.0000	$43.31
IT Pay Band 57	ITPB57	$31.44	$11.87	0.0000	0	$43.31	1.0000	$43.31
IT Pay Band 58	ITPB58	$34.72	$12.77	0.0000	0	$47.49	1.0000	$47.49
IT Pay Band 59	ITPB59	$37.95	$13.65	0.0000	0	$51.60	1.0000	$51.60
IT Pay Band 60	ITPB60	$43.99	$15.30	0.0000	0	$59.29	1.0000	$59.29
IT Pay Band 61	ITPB61	$47.72	$16.31	0.0000	0	$64.03	1.0000	$64.03
IT Wage Scale 10	ITWS10	$22.82	$9.52	0.0000	0	$32.34	1.0000	$32.34
IT Wage Scale 14	ITWS14	$23.70	$9.76	0.0000	0	$33.46	1.0000	$33.46
IT Wage Scale 16	ITWS16	$24.18	$9.90	0.0000	0	$34.08	1.0000	$34.08
IT Wage Scale 18	ITWS18	$24.54	$9.99	0.0000	0	$34.53	1.0000	$34.53
IT Wage Scale 32	ITWS32	$29.38	$11.31	0.0000	0	$40.69	1.0000	$40.69
Finance/Regualtory Pay Band 56	FRPB56	$29.17	$10.19	0.0000	0	$39.36	1.0000	$39.36
Finance/Regualtory Pay Band 57	FRPB57	$29.17	$10.19	0.0000	0	$39.36	1.0000	$39.36
Finance/Regualtory Pay Band 58	FRPB58	$32.44	$11.07	0.0000	0	$43.51	1.0000	$43.51
Finance/Regualtory Pay Band 59	FRPB59	$35.87	$11.94	0.0000	0	$47.81	1.0000	$47.61
Finance/Regualtory Pay Band 61	FRPB61	$44.93	$14.44	0.0000	0	$59.37	1.0000	$59.37
Finance/Regualtory Wage Scale 10	FRWS10	$20.60	$7.88	0.0000	0	$28.48	1.0000	$28.48
Finance/Regulatory Wage Scale 16	FRWS16	$21.96	$8.24	0.0000	0	$30.20	1.0000	$30.20

Source: Columns A & B - BST Cost Study section 4.

Note: Revisions reflect only the adjustments that could be quantified Due to the lack of available data, other deficiencies noted in the testimony of Art Lerma are not addressed.

STATE OF FLORIDA
COMPARISON OF PLANT SPECIFIC FACTORS WITH AND WITHOUT INFLATION

		PLANT SPECIFIC FACTORS AS FILED	PLANT SPECIFIC FACTORS WITH INFLATION REMOVED
BUILDING - COE	2121	0.0053	0.0050
COMPUTERS	2124	0.0784	0.0732
DIGITAL SWITCH	2212	0.0400	0.0356
OPER SYSTEMS	2220	0.0906	0.0826
CIRCUIT-DDS 2232	157C	0.0281	0.0257
CIRCUIT-DIGL PRGN 2232	257C	0.0169	0.0154
CIRCUIT-DIGL OTHER 2232	357C	0.0227	0.0207
POLES (Inc Rents)	2411	0.0179	0.0160
AE CA METAL 2421	12C	0.0558	0.0508
AE CA FIBER 2421	812C	0.0029	0.0026
UNGR CA METAL 2422	5C	0.0196	0.0179
UNGR CA FIBER 2422	85C	0.0032	0.0029
BUR CA METAL 2423	45C	0.0346	0.0315
BUR CA FIBER 2423	845C	0.0039	0.0035
SUBMARINE CABLE	2424	0.0061	0.0056
INTRABLDG METAL 2426	52C	0.0023	0.0020
INTRABLDG FIBER 2426	852C	0.0075	0.0069
TOTAL INTRABLDG	2426	0.0023	0.0021
CONDUIT	2441	0.0033	0.0030

STATE OF FLORIDA
CALCULATION TO REMOVE INFLATION FROM
THE PLANT SPECIFIC FORECAST
($000's)

		1997 FORECAST WITH INFLATION AND FORCE ADJUSTMENT (A)	BELLSOUTH INFLATION FACTORS (TO REMOVE INFLATION) (B)	1997 FORECAST (C=A/1+B)	1998 CALCULATED FORCE FACTOR (Based on BellSouth) (D)	1998 FORCE ADJUST. (E=DXC)	1998 FORECAST (F=C-E)	1999 FORCE ADJUST. (G)	1999 FORECAST (H=F-G)
6120	GENERAL SUPPORT	$141,851	0.034	$137,187	0.0129	$1,770	$135,417	$0	$135,417
62XX	CENTRAL OFFICE EQUIPMENT	$155,640	0.051	$148,088	0.0354	$5,242	$142,845	$0	$142,845
6410	CABLE & WIRE	$286,507	0.051	$272,604	0.0341	$9,296	$263,308	$0	$263,308
6530	NETWORK OPERATIONS	$230,418	0.051	$219,237	0.0388	$8,506	$210,731	$0	$210,731

Sources:

Column A - Florida Docket Nos: 9608336TP / 960846-TP / 960757-TP / 971140-TP Cost study filing - Plant specific-Fl worksheet in appendix E
Column B - SC PSC Docket No. 97-374-C, supplemental responses to AT&T First Set of Data Requests to BellSouth, November 10, 1997, item 281, Attachment 1, page 12 of 17, col. Growth rt.
Column C - The inflation is removed by dividing column A by 1 plus the inflation factors in column B.
Column D - SC PSC Docket No. 97-374-C, supplemental responses to AT&T First Set of Data Requests to BellSouth, November 10, 1997, item 281, Attachment 1, page 13 of 17, column 113 reduction is divided by column previous yr to develop force factors.
Column E - The calculated force factor in column D is multiplied times the revised projected 1997 forecast.

Note: Revisions reflect only the adjustments that could be quantified. Due to lack of available data, other deficiencies noted in the testimony of Art Lerma are not addressed.

Exhibit _____
Docket Nos: 960833-TP/960846-TP/960757-TP/971140-TP/960916-TP
Lerma Rebuttal Exhibit ALR-6
Comp. Plant Specific Factors w/wo Inflation

		% of M999MTO			4.4%	4.1%									

Entity refers to states (BA = Alabama, BF = Florida etc with B = Company)

METHODOLOGY:

1. Pole Rental is in accounts 5240 2100 and Conduit is 5240 2200 - (approx 99% Non COU), this is part product M999MTO which is forecasted (M999MTO = Total Rent Revenue)
2. Extracted NON COU revenue for these two accounts, and determined % each account was of product M999MTO and applied that percent to Forecast

Problem: Forecast was developed on actuals through June, 1998. Actual activity increased significantly in August. Therefore we should overrun the forecast. However this is just one overrun. Overall the revenue forecast is underrunning the budget by approx $25M per month.

HQ	BOOK	M999MTO	1000		0	0	0	0	0	0	0	0	0	0	0
					8208 631	8584 851									
					780.349	885 352									

Exhibit
Docket Nos: 960833-TP/960846-TP/960757-TP/971140-TP/960916-TP
Lerma Rebuttal Exhibit ALR-7
Page 240, Appendix H, BST Revised P-1
Page 1 of 1

NETWORK OPERATING EXPENSES (NOE)
USOA ACCOUNTS 6530 & 6512
SUPPORT DOCUMENTATION FOR 50% REDUCTION

BellSouth Network Operating Expenses (NOE) Show Downward Trend.

- Publicly filed data on ARMIS 43-03 (The Joint Cost Reports), from 1989 through 1996, show booked expenses in accounts 6530 (Network Operations) and 6512 (Provisioning), based on expense to access line ratios, have trended downward 32.8%. Additionally, and according to the Consumer Price Index (CPI) data provided by the Bureau of Labor and Statistics, the adjusted NOE expense per access line has trended downward 46.9%. The CPI adjustment is made to remove expense growth that is attributable to inflation.

Avoided Retail Cost - Additional Reduction in NOE.

- Expenses associated with the customer interface portion of network testing resulting from Customer Trouble reports (USOA Account 6533), will be incurred by AT&T, thereby avoided by BellSouth. AT&T will handle all repair calls from its customers.

