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DIRECT TESTIMONY OF DON PRICE

ON BEHALF OF

MCI TELECOMMUNICATIONS CORPORATION AND  
MCImetro ACCESS TRANSMISSION SERVICES, INC.

DOCKET NO. 960846-TP

August 21, 1996

Q. PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.

A. My name is Don Price, and my business address is 701 Brazos, Suite 600, Austin, Texas, 78701.

Q. BY WHOM ARE YOU EMPLOYED AND IN WHAT CAPACITY?

A. I am employed by MCI Telecommunications Corporation in the Southern Region as Senior Regional Manager -- Competition Policy.

Q. HAVE YOU PREVIOUSLY TESTIFIED?

A. Yes, I have testified in proceedings before regulatory commissions in a number of states. Provided as Exhibit \_\_\_ (DGP-1) to this testimony is a document listing the cases in which I have testified. Also included as part of the document is a summary of my academic and professional qualifications.

Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY?

A. The purpose of this testimony is to: 1) briefly describe the history of the negotiations between MCI and BellSouth; and 2) describe and

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1 make recommendations on several key wholesale service pricing and  
2 provisioning policy issues that must be resolved in the context of  
3 arbitrations under Section 252 of the Telecommunications Act of  
4 1996.

5

6

#### NEGOTIATIONS

7

Q. PLEASE SUMMARIZE THE HISTORY OF MCI'S NEGOTIATIONS WITH  
8 BELLSOUTH.

8

9 A. By letter dated March 26, 1996, a copy of which was attached as  
10 Exhibit 1 to MCI's Petition for Arbitration in this docket, MCI formally  
11 requested negotiations with BellSouth pursuant to Section 252 of the  
12 Act. The first negotiating meeting pursuant to Section 252 was  
13 delayed while MCI and BellSouth completed negotiations for an  
14 interim agreement on terms and conditions of interconnection. Those  
15 negotiations resulted in an Agreement effective as of May 15, 1996  
16 (the "Interim Agreement"), which addressed certain interconnection  
17 and other issues for a two-year period. The Interim Agreement was  
18 submitted to the Commission on May 16, 1996, and approved on  
19 August 12, 1996.

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The first negotiating meeting pursuant to Section 252 of the  
Act was held on May 28, 1996. Prior to that meeting, MCI furnished  
BellSouth a copy of Version 3.2 of a document entitled "MCI  
Requirements for Intercarrier Agreements" which set forth in detail  
MCI's requirements for interconnection and access, unbundling,  
resale, ancillary services and associated arrangements pursuant to the

1 Act (the "Term Sheet"). The Term Sheet, as subsequently revised on  
2 June 7, 1996 (Version 4.0), served as the focal point of the  
3 negotiations.

4 MCI and BellSouth held additional meetings and conference  
5 calls in June, July and August. The parties reached an early impasse  
6 on pricing issues, but continued to discuss a number of other issues.  
7 While it appears that the parties may have reached agreement in  
8 principle on a number of the items requested in the Term Sheet, the  
9 parties have not yet agreed to specific contractual language on any  
10 issue. MCI has therefore submitted all issues for arbitration.

11

12 Q. HAS MCI PREPARED A DOCUMENT WHICH SHOWS ITS REQUESTS  
13 TO BELLSOUTH AND BELLSOUTH'S RESPONSE TO THOSE  
14 REQUESTS?

15 A. Yes. For purposes of this proceeding, MCI prepared an Annotated  
16 Term Sheet, in which MCI has indicated its understanding of  
17 BellSouth's response to each item requested in MCI's Term Sheet. I  
18 am sponsoring this document, a copy of which was attached as  
19 Exhibit 3 to MCI's arbitration petition in this docket. Some of these  
20 term sheet items are covered in my testimony, others are dealt with in  
21 the testimony of other MCI witnesses.

22

23 Q. WHAT IS YOUR UNDERSTANDING OF THE EFFECT OF THE INTERIM  
24 AGREEMENT THAT THE PARTIES REACHED IN MAY?

25 A. The Interim Agreement is a two-year agreement that provides a way

1 for MCI to enter the local exchange business in BellSouth's territory in  
2 Florida while the parties continue to negotiate and arbitrate the terms  
3 of a more permanent agreement. The Interim Agreement is limited in  
4 scope. It specifically acknowledges that the following items are  
5 outside the scope of the agreement:

6 resale of local exchange service, provision of  
7 unbundled loops, provision of unbundled transport  
8 services, provision of unbundled switching  
9 services, and any other item that either party may  
10 consider to be required by the Act.

11 In addition, Section II.B of the Interim Agreement allows MCI, in  
12 Florida and Tennessee, to take any position on the matters that are  
13 covered by the agreement, including the treatment of interconnection  
14 and temporary local number portability. While I am not a lawyer, it  
15 appears to me that the agreement does not limit MCI's right to  
16 arbitrate any matter on which the parties have not reached a final  
17 agreement under Section 252 of the Act.

18

19 **WHOLESALE SERVICES: PRICING AND PROVISIONING**

20 **Wholesale Services: Overview**

21 Q. HOW IS THIS PORTION OF YOUR TESTIMONY ORGANIZED?

22 A. First, I summarize the pertinent federal legislative and regulatory  
23 requirements. Second, I discuss the necessary conditions of an  
24 effective resale policy. Third, I describe the avoided cost model  
25 employed herein. Finally, I present my conclusions. Attached as

1 Exhibit \_\_\_ (DGP-2) is a White Paper I co-authored which describes  
2 MCI's position on these issues in a report format.

3

4 Q. WOULD YOU SUMMARIZE YOUR KEY CONCLUSIONS REGARDING  
5 THE PRICING AND PROVISIONING OF WHOLESALE SERVICES?

6 A. Yes. The key conclusions are:

- 7 • An effective local resale market is essential to development of  
8 full facilities based local competition.
- 9 • In addition to promoting facilities based competition, resale of  
10 local services provides independent benefits to consumers  
11 through retail competition.
- 12 • In order to capture all of these benefits, all local  
13 telecommunications services must be made available for resale  
14 at discounts that fully reflect avoidable costs.
- 15 • Wholesale services must not be provisioned in ways that  
16 discourage entry by resellers or unreasonably raise their costs.
- 17 • An avoided cost study must reflect the jurisdictional allocation  
18 of expenses.
- 19 • The appropriate resale discounts should be set on a state  
20 specific basis where the data allow, and at the Regional  
21 Company level otherwise.
- 22 • The discounts range from approximately 19 to 27 percent at  
23 the Regional Company level.