- In response to AT&T data requests in TN, LA, SC and AL UNE dockets the average customer trouble reports portion of the network testing account (6533) was 52.56%, and 10.88% of the total amount booked to account (6530), in 1995 and 1996 combined

BELLSOUTH ACCOUNTS 6530 & 6512 PER ACCESS LINE (1989 = 100%)

		Source	1989	1990	1991	1992	1993	1994	1995	1996	
1	6530 6512	43-03	933,527	979,124	977,999	926,226	960,392	955,696	967,381	903,749	**-3.20%**
2	Access Lines	43-08	17,005,219	17,721,561	18,873,508	19,209,116	20,151,725	21,251,809	22,595,391	24,493,047	
3	EPL	Ln. 1 / Ln. 2	0.055	0.055	0.052	0.048	0.048	0 045	0.043	0.037	**-1.8**
4	Actual EPL Index	Line 3 / Base yr (89) Line 3	1	1.006	0.944	0.878	0.868	0.819	0.780	0.672	**-32.80%**
5	Annual CPI	BLS	X	0.054	0.042	0.030	0.030	0.026	0 028	0.029	
6	Cumm. CPI change	(1+ Ln.5) * (1+ prev yr. Ln.6) - 1	0	0.054	0.099	0.132	0 166	0.196	0.229	0.265	
7	CPI Adjusted Accounts 6530 & 6512	Line 1 / (1+ Line 6)	933,527	928,766	890,135	818,150	823,925	799,080	786,881	714,161	
8	CPI Adjusted EPL	Line 7 / Line 2	0.055	0.052	0.047	0 043	0.041	0 038	0.035	0.029	**-2.6**
9	CPI Adjusted Index	Line 8 / Base yr. (89) LIne 8	1	0 955	0.859	0.776	0.745	0.685	0.634	0 531	**-46.90%**

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BELLSOUTH NETWORK TESTING CUSTOMER INTERFACE ANALYSIS

	USOA ACCT	6530 1995 a	6530 1996 b	Total 6530 c = a+b	6533 1995 d	6533 1996 e	Total 6533 f = d+e	6533 Pct. of 6530 g = f/c	Cust. Interface Portion 1995-96 h	Pct. of 6533 Total i = h/f	Pct. of 6530 Total j = h/c
1	FL	252,847	233,131	485,978	58,499	55,905	114,404	23.54%			
2	GA	173,231	158,166	331,397	45,076	37,594	82,670	24.95%			
3	NC	93,293	94,091	187,384	19,546	19,738	39,284	20.96%			
4	SC	66,139	61,714	127,853	12,285	12,885	25,170	19.69%	13,711	54.47%	**10.72%**
5	AL	84,673	73,837	158,510	17,780	15,802	33,582	21.19%	17,381	51.76%	**10.97%**
6	KY	48,734	43,076	91,810	9,625	9,414	19,039	20.74%			
7	LA	94,798	84,344	179,142	18,749	16,714	35,463	19.80%	18,948	53.43%	**10.58%**
8	MS	58,221	49,896	108,117	10,912	10,612	21,524	19.91%			
9	TN	100,709	94,849	195,558	22,702	20,736	43,438	22.21%	21,970	50.58%	**11.23%**
	Total	972,645	893,104	1,865,749	215,174	199,400	414,574	22.22%			

Notes: Cols. a, b, d, & e, from 1995 & 1996 ARMIS 43-03
Col. h, from TN, LA, SC and AL UNE docket data requests.

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GENERAL AND ADMINISTRATIVE EXPENSES
USOA ACCOUNTS 6710 & 6720
SUPPORT DOCUMENTATION FOR 27% REDUCTION

Regional Bell Operating Companies G&A Expenses Show Downward Trend.

- Publicly filed data on ARMIS 43-03 (The Joint Cost Reports), from 1989 through 1996, show booked expenses in accounts 6710 (Executive Planning) and 6720 (G&A), based on expense to access line ratios, have trended downward from 1.4% to 38.5%. Additionally, and according to the Consumer Price Index (CPI) data provided by the Bureau of Labor and Statistics, the adjusted G&A expense per access line has trended downward from 22.4% to 53.6%. The CPI adjustment is made to remove expense growth that is attributable to inflation.

REGIONAL BELL OPERATING COMPANIES 6710 & 6720 PER ACCESS LINE (1989 = 100%)

		Source	1989	1990	1991	1992	1993	1994	1995	1996	
1	6710 6720	43-03	7,509,533	7,497,036	8,284,808	7,095,852	7,510,776	8,328,027	8,237,918	8,078,118	**7.6%**
2	Access Lines	43-08	103,656,590	107,192,516	112,554,986	114,989,650	122,369,426	129,243,083	135,639,430	146,136,033	
3	EPL	Ln. 1 / Ln 2	0.072	0.070	0.074	0.062	0.061	0.064	0.061	0 055	**-1.7¢**
4	Actual EPL Index	Line 3 / Base yr (89) Line 3	1.000	0.965	1 016	0 852	0.847	0.889	0 838	0.763	**-23.7%**
5	Annual CPI	BLS	X	0 054	0.042	0.030	0 030	0 026	0.028	0 029	
6	Cumm. CPI change	(1+ Ln.5) * (1+ prev yr. Ln.6) - 1	0.000	0 054	0 099	0.132	0 166	0.196	0.229	0 265	
7	CPI Adjusted Accounts 6710 & 6720	Line 1 / (1+ Line 6)	7,509,533	7,111,453	7,540,500	6,267,879	6,443,530	6,963,261	6,700,832	6,383,493	
8	CPI Adjusted EPL	Line 7 / Line 2	0.072	0.066	0.067	0.055	0.053	0.054	0.049	0.044	**-2.9¢**
9	CPI Adjusted Index	Line 8 / Base yr. (89) Line 8	1.000	0.916	0.925	0.752	0.727	0 744	0.682	0.603	**-39.7%**

Exhibit
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G&A Expenses USOA Accounts 6710&6720
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BELLSOUTH ACCOUNTS 6710 & 6720 PER ACCESS LINE (1989 = 100%)

		Source	1989	1990	1991	1992	1993	1994	1995	1996	
1	6710 6720	43-03	1,035,964	1,025,585	1,082,132	995,501	1,100,742	1,141,886	1,450,510	1,464,405	**41.4%**
2	Access Lines	43-08	17,005,219	17,721,561	18,873,508	19,209,116	20,151,725	21,251,809	22,595,391	24,493,047	
3	EPL	Ln. 1 / Ln. 2	0.061	0.058	0.057	0.052	0.055	0.054	0 064	0.060	**-0.1**
4	Actual EPL Index	Line 3 / Base yr (89) Line 3	1.000	0.950	0 941	0.851	0.897	0 882	1.054	0.981	**-1.9%**
5	Annual CPI	BLS	X	0.054	0.042	0 030	0 030	0 026	0.028	0.029	
6	Cumm. CPI change	(1+ Ln.5) * (1+ prev yr. Ln.6) - 1	0.000	0.054	0 099	0.132	0 166	0.196	0.229	0.265	
7	CPI Adjusted Accounts 6710 & 6720	Line 1 / (1+ Line 6)	1,035,964	972,838	984,913	879,342	944,332	954,758	1,179,864	1,157,203	
8	CPI Adjusted EPL	Line 7 / Line 2	0.061	0 055	0.052	0 046	0.047	0.045	0 052	0.047	**-1.4**
9	CPI Adjusted Index	Line 8 / Base yr. (89) LIne 8	1.000	0.901	0.857	0 751	0.769	0.737	0.857	0.776	**-22.4%**

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AMERITECH ACCOUNTS 6710 & 6720 PER ACCESS LINE (1988 = 100%)

		Source	1988	1989	1990	1991	1992	1993	1994	1995	1996	
1	6710 6720	43-03	1,018,883	1,146,496	1,213,680	1,278,743	1,248,409	905,987	1,428,688	823,539	930,028	-8.70%
2	Access Lines	43-08	15,506,716	16,050,334	16,530,254	17,145,539	17,548,344	19,395,216	20,927,303	21,889,862	22,998,065	
3	EPL	Ln. 1 / Ln. 2	0 066	0.071	0.073	0.075	0.071	0.047	0.068	0.038	0.040	-2.5
4	Actual EPL Index	Line 3 / Base yr (89) Line 3	1.000	1.087	1.117	1 135	1.083	0.711	1.039	0.573	0.615	-38.5%
5	Annual CPI	BLS	X	0 046	0 054	0.042	0.030	0.030	0.026	0.028	0.029	
6	Cumm CPI change	(1+ Ln.5) * (1+ prev yr. Ln.6) - 1	0.000	0.048	0.105	0 151	0.186	0.222	0.253	0.288	0 326	
7	CPI Adjusted Accounts 6710 & 6720	Line 1 / (1+ Line 6)	1,018,883	1,094,037	1,098,582	1,110,607	1,052,283	741,687	1,139,902	639,227	701,300	
8	CPI Adjusted EPL	Line 7 / Line 2	0.066	0.068	0.066	0 065	0.060	0.038	0.054	0.029	0.030	-3.5
9	CPI Adjusted Index	Line 8 / Base yr. (89) LIne 8	1.000	1.037	1.011	0 986	0.913	0.582	0.829	0.444	0.464	-53.6%

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US WEST ACCOUNTS 6710 & 6720 PER ACCESS LINE (1988 = 100%)

		Source	1988	1989	1990	1991	1992	1993	1994	1995	1996	
1	6710 6720	43-03	1,071,807	1,142,754	1,056,283	1,064,651	1,022,912	1,084,594	1,091,563	1,046,229	1,117,227	4.2%
2	Access Lines	43-08	12,133,593	12,306,536	13,775,772	14,561,420	14,880,130	16,472,699	16,949,326	17,671,800	19,385,649	
3	EPL	Ln 1 / Ln. 2	0.088	0.093	0.077	0.073	0.069	0.066	0 064	0.059	0.058	-3.1
4	Actual EPL Index	Line 3 / Base yr (89) Line 3	1.000	1.051	0.868	0.828	0.778	0 745	0.729	0.670	0 652	-34.8%
5	Annual CPI	BLS	X	0.048	0.054	0.042	0.030	0.030	0.026	0.028	0.029	
6	Cumm. CPI change	(1+ Ln.5) * (1+ prev yr. Ln.6) - 1	0.000	0.048	0.105	0.151	0.186	0 222	0.253	0.288	0.326	
7	CPI Adjusted Accounts 6710 & 6720	Line 1 / (1+ Line 6)	1,071,807	1,090,466	956,111	924,865	862,211	887,903	870,921	812,077	842,459	
8	CPI Adjusted EPL	Line 7 / Line 2	0.088	0.089	0.069	0.064	0.058	0 054	0.051	0.046	0.043	-4.5
9	CPI Adjusted Index	Line 8 / Base yr. (89) Line 8	1.000	1.003	0.786	0.719	0.656	0.610	0.582	0.520	0.492	-50.8%

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SOUTHERNWESTERN BELL ACCOUNTS 6710 & 6720 PER ACCESS LINE (1988 = 100%)

		Source	1988	1989	1990	1991	1992	1993	1994	1995	1996	
1	6710 6720	43-03	687,830	762,948	837,120	845,559	818,821	938,982	685,490	778,210	789,350	14.8%
2	Access Lines	43-08	11,002,755	11,444,061	11,817,930	12,129,433	12,603,033	13,846,787	15,518,352	16,343,358	17,601,589	
3	EPL	Ln. 1 / Ln. 2	0.063	0.067	0.071	0.070	0.065	0.068	0.045	0.048	0.045	-1.8
4	Actual EPL Index	Line 3 / Base yr (89) Line 3	1.000	1.066	1.133	1.115	1.037	1.082	0.717	0.762	0.717	-28.3%
5	Annual CPI	BLS	X	0.048	0.054	0.042	0.030	0.030	0.026	0.028	0.029	
6	Cumm. CPI change	(1+ Ln.5) * (1+ prev yr. Ln.6) - 1	0.000	0.048	0.105	0.151	0.188	0.222	0.253	0.288	0.326	
7	CPI Adjusted Accounts 6710 & 6720	Line 1 / (1+ Line 6)	687,830	728,039	757,380	734,380	688,498	767,061	554,908	604,042	595,220	
8	CPI Adjusted EPL	Line 7 / Line 2	0.063	0.064	0.064	0.061	0.055	0.055	0.036	0.037	0.034	-2.9
9	CPI Adjusted Index	Line 8 / Base yr. (89) Line 8	1.000	1.018	1.026	0.969	0.874	0.888	0.572	0.591	0.541	-45.90%

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PACIFIC TELESIS ACCOUNTS 6710 & 6720 PER ACCESS LINE (1988 = 100%)

		Source	1988	1989	1990	1991	1992	1993	1994	1995	1996	
1	6710 6720	43-03	924,637	947,259	1,010,461	1,003,263	883,576	1,133,009	950,336	1,257,753	1,072,412	**16.0%**
2	Access Lines	43-08	13,543,494	14,208,174	14,558,033	15,853,664	16,465,168	17,213,364	17,738,921	18,782,170	20,520,847	
3	EPL	Ln. 1 / Ln. 2	0 068	0.067	0.069	0.063	0 054	0.066	0.054	0 067	0.052	**-1.6**
4	Actual EPL Index	Line 3 / Base yr (89) Line 3	1 000	0.977	1.017	0.927	0.786	0.964	0.785	0.981	0.765	**-23.5%**
5	Annual CPI	BLS	X	0.048	0.054	0 042	0.030	0.030	0.026	0.028	0.029	
6	Cumm. CPI change	(1+ Ln.5) * (1+ prev yr. Ln.6) - 1	0.000	0.048	0 105	0.151	0.186	0.222	0.253	0.288	0.326	
7	CPI Adjusted Accounts 6710 & 6720	Line 1 / (1+ Line 6)	924,637	903,916	914,635	871,349	744,765	927,538	758,241	976,261	808,866	
8	CPI Adjusted EPL	Line 7 / Line 2	0.068	0.064	0 063	0.055	0.045	0.054	0.043	0.052	0.039	**-2.9**
9	CPI Adjusted Index	Line 8 / Base yr. (89) Line 8	1.000	0.932	0.920	0.805	0.663	0.789	0 626	0 761	0 577	**-42.30%**

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BELL ATLANTIC ACCOUNTS 6710 & 6720 PER ACCESS LINE (1988 = 100%)

		Source	1988	1989	1990	1991	1992	1993	1994	1995	1996	
1	6710 6720	43-03	996,343	1,142,075	1,032,160	1,130,609	952,349	1,010,192	928,331	1,118,339	1,258,018	26.3%
2	Access Lines	43-08	16,987,902	17,427,773	17,519,897	18,450,696	18,523,434	19,081,236	18,827,081	20,705,444	22,017,467	
3	EPL	Ln. 1 / Ln. 2	0.059	0.066	0.059	0.061	0.051	0.053	0.047	0.054	0.057	-0.2
4	Actual EPL Index	Line 3 / Base yr (89) Line 3	1.000	1.117	1.004	1.045	0.877	0.903	0.798	0.921	0.974	-2.6%
5	Annual CPI	BLS	X	0.048	0.054	0.042	0.030	0.030	0.026	0.028	0.029	
6	Cumm. CPI change	(1+ Ln.5) * (1+ prev yr. Ln.6) - 1	0.000	0.048	0.105	0.151	0.186	0.222	0.253	0.288	0.326	
7	CPI Adjusted Accounts 6710 & 6720	Line 1 / (1+ Line 6)	996,343	1,089,818	934,276	981,950	802,734	826,994	740,684	868,049	948,825	
8	CPI Adjusted EPL	Line 7 / Line 2	0.059	0.063	0.053	0.053	0.043	0.043	0.037	0.042	0.043	-1.6
9	CPI Adjusted Index	Line 8 / Base yr (89) Line 8	1.000	1.066	0.909	0.907	0.739	0.739	0.637	0.715	0.735	-26.5%

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NYNEX ACCOUNTS 6710 & 6720 PER ACCESS LINE (1988 = 100%)