24

25 **Wholesale Services: Legislative and Regulatory Requirements**

1 Q. WHAT ARE THE LEGISLATIVE AND REGULATORY REQUIREMENTS  
2 REGARDING RESALE AND WHOLESALE PRICING BY BELLSOUTH?

3 A. The Telecommunications Act of 1996 ("1996 Act") is designed to  
4 bring competition to local telecommunications markets. The 1996  
5 Act recognizes that simply removing legal barriers to entry is  
6 insufficient to allow competition to evolve. A number of  
7 procompetitive steps are necessary and explicitly required by the  
8 1996 Act. For example, every incumbent local exchange carrier  
9 ("ILEC") is required to provide requesting telecommunications carriers:  
10 (1) interconnection to its network; (2) access to its unbundled  
11 network elements; (3) physical collocation for interconnection or  
12 access to unbundled elements, and (4) retail telecommunications  
13 services for resale at wholesale prices (rates). Economic barriers to  
14 entry into local telephone markets will be reduced substantially with  
15 an effective resale policy. In other words, resale of all retail  
16 telecommunications services at wholesale rates is necessary to the  
17 development of local competition.

18 The 1996 Act imposes a duty upon ILECs to offer certain  
19 services for resale at wholesale rates. Specifically, Section 251(c)(4)  
20 requires ILECs:

21 (A) to offer for resale at wholesale rates any  
22 telecommunications service that the carrier  
23 provides at retail to subscribers who are not  
24 telecommunications carriers; and

25 (B) not to prohibit, and not to impose unreasonable or

1 discriminatory conditions or limitations on, the  
2 resale of such telecommunications services, except  
3 that a state commission may, consistent with  
4 regulations prescribed by the Commission under  
5 this section, prohibit a reseller that obtains at  
6 wholesale rates a telecommunications service that  
7 is available at retail only to a category of  
8 subscribers from offering such service to a  
9 different category of subscribers.

10 Further, The 1996 Act also provides guidance on the determination of  
11 wholesale prices for telecommunications services. Section 252(d)(3)  
12 states that:

13 For the purposes of Section 251(c)(4), a state commission shall  
14 determine wholesale rates on the basis of retail rates charged to  
15 subscribers for the telecommunications service requested,  
16 excluding the portion thereof attributable to any marketing,  
17 billing, collection, and other costs that will be avoided by the  
18 local exchange carrier.

19  
20 These statutory requirements are clear and concise. As described  
21 below, they are not only consistent with, they are essential to, the  
22 development of local competition.

23 Q. WHAT STEPS HAS THE FCC TAKEN TO IMPLEMENT THESE  
24 STATUTORY PROVISIONS?

25 A. The Federal Communications Commission ("FCC") recently released

1 its First Report and order in CC Docket No. 96-98, In the Matter of  
2 Implementation of the Local Competition Provisions of the  
3 Telecommunications Act of 1996, issued August 8, 1996 ("251  
4 Order"). The 251 Order addresses the need for resale competition  
5 stating that:

6 Resale will be an important entry strategy for many new  
7 entrants, especially in the short term when they are  
8 building their own facilities. Further, in some areas and  
9 for some new entrants, we expect that the resale option  
10 will remain an important entry strategy over the longer  
11 term. Resale will also be an important entry strategy for  
12 small businesses that may lack capital to compete in the  
13 local exchange market by purchasing unbundled elements  
14 or by building their own networks. In light of the  
15 strategic importance of resale to the development of  
16 competition, we conclude that it is especially important  
17 to promulgate national rules for use by state commissions  
18 in setting wholesale rates. (251 Order, Para. 907).

19  
20 The Order establishes ". . . a minimum set of criteria for  
21 avoided cost studies used to determine wholesale discount rates."  
22 (para. 909) Sections 605-617 of part 51 of the FCC Rules set forth  
23 the FCC's methodology. These Rules are included as Appendix II to  
24 the attached White Paper, Exhibit \_\_\_ (DGP-2). Beyond the minimum  
25 criteria, the FCC allows states ". . . broad latitude in selecting costing



1 methodologies that comport with their own ratemaking practices for  
2 retail services." (para. 910) States are allowed to select interim  
3 "default" rates from within a range prescribed by the FCC if an  
4 avoided cost study such as the one presented here is not available.  
5 (See FCC Rules Section 51.611.)

6 The methodology described here follows the approach  
7 suggested by the FCC. However, it is appropriate to account for the  
8 jurisdictional nature of some of the expenses that are avoided when  
9 ILECs no longer perform the retail function. The necessary  
10 adjustments are described below. These adjustments are consistent  
11 with state rate making practices and therefore comply with the  
12 express desire of the FCC to provide latitude to states.

13

14 **Wholesale Services: Necessary Conditions for Effective Resale**

15 Q. PLEASE DESCRIBE THE NECESSARY CONDITIONS FOR EFFECTIVE  
16 RESALE.

17 A. There are several conditions necessary for an effective local resale  
18 market. In general, the price of wholesale services must be  
19 reasonably related to the cost of providing the service and the  
20 wholesale services must be offered on reasonable terms and  
21 conditions. The specific conditions necessary for effective resale are:  
22 1) wholesale rates must not include incumbent LEC retailing costs; 2)  
23 all retail services must be offered at a discount; 3) service quality and  
24 adequate wholesale-reseller interfaces must be maintained; and 4)  
25 service branding must be provided for the retailers' services.