		Source	1988	1989	1990	1991	1992	1993	1994	1995	1996	
1	6710 6720	43-03	1,164,030	1,332,037	1,321,747	1,879,851	1,178,284	1,339,270	2,091,733	1,763,338	1,446,678	**24.3%**
2	Access Lines	43-08	15,162,797	15,214,496	15,269,089	15,540,726	15,760,425	16,208,419	17,030,291	17,851,405	19,119,369	
3	EPL	Ln 1 / Ln. 2	0.077	0 088	0.087	0.121	0.075	0.083	0.123	0.100	0.076	**-0.1**
4	Actual EPL Index	Line 3 / Base yr (89) Line 3	1.000	1.140	1.128	1.576	0.972	1.076	1.600	1.301	0 988	**-1.4%**
5	Annual CPI	BLS	X	0 048	0.054	0.042	0.030	0.030	0.026	0 028	0.029	
6	Cumm. CPI change	(1+ Ln.5) * (1+ prev yr. Ln.6) - 1	0.000	0.048	0.105	0 151	0 186	0.222	0 253	0.288	0.326	
7	CPI Adjusted Accounts 6710 & 6720	Line 1 / (1+ Line 6)	1,164,030	1,271,088	1,196,400	1,632,678	991,488	1,096,394	166,923	1,368,694	1,090,886	
8	CPI Adjusted EPL	Line 7 / Line 2	0.077	0.084	0.078	0 105	0.063	0 068	0.098	0.078	0.057	**-2.0**
9	CPI Adjusted Index	Line 8 / Base yr. (89) Line 8	1.000	1.088	1.021	1.368	0.819	0.881	1.277	1.010	0.743	**-25.7%**

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mechanized basis. Thus far, we have not succeeded there. It has been manually.

Q. Okay. I obviously don't want you to spend 60 hours, but I'm wondering if you could take a look at a specific account, how about 6124, and just give me an idea in more concrete terms about what I would have to do to do this.

A. (MR. LEE) You're wanting to know -- first of all, you would have to do it by cost pool sub pool, not by account. Okay. Going down to the left -- going down the left side of this spreadsheet is not accounts, but it's cost pools and sub pools.

In some cases, you only have one cost pool sub pool for an account, so it is the cell. But you would have to do that on a cost pool sub pool basis to do that. But if you -- it's very hard to track going this way. It's easier to track from the answer coming back.

I don't know that I could do it sitting here with you. The person in my group that did that was the Overton fellow that I mentioned earlier. He's the one that spent the 60 hours doing that.

A. (MR. REID) The formulas for each of the cells in the model, though, is in the spreadsheet, so when you go to the end result, you can see where that

end result is a summation of, which you then backtrack through each column and row and it tells you what was included in the subtotals and each subtotal kind of branches back to where it originated. So you can start with the formulas in the end result numbers and through branching back through the formulas, you can see it go through the whole model, but it is a lot --

A. (MR. LEE) It is very tedious work.

A. (MR. REID) A lot of work.

Q. So how long would that take, do you think, in estimate again of man hours, someone not, you know -- someone coming to this cold, this model, like ourselves, trying to assess, how would we audit this in terms of tracking these formulas that you just described to assure ourselves that it all works and no more costs are attributed than are entered? What would be your estimate?

A. (MR. REID) I think you could determine that without doing as much work as we're talking about because you -- for example, there's some totals under each of the columns that you can track through that shows that, for example, the total cost that we are starting with is 18,406,717, or something like that series of numbers as to the total cost we're starting with. And about, I think it's 6,500,000 of that is

spreadsheet application or anything like that. In fact, I was -- to be honest with you, I was expecting to see a formula in here when I got to it to display what you were saying, a number times, but it's -- the input is a raw number.

A. (MR. REID) Right. But that's the methodology that we basically followed throughout the process. Let me check one place that it possibly could be demonstrated.

It wasn't on that particular document, so it may just be an intervening calculation that was allocated to the individual cost pools just mathematically before it was input.

Q. Okay. Go ahead, please.

A. (MR. LEE) While we were sitting there, I was just looking at one that was not a -- does not have multiple cost pools and the exact number that appears on page 339 is what's in that cell, so I think -- I think our sourcing is okay, I'm just not sure we have a mathematical representation of how we get from there to there.

Q. Well, in terms of the $40,888 that you were discussing that appears in cell J 188, we have discussed a couple of times today the ease or the lack of ease with which we would try and audit these

AREA: SOUTH CAROLINA	NON-REG				TOTAL REG & NON-REG		
SOURCE: PROJ VIEW 97T9	1996	1997	1998	1999			
SCALE = 000							
TOTAL GENERAL SUPPORT ASSETS		16871	7678	18589			
LAND		24	-932	26			
BUILDINGS		4475	-5631	3984			
MOTOR VEHICLES		2288	1876	1955			
AIRCRAFT		0	0	0			
GARAGE WORK EQPT		19	-8	-28			
OTHER WORK EQPT		2793	3050	3145			
FURNITURE		-432	8	-1			
OFFICE SUPPORT EQUIPMENT		-26	-55	-73			
VOICE COMMUNICATIONS (718C, 728C, 618C)		-321	202	169			
Total Office Equipment (2123)							
GENERAL PURPOSE COMPUTERS		1390	750	735			
DATA COMMUNICATIONS (630C+730C)		6661	8418	8677			
Total General Purpose Computer (2124)							
TOTAL CENTRAL OFC ASSETS MINUS DLE		27116	23396	22585			
ANALOG ELECTRONIC SWITCHING		-2126	-2231	-2404			
DIGITAL ELECTRONIC SWITCHING		17176	21105	19279			
OPERATOR SERVICES		4331	656	681			
RADIO		-296	0	0			
CIRCUIT							
DIGITAL DATA SYSTEMS (157C)		535	439	443			
CIRCUIT OTHER (EXCLUDE 257C,157C)		7496	3427	4586			
TOTAL INFO.ORIG./TERMINATION		684	726	598			
STATION APPARATUS		23	14	10			
LARGE PBX	0.014118	484	481	490	491	488	497
PUBLIC TELEPHONE		-1684	-1640	-1783			
OTHER TERMINAL EQUIPMENT	0.052620	1861	1871	1881	1964	1975	1986
TOTAL OUTSIDE NETWORK		62837	64941	64613			
DIGITAL LOOP ELECTRONICS (2232 - 257C)		20973	22865	23523			
CABLE & WIRE		41864	42076	41090			
POLES		336	461	526			
AERIAL CABLE							
METALLIC		1027	332	-537			
NON-METALLIC		730	746	944			
UNDERGROUND CABLE							
METALLIC		917	664	348			
NON-METALLIC		2280	2705	2910			
BURIED CABLE							
METALLIC	0.000111	23430	22398	21835	23433	22400	21837
NON-METALLIC		10785	12622	12923			
SUBMARINE CABLE		0	0	0			
INTRABUILDING NETWORK CABLE							
METALLIC		-816	-966	-1106			
NON-METALLIC		0	0	0			
CONDUIT		3172	3112	3245			
TOTAL NET CONSTRUCTION		107508	96741	106385			

(Excl Spl Pur Vehicles, Customer Premises Wiring, & ElectroMech. Switches)

Exhibit _____
Docket Nos: 960833-TP/960846-TP/960757-TP/971140-TP/960916-TP
Lerma Rebuttal Exhibit ALR-11
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SOUTH CAROLINA

1996
PROJECTED VIEW OF GROSS INVESTMENT
(CAPITAL ADDITIONS LESS RETIREMENTS)

SC96RCSX.WK4
9-15-96

(Includes Aircraft transfer from BST to BSC)

SCALE = 000

	1997	1998	1999
TOTAL GENERAL SUPPORT ASSETS	16871	7678	18589
LAND	24	-932	26
BUILDINGS	4475	-5631	3984
MOTOR VEHICLES	2288	1876	1955
GARAGE WORK EQPT	19	-8	-28
OTHER WORK EQPT	2793	3050	3145
FURNITURE	-432	8	-1
OFFICE SUPPORT EQUIPMENT	-26	-55	-73
VOICE COMMUNICATIONS	-321	202	169
GENERAL PURPOSE COMPUTERS	1390	750	735
DATA COMMUNICATIONS	6661	8418	8677
TOTAL CENTRAL OFC ASSETS MINUS DLE	27116	23396	22585
	0	0	0
ANALOG ELECTRONIC SWITCHING	-2126	-2231	-2404
DIGITAL ELECTRONIC SWITCHING	17176	21105	19279
OPERATOR SERVICES	4331	656	681
RADIO	-296	0	0
DIGITAL DATA SYSTEMS	535	439	443
CIRCUIT OTHER	7496	3427	4586
TOTAL INFO.ORIG./TERMINATION	794	837	710
PUBLIC TELEPHONE	-1684	-1640	-1783
ATION APPARATUS	23	14	10
LARGE PBX	491	488	497
OTHER TERMINAL EQUIPMENT	1964	1975	1986
TOTAL OUTSIDE NETWORK	62837	64941	64613
DIGITAL LOOP ELECTRONICS (DLE)	20973	22865	23523
CABLE & WIRE	41864	42076	41090
METALLIC - AERIAL CABLE	1027	332	-537
NON-METALLIC - AERIAL CABLE	730	746	944
METALLIC - UNDERGROUND CABLE	917	664	348
NON-METALLIC - UNDERGROUND CABLE	2280	2705	2910
METALLIC - BURIED CABLE	23433	22400	21837
NON-METALLIC - BURIED CABLE	10785	12622	12923
METALLIC - SUBMARINE CABLE	0	0	0
NON-METALLIC - SUBMARINE CABLE	0	0	0
METALLIC - INTRABUILDING NETWORK CABLE	-816	-966	-1106
NON-METALLIC - INTRABUILDING NETWORK CABLE	0	0	0
AERIAL WIRE	0	0	0
POLES	336	461	526
CONDUIT	3172	3112	3245
TOTAL GROSS INVESTMENT ==========>	107618	96852	106497

AREA SOUTH CAR...A — INVESTMENT DATA -- Gross CAPL ADDED

SC98-GC2 WK3
7-15-98

SCALE = 000	JAN	FEB	MAR	APR	MAY	JUN	JUL	AUG	SEP	OCT	NOV	DEC	1997	1998	1999
TOTAL GENERAL SUPPORT ASSETS	1368	1704	2172	2204	2292	2657	2052	2234	2291	2138	2474	3345	26829	27835	28783
LAND	5	0	1	5	5	0	0	0	0	0	1	7	24	25	26
BUILDINGS	224	259	368	300	346	439	275	488	433	346	423	909	4009	4263	4449
MOTOR VEHICLES	208	352	339	536	405	573	341	398	223	311	108	187	3982	3778	3835
GARAGE WORK EQPT	3	4	2	10	1	2	8	14	3	10	7	13	75	75	78
OTHER WORK EQPT	106	240	310	223	305	402	235	185	183	262	227	815	3273	3598	3745
FURNITURE	2	49	4	5	1	10	18	15	10	16	16	22	168	23	24
OFFICE SUPPORT EQUIPMENT	4	1	3	3	2	2	3	2	2	5	2	19	48	35	36
VOICE COMMUNICATIONS	24	13	31	26	29	74	60	37	15	36	20	17	385	302	315
GENERAL PURPOSE COMPUTERS	33	78	219	360	145	43	98	70	187	298	330	309	2162	1614	1681
DATA COMMUNICATIONS	757	707	897	736	1053	1112	1016	1025	1255	860	1339	1247	12004	13924	14503
TOTAL CENTRAL OFC ASSETS MINUS DLE	1895	4909	4348	4711	5204	3443	4849	4798	4897	3704	4585	12077	58230	54697	55166
ANALOG ELECTRONIC SWITCHING	1	1	1	2	2	3	1	1	1	2	2	2	19	20	21
DIGITAL ELECTRONIC SWITCHING	841	2808	2152	1798	2641	1679	3045	2747	2639	2762	2600	8885	32877	34542	34174
OPERATOR SERVICES	173	126	377	81	142	126	420	560	63	211	377	1675	4331	658	686
RADIO	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
DIGITAL DATA SYSTEMS	26	58	55	85	73	49	41	45	60	22	46	103	666	584	609
CIRCUIT OTHER	854	1915	1763	2745	2346	1586	1342	1445	1934	707	1568	3332	21837	18892	19876
TOTAL INFO ORIG /TERMINATION	234	222	259	282	280	260	291	314	287	341	320	339	3449	3488	3644
PUBLIC TELEPHONE	58	53	70	55	50	49	52	49	44	44	42	58	626	635	661
STATION APPARATUS	2	2	2	2	2	2	2	3	2	3	3	3	28	28	30
LARGE PBX	33	32	36	43	48	44	44	50	48	56	53	53	536	544	567
OTHER TERMINAL EQUIPMENT	140	135	151	182	182	165	183	212	165	238	222	224	2258	2291	2388
TOTAL OUTSIDE NETWORK	5886	8231	8624	8870	7448	7580	7146	7813	7380	7857	8525	8798	85576	90100	91876
DIGITAL LOOP ELECTRONICS (INCL ANALOG)	1420	2156	1788	4387	2250	2819	2640	2738	1240	2781	2035	2647	28911	31278	32579
CABLE & WIRE	4278	4075	4826	4483	5198	4771	4506	4875	6140	4676	4490	4149	56665	58821	58097
METALLIC - AERIAL CABLE	238	235	255	341	448	355	341	283	745	352	381	227	4161	3882	3852
NON-METALLIC - AERIAL CABLE	60	59	62	61	62	63	61	92	63	62	62	65	742	772	979
METALLIC - UNDERGROUND CABLE	177	269	211	283	287	310	282	225	190	305	273	154	2976	2884	2804
NON-METALLIC - UNDERGROUND CABLE	188	187	215	188	215	228	188	223	232	221	213	273	2569	3083	3422
METALLIC - BURIED CABLE	2426	2260	2711	2376	2991	2602	2368	2833	3035	2561	2292	2234	30688	30855	30429
NON-METALLIC - BURIED CABLE	836	751	866	893	886	824	809	905	1502	885	858	826	11272	13316	13879
METALLIC - SUBMARINE CABLE	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
NON-METALLIC - SUBMARINE CABLE	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
METALLIC - INTRABUILDING NETWORK CABLE	5	13	8	16	10	11	6	13	8	10	9	10	122	138	150
NON-METALLIC - INTRABUILDING NETWORK CABLE	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
AERIAL WIRE	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
POLES	70	64	80	63	62	76	72	70	61	74	64	72	628	1007	1137
CONDUIT	278	257	318	252	247	302	287	281	243	298	257	288	3308	3293	3445
TOTAL	9191	13088	13403	16087	15234	13870	14328	14859	14655	13840	13814	22557	175184	175831	178289