1 Q. YOU STATED THAT WHOLESALERATES CHARGED BY BELLSOUTH  
2 MUST NOT INCLUDE RETAILING COSTS. PLEASE EXPLAIN.

3 A. If ILECs are allowed to charge excessive wholesale service prices,  
4 competition will be thwarted. In any market, resellers or retailers  
5 require a margin between the retail price and the wholesale price  
6 sufficient to allow recovery of their expenses, including a reasonable  
7 profit. The FCC points out that:

8 There has been considerable debate on the record in this  
9 proceeding and before the state commissions on whether  
10 section 252(d)(3) embodies an "avoided" cost standard  
11 or an "avoidable" cost standard. We find that "the  
12 portion [of the retail rate] . . . attributable to costs that  
13 will be avoided" includes all of the costs that the LEC  
14 incurs in maintaining a retail, as opposed to a wholesale,  
15 business. In other words, the avoided costs are those  
16 that an incumbent LEC would no longer incur if it were to  
17 cease retail operations and instead provide all of its  
18 services through resellers. Thus, we reject the  
19 arguments of incumbent LECs and others who maintain  
20 that the LEC must actually experience a reduction in its  
21 operating expenses for a cost to be considered "avoided"  
22 for purposes of section 252(d)(3). We do not believe  
23 that Congress intended to allow incumbent LECs to  
24 sustain artificially high wholesale prices by declining to  
25 reduce their expenditures to the degree that certain costs

1 are readily avoidable. We therefore interpret the 1996  
2 Act as requiring states to make an objective assessment  
3 of what costs are reasonably avoidable when a LEC sells  
4 its services wholesale. We note that Colorado, Georgia,  
5 Illinois, New York, and Ohio commissions have all  
6 interpreted the 1996 Act in this manner. (251 Order,  
7 Para. 911).

8 If avoided costs are estimated correctly, and then subtracted  
9 from retail prices, efficient resellers should be able to succeed in the  
10 retail market.

11

12 Q. YOU ALSO STATED THAT ALL RETAIL SERVICES MUST BE  
13 OFFERED AT A DISCOUNT. PLEASE EXPLAIN.

14 A. All of the telecommunications services offered to end-users must be  
15 made available to resellers at a wholesale discount. (Retail  
16 competitors may wish to resell services such as Voice Mail and Inside  
17 Wire. These services would likely be made available at avoided cost if  
18 the wholesale market were competitive.) This includes Centrex,  
19 optional plans, grandfathered services, promotions and contract  
20 services. (All contract services must be available for resale. This  
21 includes government and state agency contracts as well as any  
22 "umbrella" contract that allows other entities to participate and obtain  
23 the benefits of a master contract.) All ILEC retail services are at least  
24 partial substitutes for one another. (The FCC Rules permit states to  
25 restrict "cross-class" selling. See Section 51.613(a)(1).) Therefore,

1 absent this requirement, ILECs will be able to discriminate against  
2 resellers by making offers to customers that their retail competitors  
3 are unable to match.

4 Ancillary services must also be made available for resale. This  
5 includes custom calling services, CLASS features, and all Centrex  
6 features. (Centrex is marketed in the BellSouth states under the name  
7 ESSX service.) While some of these features may not be regulated,  
8 depending on the state jurisdiction or the jurisdictional nature of the  
9 service, they are all telecommunications services. If some features  
10 are not discounted, the ILECs' reseller competitors effectively will be  
11 denied the opportunity to market to a significant group of customers  
12 because the lack of a discount on these features will reduce reseller  
13 margins to inadequate levels.

14 Several state Commissions have already addressed the need for  
15 identifying services available for resale and the need for unrestricted  
16 resale. Several of these decisions are described in the FCC's 251  
17 Order. (See paras. 898-906.)

18 The FCC's Rules also require promotions to be offered at a  
19 discount in certain circumstances. (See Section 51.613(a)(2).)  
20 Granting exceptions to the requirement that all services be made  
21 available at wholesale discounts may lead to abuse. States should be  
22 alert to this possibility and be prepared to take corrective action  
23 against ILECs that abuse the exceptions.

24

25 Q. SHOULD BELLSOUTH BE ALLOWED TO IMPOSE ANY RESTRICTIONS

1 ON THE RESALE OF SERVICES.

2 A. No, with extremely limited exceptions. The only exceptions that  
3 should be permitted are 1) resale of flat rate residential service could  
4 be limited to residential customers, 2) resale of grandfathered services  
5 could be limited to customers who took the grandfathered service  
6 from BellSouth, and 3) resale of Lifeline and LinkUp could be limited to  
7 qualifying low income customers. Any other use or user restrictions,  
8 or other limitations, would impede MCI's ability to compete through  
9 service resale.

10

11 Q. YOU STATED THAT THE THIRD ISSUE IS THAT SERVICE QUALITY  
12 AND ADEQUATE WHOLESALE-RESELLER INTERFACES MUST BE  
13 MAINTAINED. WHAT IS THE IMPORTANCE OF THIS ISSUE?

14 A. The FCC has ruled that ILECs must provide resale services to  
15 competitors under the same terms and conditions it enjoys itself. It is  
16 crucial to a successful resale plan that interfaces between the ILEC's  
17 operations support systems and resellers' systems are adequate to  
18 allow the reseller to provide service to its customers efficiently. The  
19 Commission must also ensure that ILECs offer resellers the same  
20 quality service they provide to themselves and their own retail  
21 customers. To accomplish this, ILECs must implement systems and  
22 procedures that permit the ordering and use of wholesale services  
23 under the same timetables available to the ILEC. These systems must  
24 include:

25 • Pre-Service Ordering Capabilities. On-line access to all

1 information needed to verify availability of services and  
2 features, scheduling of service installation, and number  
3 assignment.

- 4 • On-Line, automated order processing. Capability of transmitting  
5 customer orders to the switch office and provide the reseller  
6 with notice of confirmation and completion of its order.  
7 Competitively-neutral long distance and local presubscribed  
8 carrier administration processes must be implemented.
- 9 • Exchange of billing data and exchange of customer account  
10 data on a timely basis. This must be done on a confidential  
11 basis.
- 12 • On-Line Monitoring. Monitor the network, isolate trouble spots,  
13 perform network tests, and schedule reports.
- 14 • Service quality reports. Documenting service quality ILECs  
15 provide themselves compared to the service they provide to  
16 others.