SOUTH CAROLINA

SC96RCSX.WK4
9-15-96

INVESTMENT DATA - RETIREMENTS

SCALE = 000	JAN	FEB	MAR	APR	MAY	JUN	JUL	AUG	SEP	OCT	NOV	DEC	1997	1998	1999
TOTAL GENERAL SUPPORT ASSETS	429	641	954	1070	445	1168	504	1061	814	661	701	1470	10058	19857	10194
LAND	0	0	0	0	0	0	0	0	0	0	0	0	0	857	0
BUILDINGS	0	0	0	256	0	0	0	12	0	41	8	8	333	8884	456
MOTOR VEHICLES	0	0	378	0	0	468	0	0	468	0	0	378	1884	1902	1880
GARAGE WORK EQPT	4	2	7	7	2	5	7	5	3	7	2	5	56	83	108
OTHER WORK EQPT	34	43	24	53	36	29	58	24	36	48	38	53	480	546	600
FURNITURE	50	50	50	50	50	50	50	50	50	50	50	50	600	15	25
OFFICE SUPPORT EQUIPMENT	2	7	5	4	8	3	8	2	12	5	5	12	74	90	108
VOICE COMMUNICATIONS	55	55	62	69	55	62	55	66	55	62	55	55	708	100	148
GENERAL PURPOSE COMPUTERS	34	25	83	55	42	134	25	121	38	82	84	28	772	864	946
DATA COMMUNICATIONS	250	459	334	576	250	417	292	801	250	376	458	870	5343	5508	5828
TOTAL CENTRAL OFC ASSETS MINUS DLE	1451	2203	3468	1731	3125	2083	1870	3118	5405	2438	2151	3283	32114	31301	32581
ANALOG ELECTRONIC SWITCHING	85	203	123	67	109	138	282	224	170	248	154	324	2145	2251	2425
DIGITAL ELECTRONIC SWITCHING	440	773	1922	681	1498	1003	728	1545	3822	941	829	1319	15501	13437	14885
OPERATOR SERVICES	0	0	0	0	0	0	0	0	0	0	0	0	0	3	5
RADIO	5	5	36	16	5	5	4	6	7	167	8	32	296	8	0
DIGITAL DATA SYSTEMS	7	8	7	9	7	7	7	10	10	11	12	36	131	145	166
CIRCUIT OTHER	814	1214	1378	938	1506	910	649	1333	1398	1073	1148	1582	14041	15485	15080
TOTAL INFO ORIG /TERMINATION	178	159	228	202	178	205	275	191	242	261	180	358	2655	2862	2934
PUBLIC TELEPHONE	164	143	205	185	164	185	226	123	223	205	164	323	2310	2275	2444
	0	0	0	0	0	0	0	0	0	0	0	0			
STATION APPARATUS	0	0	0	0	0	0	0	0	5	0	0	0	5	15	20
LARGE PBX	0	0	0	0	0	0	0	45	0	0	0	0	45	58	70
OTHER TERMINAL EQUIPMENT	14	16	23	17	14	20	49	23	14	56	16	33	295	316	400
TOTAL OUTSIDE NETWORK	1589	1600	1842	1673	2200	1849	1697	1892	2155	2021	2218	2202	22738	25159	27083
DIGITAL LOOP ELECTRONICS (INCL ANALOG)	522	478	618	513	1016	720	575	479	825	887	740	657	7938	8414	9056
CABLE & WIRE	1067	1124	1224	1160	1184	1129	1122	1213	1230	1324	1479	1545	14801	16745	18007
METALLIC - AERIAL CABLE	237	250	285	242	254	251	227	250	266	282	284	326	3134	3350	3589
NON-METALLIC - AERIAL CABLE	0	0	0	0	0	0	0	0	0	12	0	0	12	28	35
	0	0	0	0	0	0	0	0	0	0	0	0			
METALLIC - UNDERGROUND CABLE	158	164	174	159	167	165	149	184	175	185	187	214	2050	2200	2456
NON-METALLIC - UNDERGROUND CABLE	11	11	42	11	31	11	10	11	12	56	13	70	266	368	512
	0	0	0	0	0	0	0	0	0	0	0	0			
METALLIC - BURIED CABLE	548	578	614	581	588	581	526	579	617	652	657	755	7256	8255	8582
NON-METALLIC - BURIED CABLE	14	15	16	84	15	15	14	115	18	17	117	49	487	687	758
	0	0	0	0	0	0	0	0	0	0	0	0			
METALLIC - SUBMARINE CABLE	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
NON-METALLIC - SUBMARINE CABLE	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
	0	0	0	0	0	0	0	0	0	0	0	0			
METALLIC - INTRABUILDING NETWORK CABLE	56	58	62	57	60	59	153	59	63	66	167	77	938	1102	1256
NON-METALLIC - INTRABUILDING NETWORK CABLE	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
AERIAL WIRE	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
POLES	33	35	38	34	56	35	32	35	68	40	40	48	492	548	611
CONDUIT	12	12	13	12	13	12	11	0	13	14	14	8	134	181	200
TOTAL RETIREMENTS	3647	4603	6490	4678	5948	5285	4146	6082	8718	5401	5251	7321	87586	78079	72772

Jim Anderson

As info - budget data we discussed -

JGB

Gail Brown

Chas. Lee

November 26, 1996

TO: Larry Spainhour
Walter Reed
Tom Loman
Guy Cochran

CC: Gary Butler 404-927-158 (Gary Jones works for Gary - Mike Marshall (404-529-5536))

12-3

FROM: Bill Fisher JGB for
404 870-2100
New job not budget

Attached is the information we discussed related to the TELRIC Studies for 1997 through 1999 and the supporting documentation for the logic used to arrive at these numbers. We took this approach due to the ever-present problem of inadequate out-years' budgets.

- Expense Projections by RJ and by account for 1997 through 1999
- "Path to Win" actual data by accounts to map accounts to organizations
- Growth factors used to convert 1996 dollars to 1997, 1998 and 1999 dollars
- The assumptions used to arrive at the growth factors used for Network accounts
- The dollar amounts by account and RJ, used to normalize the 1996 actuals for unusual events
- Normalizing data for the target headcount reduction of 11,300

The data on RTU expense by analog/digital and by switch/feature upgrade levels for 1999 could not be provided in the time frame available. Discussions with Greg Pollet, Network, indicated this information would require several weeks to develop and the best immediate answer he could provide would be to use the same numbers for 1998 and 1999. The most recent 1997 and 1998 estimates for RTU are the ones Gail Brown prepared on April 4, 1996.

All regional jurisdictions were assumed to be headquarters and the dollar amounts were prorated over the nine states except the Olympic and Hurricane Fran normalization. The Olympic normalization was applied to Georgia and Hurricane Fran amounts were adjustments in North Carolina. The other events used in the normalization of 1996 data were Separations and Pension Curtailments and Compensated Absence adjustment.

Please let me know if you concur with these adjustments, or if any should be added or deleted.

The spreadsheets projecting the 1997 through 1999 expense dollars have been transmitted to Gail Brown. If you have questions or comments about the attached data, please call.

Dept	%	Account #	Account Name	Expense Name	Expense Accounts	Expense General Assignment	3rd Qtr YTD Act	SubTotals	%
Services	100%	6110	Network Support	Network Support	6112,13,14,15,16	Services		9520	100%
Services	50%	6120	General Support						
IT	50%			Land & Bldg	6121	Services	197383		
				Office Suppt	6123	Services	13586		
				Furniture	6122	Services	6835	217804	50%
				Gen Purp Comp	6124	Information Tech	219612		50%
								437416	
Network	100%	62xx	CO Equipment						
				Switch Labor	6211,12	Network	196948		
				Switch Non-Labor	6211,12	Network	122084		
				Oper Sys	6220	Network	12909		
				CO XSMN LS DLC	6213,32	Network	71070		
				Dig Cxr/DLC Chnl	6232	Network	75273		
								478284	100%
Network	100%	6310	Inf/Org/Trm	I/O term w/o CPE	6362	Network	202486		93%
				Public	6351	Customer Operations	16351		7%
								218837	
Network	100%	6410	Cable & Wire						
				Aer & Bur	6421,23,31	Network	666123		
				Underground	6422	Network	52890		
				Conduit	6441	Network	8263		
				Other C&W	6424,26,11	Network	10931		
				Pole Rental	6411	Network	49873		
								788080	100%
Services	100%	6510	Other PPE	Provisioning	6512	Services	7157		
Network	100%	6530	Network Operations						
				Ntwk Adm	6532	Network	47350		
				Testing	6533	Network	168446		
				Plt Ops	6534	Network	240521		
				Eng	6535	Network	216065	672382	95%
				Power	6531	Services	37680		5%
								710062	

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Dept	%	Account #	Account Name	Expense Name	Expense Accounts	Expense General Assignment	3rd Qtr YTD Act	SubTotals	%
		6540.A	Access Exp - Inter						
		6540.B	Access Exp - Intra						
		6560	Depr & Amort						
Cust Ops	100%	6610	Cust Oper - Mkting						
				Prod Mgmt	6611	Customer Operations		119418	
				Sales	6612	Customer Operations		228945	
				Advertising	6613	Customer Operations		70912	
								419275	100%
Cust Ops	100%	6620	Cust Oper - Svcs						
				Call Comp	6621	Customer Operations		47152	
				Number Svcs	6622	Customer Operations		147062	
				Cust Svcs	6623	Customer Operations		725216	
								919430	100%
Network	100%	6727	R & D	R & D	6727	Network		23360	
IT	35%	67xx	Other Corp Oper	Info Mgmt	6724	Information Tech	396980		35%
Regulator	7%			Ext Relations	6722	Regulatory	75202		7%
Services	15%			Human Res	6723	Services	141924		
Corp RC	43%			Procmnt	6726	Services	27708	169632	15%
				Executive	6711	Other	37814		
				Planning	6712	Other	10177		
				Acct & Finance	6721	Other	86483		
				Legal	6725	Other	33903		
				Other G & A	6728	Other	312431	480808	43%
								1122622	
								5,134,043	

Growth Factor

Exhibit _____
Docket Nos: 960833-TP/960846-TP/960757-TP/971140-TP/960916-TP
Lerma Rebuttal Exhibit ALR-11
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Growth Factors