17 All of these requirements are consistent with the Commission's  
18 finding that " . . . service made available for resale be at least equal in  
19 quality to that provided by the incumbent LEC to itself or to any  
20 subsidiary, affiliate, or any other party . . . " (251 Order, Para. 970).

21

22 Q. ANOTHER IMPORTANT CONDITION OF RESALE COMPETITION THAT  
23 YOU MENTIONED WAS BRANDING. WHAT DO YOU MEAN BY  
24 BRANDING AND WHY IS IT IMPORTANT?

25 A. Resellers require carrier-specific branding for all customer contacts.

1 Customers naturally expect services to be provisioned, serviced and  
2 maintained by their carrier of choice, regardless of whether the service  
3 is actually provided by another carrier through a resale arrangement.  
4 Customer confusion will be significantly diminished if the customer  
5 does not perceive that resold services are actually provided by another  
6 carrier.

7 Customers would experience concern, confusion and  
8 dissatisfaction when placing a bill inquiry, a directory assistance call,  
9 or an operator service call to their provider of choice if they are  
10 greeted with the name of their old telephone company. Customers  
11 may even conclude that they have been "slammed." State  
12 Commissions must ensure that resale of all ILEC retail services occurs  
13 with the least amount of customer confusion possible. Branding will  
14 minimize customer confusion with respect to resold ILEC services.

15 In a resale environment, differentiation of the underlying  
16 product is virtually impossible. Competitors must rely upon other  
17 factors to win customer loyalty. Superior customer service, simplified  
18 billing, and innovative pricing will provide the only opportunities to  
19 differentiate products from the underlying network provider. Without  
20 the ability to brand all resold LEC services, reseller efforts to provide  
21 superior customer services are diluted. Brand dilution makes the  
22 investment in these new service or billing innovations more difficult to  
23 justify.

24 A uniform branding standard will also reduce customer  
25 confusion as the industry moves into an unbundled environment. For

1 example, as competitors develop their own operator services  
2 capabilities, the change in the provider of this service will be  
3 transparent to the customer.

4 In sum, when the end user selects a local reseller it is important  
5 that they can clearly identify their service provider and its brand.  
6 Without a clear brand image the customer could face uncertainty  
7 when using directory or operator services. Such clarity can only be  
8 achieved by: (1) making reasonably available to local service resellers  
9 the ability to brand their service at all points of customer-contact; and  
10 (2) barring the incumbent LEC from unreasonably interfering with such  
11 branding. As the FCC points out, "this brand identification is critical  
12 to reseller attempts to compete with incumbent LECs and will  
13 minimize customer confusion." (251 Order, Para. 971)

14

15 **Wholesale Services: Setting Wholesale Rates**

16 Q. WHAT GUIDANCE IS PROVIDED BY THE RECENTLY ADOPTED FCC  
17 RULES REGARDING THE ESTABLISHMENT OF APPROPRIATE  
18 WHOLESAL PRICES?

19 A. The FCC's Order establishes minimum criteria for the avoided cost  
20 methodology based broadly on the MCI study. Essentially, the costs  
21 in certain FCC Part 32 Uniform System of Accounts ("USOA")  
22 accounts are identified as directly avoided while costs in other  
23 accounts are treated as indirectly avoided. The avoided indirect costs  
24 are calculated by determining the ratio of directly avoided costs to  
25 total costs and then applying that proportion to the accounts



1 containing indirectly avoided costs.

2

3 Q. WHAT ARE THE "DIRECTLY AVOIDED COSTS?"

4 A. The following specific accounts from the Uniform System of Accounts  
5 ("USOA") are directly avoided (see Code of Federal Regulations, Title  
6 47, Telecommunication, Part 32):

7 ■ Account 6611: Product management

8 ■ Account 6612: Sales

9 ■ Account 6613: Product advertising

10 ■ Account 6621: Call completion services

11 ■ Account 6622: Number services

12 ■ Account 6623: Customer services -

13

14 Q. YOU HAVE DISCUSSED "DIRECTLY AVOIDED COSTS." WHAT ARE  
15 THE "INDIRECT AVOIDED COSTS?"

16 A. Within the USOA there are a number of expense accounts that are  
17 either common costs or general overhead. By definition, overhead  
18 costs support all other functions, including those that are avoided,  
19 such as marketing. For example, the Human Resources department  
20 incurs expenditures in the staffing of the marketing department. As  
21 marketing expenses are avoided, so are the expenses incurred in  
22 supporting marketing. Therefore, the portion of these expense items  
23 equal to the proportion of direct avoided costs to total expense is  
24 excluded as an avoided cost. Consistent with the FCC's paragraph  
25 918, account 5301 rather than 6790 is used to calculate the avoided

1 uncollectible revenues.

2 The following USOA accounts include common costs or general  
3 overhead which support marketing and customer service operations:

- 4 ■ 6120 - General Support
- 5 ■ 6711 - Executive
- 6 ■ 6712 - Planning
- 7 ■ 6721 - Accounting and finance
- 8 ■ 6723 - Human resources
- 9 ■ 6724 - Information management
- 10 ■ 6725 - Legal
- 11 ■ 6726 - Procurement
- 12 ■ 6728 - Other general and administrative, and
- 13 ■ 5301 - Uncollectibles

14 Expenses in these accounts are, at least, partially avoidable.

15

16 Q. ARE THERE YET OTHER COSTS TO BE CONSIDERED?

17 A. Yes. While the ILECs will avoid substantial costs when they provide  
18 wholesale services, they will incur a small amount of incremental  
19 expenses to service the accounts of the resellers. However, these  
20 costs will be quite small. The ILECs already are set-up to perform the  
21 wholesaling function because they provide wholesale-like functions to  
22 interexchange carriers ("IXCs") and Enhanced Service Providers  
23 ("ESPs"). The incremental cost of providing these services to resellers  
24 of wholesale local exchange service should be minimal. The FCC  
25 addresses this issue by treating only 90 percent of the costs in certain

1 of the directly avoided categories as avoided for purposes of setting  
2 default discounts. Specifically, the FCC determined that 90 percent  
3 of accounts 6610, and 6623 would be avoided, while 100 percent of  
4 accounts 6621 and 6622 would be avoided.

5 The FCC approach is very conservative. For example, Account  
6 6623 (Customer Services) records the cost of setting up and billing  
7 end user accounts. The purchaser of wholesale services will be  
8 providing this service to its own end users. Any cost of billing the  
9 purchaser of wholesale services, who will be billed for many end user  
10 lines, will be minuscule in comparison with the cost of billing each of  
11 those individual lines separately. Billing retail customers requires  
12 setting up accounts and billing individual customers. Wholesale  
13 customers, on the other hand, will be fewer in number, and are more  
14 acquainted with billing processes, thus enabling them to be served at  
15 much lower cost. Although there may be some minor Customer  
16 Services costs incurred by ILECs to provide wholesale services, those  
17 costs are so small that they could reasonably be completely excluded  
18 as avoided costs. Nevertheless, MCI has followed the approach used  
19 by the FCC for calculating default discounts and retained a portion of  
20 the expenses in these accounts in the wholesale rate.

21

22 Q. WHAT OTHER FACTORS MUST BE TAKEN INTO ACCOUNT IN  
23 ARRIVING AT THE APPROPRIATE WHOLESALe PRICES?

24 A. The FCC approach divides total avoided costs by total expenses on a  
25 "subject to separations" basis. That is, both interstate and intrastate

1 costs were included. MCI's original model used this approach.  
2 However, this study uses the original MCI model, as modified by the  
3 FCC, using ARMIS 43-04 data on state operations, rather than the  
4 Subject to Separations data in the original study.

5 The services to be resold are largely intrastate. The FCC has  
6 specifically concluded that even though access charges will not be  
7 moved to economic cost until after a transition period, interstate  
8 access services will not be subject to the wholesale discount. (paras.  
9 873-874) Therefore, it is necessary for consistency to calculate the  
10 appropriate wholesale discount by dividing total avoided ARMIS  
11 intrastate costs by the total intrastate expenses for services that will  
12 be resold. Absent this modification, both the numerator and the  
13 denominator of the discount calculation will include expenses  
14 allocated to services that will not be resold. The necessary revision  
15 can be done with the aid of ARMIS Report 43-04, which breaks down  
16 the relevant costs on a jurisdictional basis. (Note: Most of the  
17 interstate costs in the "directly avoided" ARMIS accounts will be  
18 avoided by ILECs selling local services at wholesale. That some of  
19 these costs appear in interstate accounts is an artifact of the  
20 separations process. Therefore, it would be appropriate to add  
21 interstate expenses in these accounts to the numerator of the  
22 discount calculation. This study does not take this step in recognition  
23 of the fact that complex jurisdictional issues are raised thereby. MCI  
24 will modify its wholesale discount studies if the FCC rules on this  
25 issue. )

1 Q. TAKING ALL OF THE ABOVE INTO ACCOUNT, WHAT ARE THE  
2 RESULTS OF YOUR ANALYSIS?

3 A. Having identified the accounts that can be fully or partially associated  
4 with retailing functions that the ILEC will not perform, the next step is  
5 to quantify the actual savings and produce a percentage discount.  
6 The results on a holding company basis are shown in the white paper  
7 attached as Exhibit \_\_\_ (DGP-2).

8  
9 Q. WHAT ARE THE RESULTS FOR BELLSOUTH - FLORIDA?

10 A. The BellSouth - Florida result is 25.38%, and is set forth with the  
11 other BellSouth states in Exhibit \_\_\_ (DGP-3).

12

13 Q. HOW SHOULD THE COMMISSION REQUIRE THAT THESE  
14 DISCOUNTS BE APPLIED TO SERVICES RESOLD BY MCI?

15 A. Discounts should be developed and applied on a uniform basis to  
16 promote consistency and simplify the process. The wholesale  
17 discount as calculated in this study for each ILEC should be applied to  
18 each of the telecommunications services offered at wholesale rates.  
19 The published information ARMIS Report 43-04 data provide a  
20 sufficient basis for an aggregate discount across all services. These  
21 data are broadly consistent across ILECs and are reported in a format  
22 that is familiar. Service by service data are much harder to come by.  
23 Even if more detailed information were publicly available on a product-  
24 by-product basis, the consistency of the information would be  
25 questionable due to the numerous allocations and assumptions the

1 ILEC would have to make to develop the product-specific information.  
2 While the FCC Rules do not rule out service-specific discounts,  
3 requiring the ILEC to provide such detailed information on a product-  
4 by-product basis would be an administrative burden for the ILECs and  
5 the responsible federal and state regulatory agencies. Moreover, the  
6 result would be highly debatable product by product discount levels.

7 The discount should also apply to each rate element. Any other  
8 basis provides opportunities for abuse. For example, applying the  
9 discount on revenue per minute for a service may penalize resellers  
10 whose sales by rate element are weighted differently than those of  
11 the ILEC or other resellers.

12

13 **Wholesale Services: Summary**

14 Q. WOULD YOU PLEASE SUMMARIZE THIS SECTION OF YOUR  
15 TESTIMONY?

16 A. Yes. Wholesale discounts are essential to the development of local  
17 competition. Adequate wholesale discounts will provide immediate  
18 consumer benefits by allowing retail competition to begin in advance  
19 of full facilities based competition. The methodology described here  
20 for developing these discounts is analytically correct and easy to  
21 administer.

22

23 Q. DOES THIS CONCLUDE YOUR TESTIMONY?

24 A. Yes, at this time. I expect to file additional direct testimony on  
25 August 23, 1996 relating to the ancillary arrangements that will be

1 required to eliminate barriers to competition and comply with the  
2 relevant rules ordered by the FCC in its rulemaking implementing the  
3 local competition provisions of the Act.