Account #	Name	Source	1997	1998	1999
6110	Network Support	BSRTPI	3.4%	3.5%	3.5%
6120	General Support	BSRTPI	3.4%	3.5%	3.5%
62xx	CO Equipment	Network	5.1%	4.5%	4.2%
6310	Inf/Org/Trm	Network	5.1%	4.5%	4.2%
6410	Cable & Wire	Network	5.1%	4.5%	4.2%
6510	Other PPE	BSRTPI	3.4%	3.5%	3.5%
6530	Network Operations	Network	5.1%	4.5%	4.2%
6540.A	Access Exp - Inter	BSRTPI	3.4%	3.5%	3.5%
6540.B	Access Exp - Intra	BSRTPI	3.4%	3.5%	3.5%
6560	Depr & Amort	BSRTPI	3.4%	3.5%	3.5%
6610	Cust Oper - Mkting	BSRTPI	3.4%	3.5%	3.5%
6620	Cust Oper - Svcs	BSRTPI	3.4%	3.5%	3.5%
6727	R & D	Network	5.1%	4.5%	4.2%
67xx	Other Corp Oper	BSRTPI	3.4%	3.5%	3.5%

BSRTPI = BellSouth Regional Telephone Plant Index, RL:95-10-015BT, attachment C, Union Wages

Network = See the attached document titled Growth Documentation

BSTPI and Network factor were assigned to accounts in accordance with the BIC, Best In Class, assignment of accounts to organizations.

Growth Documentation

Exhibit _____
Docket Nos: 960833-TP/960846-TP/960757-TP/971140-TP/960916-TP
Lerma Rebuttal Exhibit ALR-11
Item 281, BST Response AT&T (SCPSC 97-374-C)
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Network Projected Expenditures : used for Performance Contracts			
(These factors are the summation of factors used for Growth, Service Activation & Service Assurance)			
	1997	1998	1999
Load Change (Three divers Inward-AALIS-Increase)	3.7%	4.1%	3.8%
Service Initiatives (%cleared same day)	0.7%	0.0%	0.0%
Price Change (Non-mgmt SAW increase)	3.2%	3.3%	3.3%
Sub-Total	7.6%	7.4%	7.1%
Productivity Changes			
Network Operations Productivity	-2.9%	-2.9%	-2.9%
Capital Initiatives	0.0%	0.0%	0.0%
PICS Initiatives	0.4%	0.0%	0.0%
Total Productivity Changes	-2.5%	-2.9%	-2.9%
Load Driven Expense	5.1%	4.5%	4.2%
Other Factors			
Re-engineering Initiatives	-0.2%	0.0%	0.0%
Ogranizational Alignment Initiatives	-1.2%	0.0%	0.0%
Productivity Changes -Unspecified	-4.1%	-5.8%	-4.5%
Adjustments	1.1%	1.5%	1.7%
Adjusted Total	-4.4%	-4.3%	-2.8%

Normalize Issues

Exhibit _____
Docket Nos: 960833-TP/960846-TP/960757-TP/971140-TP/960916-TP
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'counts	Sep & Pension	Comp Absence	Total	RJ	Hurricane Fran	RJ	GA Olympics Network	GA Olympics Corp Svc Bill	GA Olympics Total	RJ
6110	95		95	HQ	1,466	NC				
6120	4,309		4,309	HQ						
62xx					3,495		22,199		22,199	GA
6310					2,336	NC	6,001		6,001	GA
6410					7,109	NC	7,576		7,576	GA
6530	57,370		57,370	HQ	4,361	NC	5,999		5,999	GA
6610	805		805	HQ				9,850	9,850	GA
6620	49,231		49,231	HQ						
67xx	330,189	(67,695)	262,494	HQ				2,000	2,000	GA
370								1,150	1,150	GA
SUM	442,000	(67,695)	374,305		18,767		41,775	13,000	54,775	

Separations and Curtailments estimated/actual amounts associated with downsizing

Compensated Absence credit is a one time event for 1996

Hurricane Fran estimated/actual impacts on NC for all of 1996

Olympic estimated/actual impacts on GA for all of 1996

Calculations for 11.3 force reduction impact

Account	Dept	3rd Qtr Act	% of Total	Force Adj 1996 Cost	1996 by acct	Force Adj 1997 Cost	1997 by acct	Grow %	1997 Adj	Force Adj 1998 Cost	1998 by acct	Grow %	1998 Adj
6610	Cust Ops	419275	31%	-10900	-3414	-53200	-16662	4.5%	-13095	-110300	-34545	4.0%	-17217
6620		919430	69%		-7486		-36538	4.5%	-28715		-75755	4.0%	-37755
		1338705			-10900		-53200				-110300		
62xx	Network	478284	22%	-51200	-11038	-50400	-10865	4.5%	669	-157800	-34018	4.0%	-22718
6310		218837	10%		-5050		-4971	4.5%	306		-15565	4.0%	-10395
6410		788080	36%		-18187		-17903	4.5%	1103		-56052	4.0%	-37434
6530		710062	32%		-16386		-16130	4.5%	993		-50503	4.0%	-33728
6727		23360	1%		-539		-531	4.5%	33		-1661	4.0%	-1110
		2218623			-51200		-50400				-157800		
6120	Services	217804	55%	-14800	-8169	-43900	-24232	4.5%	-15695	-52700	-29089	4.0%	-3888
6510		7157	2%		-268		-796	4.5%	-516		-956	4.0%	-128
6723		141924	36%		-5323		-15790	4.5%	-10227		-18955	4.0%	-2534
6726		27708	7%		-1039		-3083	4.5%	-1997		-3701	4.0%	-495
		394593			-14800		-43900				-52700		
6124	IT	219612	36%	-6300	-2244	-28000	-9973	4.5%	-7628	-38100	-13570	4.0%	-3198
6724		396980	64%		-4056		-18027	4.5%	-13789		-24530	4.0%	-5782
		616592			-6300		-28000				-38100		
6722	Other	75202	14%	-17900	-2421	-77000	-10414	4.5%	-7885	-87400	-11821	4.0%	-990
67xx		480808	86%		-15479		-66586	4.5%	-50410		-75579	4.0%	-6330
		556010			-17900		-77000				-87400		
Total		5124523		-101100	-101100	-252500	-252500	4.5%	-146851	-446300	-446300	4.0%	-183700
									-146851				-183700

* In absence of specific data by force reduction initiative, net $ savings are pro-rated by account in proportion to actual costs.

Docket Nos: 960833-TP/960846-TP/960757-TP/971140-TP/960916-TP
Lerma Rebuttal Exhibit ALR-11
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Expense Pl 1997-1999

Telephone Operations

1996

	10/96 YTD	Annl FR	Annl P64	FR reql	ADJ - Olym	ADJ Hurr	ADJ -SEP	Normalized	Growth rt	B4redc	113 reduc	1997proj
6110.0) Network Support	11630	13956	755	13201	-	1466	96	11639	0.034	12035	-	12035
6120.0) General Support	485526	582631	23607	559025	-	-	4309	554716	0.034	573576	23321	550255
62xx.x) CO Equipment	533910	640692	4660	636032	22199	3495	-	610338	0.051	641465	-670	642135
6310.0) Inf/Org/Trm	252199	302639	167688	134951	6001	2336	-	126614	0.051	133071	-306	133377
6410.0) Cable & Wire	881637	1057964	364	1057600	7576	7109	-	1042915	0.051	1096104	-1103	1097207
PLANT SPECIFIC EXPENSES	2164902	2597882	197073	2400809	35776	14406	4405	2346222	0.047	2456251	21242	2435009
6510.0) Other PPE	7520	9024	388	8636	-	-	-	8636	0.034	8930	516	8414
6530.0) Network Operations	808406	970087	75788	894299	5999	4361	57369	826570	0.051	868725	-993	869718
PLANT NON-SPECIFIC EXPENSES	815926	979111	76176	902935	5999	4361	57369	835206	0.051	877655	-477	878132
6540.A) Access Expense - Inter	76	91	-	91	-	-	-	91	0.034	94	-	94
6540.B) Access Expense - Intra	36595	43914	-	43914	-	-	-	43914	0.034	45407	-	45407
6560.0) Depreciation and Amort	2684603	3221524	39664	3181860	-	-	-	3181860	0.034	3290043	-	3290043
6610.0) Cust Oper - Marketing	494095	592914	52887	540027	9850	-	804	529373	0.034	547372	13095	534277
6620.0) Cust Oper - Services	1027104	1232525	48867	1183658	-	-	49232	1134426	0.034	1172997	28713	1144284
6727.0) Research and Development	25844	31013	-	31013	-	-	-	31013	0.051	32594	-34	32628
67XX.X) Other Corp Operations	1220869	1465043	93607	1371436	2000	-	262495	1106941	0.034	1144577	84309	1060268
TOTAL EXPENSE ACCOUNTS	8470014	10164017	508273	9655743	53625	18767	374305	9209046	0.039	9566991	146848	9420143