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## **ACADEMIC AND PROFESSIONAL QUALIFICATIONS OF DON PRICE**

### **Academic Background:**

My academic background is in the social sciences. I received my Bachelor of Arts degree in Sociology from the University of Texas at Arlington in May of 1977, and was awarded a Master of Arts degree in Sociology by the University of Texas at Arlington in December, 1978.

### **Professional Qualifications:**

From January, 1979 until October, 1983, I was employed by the Southwest telephone operating company of GTE where I held several positions of increasing responsibility in Economic Planning. In those positions I became acquainted with such local exchange telephone company functions as the workings and design of the local exchange network, the network planning process, the operation of a business office, and the design and operation of large billing systems.

From November 1983 until November 1986, I was employed by the Public Utility Commission of Texas. I provided analysis and expert testimony on a variety of rate design issues including setting of rates for switched and special access services, MTS, WATS, EAS, and local exchange services. In 1986 I was promoted to Manager of Rates and Tariffs, and was directly responsible for staff analyses of



rate design and tariff issues in all telecommunications proceedings before the Texas Commission.

I have been with MCI for nearly ten years, all of which has been in the regulatory arena. In my present position, I have broad responsibilities in state regulatory and legislative proceedings throughout the Southwestern Bell and BellSouth service areas, focusing on the policy issues surrounding local competition in telecommunications markets.

I have presented testimony before a number of state commissions, including the Public Service Commission of Arkansas, the Florida Public Service Commission, the Georgia Public Service Commission, the Kansas Corporation Commission, the Public Service Commission of Kentucky, the Louisiana Public Service Commission, the Missouri Public Service Commission, the North Carolina Utilities Commission, the Corporation Commission of the State of Oklahoma, the Public Service Commission of South Carolina, the Public Service Commission of Tennessee , and the Public Utility Commission of Texas. A list of those proceedings in which I have furnished testimony is provided on the following pages.

**TESTIMONY PRESENTED BEFORE  
REGULATORY UTILITY COMMISSIONS**

Arkansas

Docket No. 91-051-U: IN REIMPLEMENTATION OF TITLE IV OF THE AMERICANS WITH  
DISABILITIES ACT OF 1990

Docket No. 92-079-R: IN THE MATTER OF A PROCEEDING FOR THE DEVELOPMENT  
OF RULES AND POLICIES CONCERNING OPERATOR SERVICE PROVIDERS

Florida

Docket No. 941272-TL: IN RE: SOUTHERN BELL TELEPHONE AND TELEGRAPH  
COMPANY'S PETITION FOR APPROVAL OF NUMBERING PLAN AREA RELIEF FOR 305  
AREA CODE

Docket No. 950696-TP: IN RE: DETERMINATION OF FUNDING FOR UNIVERSAL SERVICE  
AND CARRIER OF LAST RESORT RESPONSIBILITIES.

Docket No. 950737-TP: IN RE: INVESTIGATION INTO TEMPORARY LOCAL TELEPHONE  
NUMBER PORTABILITY SOLUTION TO IMPLEMENT COMPETITION IN LOCAL  
EXCHANGE TELEPHONE MARKETS.

Docket No. 950984-TP: IN RE: RESOLUTION OF PETITION(S) TO ESTABLISH NON-  
DISCRIMINATORY RATES, TERMS, AND CONDITIONS FOR RESALE INVOLVING  
LOCAL EXCHANGE COMPANIES AND ALTERNATIVE LOCAL EXCHANGE COMPANIES  
PURSUANT TO SECTION 364.162, FLORIDA STATUTES.

Docket No. 950985-TP: IN RE: RESOLUTION OF PETITION(S) TO ESTABLISH NON-  
DISCRIMINATORY RATES, TERMS, AND CONDITIONS FOR INTERCONNECTION  
INVOLVING LOCAL EXCHANGE COMPANIES AND ALTERNATIVE LOCAL EXCHANGE  
COMPANIES PURSUANT TO SECTION 364.162, FLORIDA STATUTES.

Georgia

Docket No. 5548-U: IN RE: INVESTIGATION INTO THE FINDING OF UNIVERSAL SERVICE

Docket Nos. 6537-U: IN THE MATTER OF: MCIMETRO PETITION TO ESTABLISH  
NONDISCRIMINATORY RATES, TERMS AND CONDITIONS FOR UNBUNDLING AND  
RESALE OF LOCAL LOOPS.

Kansas

Docket No. 190,492-U: IN THE MATTER OF A GENERAL INVESTIGATION INTO COMPETITION WITHIN THE TELECOMMUNICATIONS INDUSTRY IN THE STATE OF KANSAS

Kentucky

Administrative Case No. 355: AN INQUIRY INTO LOCAL COMPETITION, UNIVERSAL SERVICE, AND THE NON-TRAFFIC SENSITIVE ACCESS RATE

Louisiana

Docket No. U-17957: IN RE: INVESTIGATION OF OPERATING PRACTICES OF ALTERNATIVE OPERATOR SERVICES PROVIDERS TO INCLUDE RATES AND CHARGES

Docket No. U-19806: IN RE: PETITION OF AT&T COMMUNICATIONS OF THE SOUTH CENTRAL STATES, INC., FOR REDUCED REGULATION OF INTRASTATE OPERATIONS

Docket No. U-20237: IN RE: OBJECTIONS TO THE FILING OF REDUCED WATS SAVER SERVICE RATES, INTRALATA, STATE OF LOUISIANA

Docket No. U-20710: IN RE: GENERIC HEARING TO CLARIFY THE PRICING/ IMPUTATION STANDARD SET FORTH IN COMMISSION ORDER NO. U-17949-N ON A PROSPECTIVE BASIS ONLY, AS THE STANDARD RELATES TO LEC COMPETITIVE TOLL OFFERINGS

Docket No. U-20883: IN RE: THE DEVELOPMENT OF RULES AND REGULATIONS APPLICABLE TO THE ENTRY AND OPERATIONS OF, AND THE PROVIDING OF SERVICES BY, COMPETITIVE AND ALTERNATE ACCESS PROVIDERS IN THE LOCAL, INTRASTATE AND/OR INTEREXCHANGE TELECOM-MUNICATIONS MARKET IN LOUISIANA. SUBDOCKET A: UNIVERSAL SERVICE