Expense Plann 1997-1999
BST
Telephone Operations

	Previous Yr	Growth Rt	1998 b4reduc	113 reduction	Projection
110.0) Network Support	12035	0.035	12456	-	12456
120.0) General Support	550255	0.035	569514	7086	562428
2xx.x) CO Equipment	642135	0.045	671031	22719	648312
310.0) Inf/Org/Trm	133377	0.045	139379	10394	128985
410.0) Cable & Wire	1097207	0.045	1146581	37435	1109146
PLANT SPECIFIC EXPENSES	2435009	0.043	2538962	77634	2461328
510.0) Other PPE	8414	0.035	8708	128	8580
530.0) Network Operations	869718	0.045	908856	33729	875127
PLANT NON-SPECIFIC EXPENSES	878132	0.045	917564	33857	883707
540.A) Access Expense - Inter	94	0.035	98	-	98
540.B) Access Expense - Intra	45407	0.035	46996	-	46996
560.0) Depreciation and Amort	3290043	0.035	3405194	-	3405194
610.0) Cust Oper - Marketing	534277	0.035	552977	17217	535760
620.0) Cust Oper - Services	1144284	0.035	1184334	37753	1146581
727.0) Research and Development	32628	0.045	34097	1110	32987
7XX.X) Other Corp Operations	1060268	0.035	1097378	16131	1081247
TAL EXPENSE ACCOUNTS	9420143	0.038	9777598	183702	9593896

Expense Pl: 1997-1999

Telephone Operations

	Previous Yr	Growth Rt	1999 b4reduc	113 reduction	Projection
6110.0) Network Support	12456	0.035	12892	-	12892
6120.0) General Support	562428	0.035	582113	-	582113
62xx.x) CO Equipment	648312	0.042	675541	-	675541
6310.0) Inf/Org/Trm	128985	0.042	134402	-	134402
6410.0) Cable & Wire	1109146	0.042	1155731	-	1155731
PLANT SPECIFIC EXPENSES	2461328	0.040	2560679	-	2560679
6510.0) Other PPE	8580	0.035	8880	-	8880
6530.0) Network Operations	875127	0.042	911882	-	911882
PLANT NON-SPECIFIC EXPENSES	883707	0.042	920762	-	920762
6540.A) Access Expense - Inter	98	0.035	101	-	101
6540.B) Access Expense - Intra	46996	0.035	48641	-	48641
6560.0) Depreciation and Amort	3405194	0.035	3524376	-	3524376
6610.0) Cust Oper - Marketing	535760	0.035	554511	-	554511
6620.0) Cust Oper - Services	1146581	0.035	1186711	-	1186711
6727.0) Research and Development	32987	0.042	34372	-	34372
67XX.X) Other Corp Operations	1081247	0.035	1119090	-	1119090
TAL EXPENSE ACCOUNTS	9593896	0.037	9949245	-	9949245

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Expense Plan 1997-1999

South Carolina

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1996

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	10/96 YTD	Annl FR	Annl P64	FR regl	ADJ - Olym	ADJ Murr	ADJ -SEP	Normalized	Growth rt	04redc	113 reduc	1997proj
(6110.0) Network Support	298	358	31	327	-	-	6	321	0.034	332	-	332
(6120.0) General Support	28544	34253	1251	33002	-	-	253	32749	0.034	33863	1371	32492
(62xx.x) CO Equipment	31750	38110	420	37690	-	-	-	37690	0.051	39612	-39	39651
(6310.0) Inf/Org/Trm	13938	16726	9132	7594	-	-	-	7594	0.051	7981	-18	7999
(6410.0) Cable & Wire	52068	62482	-	62482	-	-	-	62482	0.051	65668	-65	65733
PLANT SPECIFIC EXPENSES	126606	151927	10833	141094	-	-	259	140835	0.047	147455	1249	146206
(6510.0) Other PPE	301	361	28	333	-	-	-	333	0.034	345	30	315
(6530.0) Network Operations	54580	65496	4191	61305	-	-	3373	57932	0.051	60887	-58	60945
PLANT NON-SPECIFIC EXPENSES	54881	65857	4219	61639	-	-	3373	58266	0.051	61231	-28	61259
(6540.A) Access Expense - Inter	-	-	-	-	-	-	-	-	-	-	-	-
(6540.B) Access Expense - Intra	7180	8616	-	8616	-	-	-	8616	0.034	8909	-	8909
(6560.0) Depreciation and Amort	162091	194509	1543	192967	-	-	-	192967	0.034	199527	-	199527
(6610.0) Cust Oper - Marketing	30140	36168	3465	32703	-	-	47	32656	0.034	33766	770	32996
(6620.0) Cust Oper - Services	58913	70696	2439	68257	-	-	2895	65362	0.034	67584	1688	65896
(6727.0) Research and Development	1464	1757	-	1757	-	-	-	1757	0.051	1846	-2	1848
(67XX.X) Other Corp Operations	90948	109138	5917	103220	-	-	15435	87785	0.034	90770	4957	85813
TOTAL EXPENSE ACCOUNTS	532223	638660	28416	610252	-	-	22009	588243	0.039	611090	8634	602456

	Previous Yr	Growth Rt	1998 b4reduc	113 reduction	X Projection
6110.0) Network Support	332	0.035	343	-	343
6120.0) General Support	32492	0.035	33629	417	33212
6212.x) CO Equipment	39651	0.045	41435	1336	40099
6310.0) Inf/Org/Trm	7999	0.045	8359	611	7748
6410.0) Cable & Wire	65733	0.045	68691	2201	66490
PLANT SPECIFIC EXPENSES	146206	0.043	152457	4565	147892
6510.0) Other PPE	315	0.035	326	8	318
6530.0) Network Operations	60945	0.045	63687	1983	61704
PLANT NON-SPECIFIC EXPENSES	61259	0.045	64013	1991	62022
6540.A) Access Expense - Inter	-	-	-	-	-
6540.B) Access Expense - Intra	8909	0.035	9221	-	9221
6560.0) Depreciation and Amort	199527	0.035	206511	-	206511
6610.0) Cust Oper - Marketing	32996	0.035	34151	1012	33139
6620.0) Cust Oper - Services	65896	0.035	68203	2220	65983
6727.0) Research and Development	1860	0.045	1932	65	1867
67XX.X) Other Corp Operations	85013	0.035	88016	949	87867
TAL EXPENSE ACCOUNTS	602456	0.038	625303	10802	614501

	Previous Yr	Growth Rt	1999 b4reduc	113 reduction	Projection
(6110.0) Network Support	343	0.035	355	-	355
(6120.0) General Support	33212	0.035	34374	-	34374
(62xx.x) CO Equipment	40099	0.042	41783	-	41783
(6310.0) Inf/Org/Trm	7748	0.042	8073	-	8073
(6410.0) Cable & Wire	66490	0.042	69283	-	69283
PLANT SPECIFIC EXPENSES	147892	0.040	153869	-	153869
(6510.0) Other PPE	318	0.035	329	-	329
(6530.0) Network Operations	61704	0.042	64296	-	64296
PLANT NON-SPECIFIC EXPENSES	62022	0.042	64625	-	64625
(6540.A) Access Expense - Inter	-	-	-	-	-
(6540.B) Access Expense - Intra	9221	0.035	9543	-	9543
(6560.0) Depreciation and Amort	206511	0.035	213739	-	213739
(6610.0) Cust Oper - Marketing	33139	0.035	34299	-	34299
(6620.0) Cust Oper - Services	65983	0.035	68292	-	68292
(6727.0) Research and Development	1867	0.042	1945	-	1945
(67XX.X) Other Corp Operations	87867	0.035	90943	-	90943
TOTAL EXPENSE ACCOUNTS	614501	0.037	637254	-	637254