Missouri

Case No. TO-87-42: IN THE MATTER OF SOUTHWESTERN BELL TELEPHONE COMPANY FILING ACCESS SERVICES TARIFF REVISIONS AND WIDE AREA TELECOMMUNICATIONS SERVICE (WATS) TARIFF, INDEX, 6th REVISED SHEET, ORIGINAL SHEET 16.01

Case No. TO-95-289, et al: IN THE MATTER OF AN INVESTIGATION INTO THE EXHAUSTION OF TELEPHONE NUMBERS IN THE 314 NUMBERING PLAN AREA

North Carolina

Docket No. P-100, SUB 119: IN THE MATTER OF: ASSIGNMENT OF N11 DIALING CODES

Oklahoma

Consolidated Dockets PUD NO. 000237: IN THE MATTER OF THE APPLICATION OF SOUTHWESTERN BELL TELEPHONE COMPANY FOR AN ORDER APPROVING PROPOSED CHANGES AND ADDITIONS IN APPLICANTS' WIDE AREA TELECOMMUNICATIONS SERVICE PLAN TARIFF; and  
PUD NO. 000254: IN THE MATTER OF THE APPLICATION OF SOUTHWESTERN BELL TELEPHONE COMPANY FOR AN ORDER APPROVING PROPOSED ADDITIONS AND CHANGES IN APPLICANTS' ACCESS SERVICE TARIFF AND WIDE AREA TELECOMMUNICATIONS SERVICE PLAN TARIFF

Consolidated Dockets PUD NO. 920001335: IN THE MATTER OF THE APPLICATION OF THE OKLAHOMA RURAL TELEPHONE COALITION, GTE SOUTHWEST, INC., ALLTEL OKLAHOMA, INC., AND OKLAHOMA ALLTEL, INC. FOR AN ORDER ADOPTING THE OKLAHOMA ALTERNATIVE SETTLEMENT PLAN; and  
PUD NO. 920001213: IN THE MATTER OF THE APPLICATION OF SOUTHWESTERN BELL TELEPHONE COMPANY FOR AN ORDER IMPLEMENTING TERMINATING ACCESS CHARGES IN LIEU OF INTRALATA TOLL AND SURCHARGE POOLS; and  
PUD NO. 940000051: IN RE: INQUIRY OF THE OKLAHOMA CORPORATION COMMISSION REGARDING WHETHER THE INTRALATA TOLL POOL AND SURCHARGE POOL SHOULD CONTINUE TO EXIST IN THE STATE OF OKLAHOMA

South Carolina

Docket No. 92-606-C: IN RE: GENERIC PROCEEDING TO REVIEW THE USE OF N11 SERVICE CODES

Tennessee

Docket No. 93-07799: IN RE: SHOW CAUSE PROCEEDING AGAINST CERTIFIED IXCS AND LECS TO PROVIDE TOLL FREE, COUNTY-WIDE CALLING

Docket No. 93-08793: IN RE: APPLICATION OF MCI METRO ACCESS TRANSMISSION SERVICES, INC. FOR AUTHORITY TO OFFER LOCAL EXCHANGE SERVICES WITHIN TENNESSEE

Docket No. 94-00184: INQUIRY FOR TELECOMMUNICATIONS RULE-MAKING REGARDING COMPETITION IN THE LOCAL EXCHANGE

Docket No. 95-02499: UNIVERSAL SERVICE PROCEEDING, PART 1 -- COST OF UNIVERSAL SERVICE AND CURRENT SOURCES OF UNIVERSAL SERVICE SUPPORT, AND PART 2 -- ALTERNATIVE UNIVERSAL SERVICE SUPPORT MECHANISMS

Texas

Docket 4992: APPLICATION OF GENERAL TELEPHONE COMPANY OF THE SOUTH-WEST FOR A RATE/TARIFF REVISION

Docket 5113: PETITION OF PUBLIC UTILITY COMMISSION FOR AN INQUIRY CONCERNING THE EFFECTS OF THE MODIFIED FINAL JUDGMENT AND THE ACCESS CHARGE ORDER UPON SW BELL AND THE INDEPENDENT TELEPHONE COMPANIES OF TEXAS (Phase II)

Docket 5610: APPLICATION OF GENERAL TELEPHONE COMPANY OF THE SOUTH-WEST FOR A RATE INCREASE

Docket 5800: APPLICATION OF AT&T COMMUNICATIONS FOR AUTHORITY TO IMPLEMENT "REACH OUT TEXAS"

Docket 5898: APPLICATION OF SAN ANGELO FOR REMOVAL OF THE EXTENDED AREA SERVICE CHARGE FROM GENERAL TELEPHONE COMPANY OF THE SOUTHWEST'S RATES IN SAN ANGELO, TEXAS

Docket 5926: APPLICATION OF SOUTHWESTERN BELL TELEPHONE COMPANY TO ESTABLISH FEATURE GROUP "E" (FGE) ACCESS SERVICE FOR RADIO AND CELLULAR COMMON CARRIERS

Docket 5954: INQUIRY OF THE PUBLIC UTILITY COMMISSION OF TEXAS INTO OFFERING EXTENDED AREA SERVICE IN THE CITY OF ROCKWALL

Docket 6095: APPLICATION OF AT&T COMMUNICATION FOR A RATE INCREASE

Docket 6200: PETITION OF SOUTHWESTERN BELL TELEPHONE COMPANY FOR AUTHORITY TO CHANGE RATES

Docket 6264: PETITION OF THE GENERAL COUNSEL FOR INITIATION OF AN EVIDENTIARY PROCEEDING TO ESTABLISH TELECOMMUNICATIONS SUBMARKETS

Docket 6501: APPLICATION OF VALLEY VIEW TELEPHONE COMPANY FOR AN AMENDMENT TO CERTIFICATE OF CONVENIENCE AND NECESSITY

Docket 6635: APPLICATION OF MUSTANG TELEPHONE COMPANY FOR AUTHORITY TO CHANGE RATES

- Docket 6740: APPLICATION OF SOUTHWEST TEXAS TELEPHONE COMPANY FOR RATE INCREASE
- Docket 6935: APPLICATION OF SOUTHWESTERN BELL TELEPHONE COMPANY TO INTRODUCE MICROLINK II - PACKET SWITCHING DIGITAL SERVICE
- Docket 8730: INQUIRY OF THE GENERAL COUNSEL INTO THE MEET-POINT BILLING PRACTICES OF GTE SOUTHWEST, INC.
- Docket 8218: INQUIRY OF THE GENERAL COUNSEL INTO THE WATS PRORATE CREDIT
- Docket 8585: INQUIRY OF THE GENERAL COUNSEL INTO THE REASONABLENESS OF THE RATES AND SERVICES OF SOUTHWESTERN BELL TELEPHONE COMPANY
- Docket 10127: APPLICATION OF SOUTHWESTERN BELL TELEPHONE COMPANY TO REVISE SECTION 2 OF ITS INTRASTATE ACCESS SERVICE TARIFF
- Docket 11441: PETITIONS OF INFODIAL, INC., AND OTHERS FOR ASSIGNMENT OF ABBREVIATED N11 DIALING CODES
- Docket 11840: JOINT PETITION OF SOUTHWESTERN BELL TELEPHONE COMPANY AND GTE SOUTHWEST, INC. TO PROVIDE EXTENDED AREA SERVICE TO CERTAIN COMMUNITIES IN THE LOWER RIO GRANDE VALLEY
- Docket 14447: PETITION OF MCI TELECOMMUNICATIONS CORPORATION FOR AN INVESTIGATION OF THE PRACTICES OF SOUTHWESTERN BELL TELEPHONE COMPANY REGARDING THE EXHAUSTION OF TELEPHONE NUMBERS IN THE 214 NUMBERING PLAN AREA AND REQUEST FOR A CEASE AND DESIST ORDER AGAINST SOUTHWESTERN BELL TELEPHONE COMPANY

## WHOLESALE SERVICES: Pricing and Provisioning

MCI Telecommunications Corporation

August 21, 1996

# WHOLESALE SERVICES: Pricing and Provisioning

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## WHOLESALE SERVICES: Pricing and Provisioning

This White Paper addresses several key wholesale service pricing and provisioning policy issues that must be resolved in the context of arbitrations under the Communications Act of 1996. The paper has been prepared jointly by the MCI policy expert witnesses listed in Appendix I. The major conclusions are as follows:

- An effective local resale market is essential to development of full facilities based local competition.
- In addition to promoting facilities based competition, resale of local services provides independent benefits to consumers through retail competition.
- In order to capture all of these benefits, all local telecommunications services must be made available for resale at discounts that fully reflect avoidable costs.
- Wholesale services must not be provisioned in ways that discourage entry by resellers or unreasonably raise their costs.
- An avoided cost study must reflect the jurisdictional allocation of expenses.
- The appropriate resale discounts should be set on a state specific basis where the data allow, and at the Regional Company level otherwise.
- The discounts range from approximately 19 to 27 percent at the Regional Company level.

Section I summarizes federal legislative and regulatory requirements. Section II discusses the necessary conditions of an effective resale policy. Section III describes the avoided cost model employed here. The conclusions are in Section IV.

### I. LEGISLATIVE AND REGULATORY REQUIREMENTS

The Telecommunications Act of 1996 ("1996 Act") is designed to bring competition to local telecommunications markets. The 1996 Act recognizes that simply removing legal barriers to entry is insufficient to allow competition to evolve. A number

of procompetitive steps are necessary and explicitly required by the 1996 Act. For example, every incumbent local exchange carrier ("ILEC") is required to provide requesting telecommunications carriers: (1) interconnection to its network; (2) access to its unbundled network elements; (3) physical collocation for interconnection or access to unbundled elements, and (4) retail telecommunications services for resale at wholesale prices (rates). Economic barriers to entry into local telephone markets will be reduced substantially with an effective resale policy. In other words, resale of all retail telecommunications services at wholesale rates is necessary to the development of local competition.

The 1996 Act imposes a duty upon ILECs to offer certain services for resale at wholesale rates. Specifically, Section 251(c)(4) requires ILECs:

- (A) to offer for resale at wholesale rates any telecommunications service that the carrier provides at retail to subscribers who are not telecommunications carriers; and
- (B) not to prohibit, and not to impose unreasonable or discriminatory conditions or limitations on, the resale of such telecommunications services, except that a state commission may, consistent with regulations prescribed by the Commission under this section, prohibit a reseller that obtains at wholesale rates a telecommunications service that is available at retail only to a category of subscribers from offering such service to a different category of subscribers.

Further, The 1996 Act also provides guidance on the determination of wholesale prices for telecommunications services. Section 252(d)(3) states that:

For the purposes of Section 251(c)(4), a state commission shall determine wholesale rates on the basis of retail rates charged to subscribers for the telecommunications service requested, excluding the portion thereof attributable to any marketing, billing, collection, and other costs that will be avoided by the local exchange carrier.

These statutory requirements are clear and concise. As described below, they are not only consistent with, they are essential to, the development of local competition.

The Federal Communications Commission ("FCC") recently released its First Report and order in CC Docket No. 96-98, In the Matter of Implementation of the Local Competition Provisions of the Telecommunications Act of 1996, issued August 8, 1996 ("251 Order"). The 251 Order addresses the need for resale competition stating that:

Resale will be an important entry strategy for many new entrants, especially in the short term when they are building their own facilities. Further, in some areas and for some new entrants, we expect that the resale option will remain an important entry strategy over the longer term. Resale will also be an important entry strategy for small businesses that may lack capital to compete in the local exchange market by purchasing unbundled elements or by building their own networks. In light of the strategic importance of resale to the development of competition, we conclude that it is especially important to promulgate national rules for use by state commissions in setting wholesale rates. (251 Order, Para. 907).

The Order establishes ". . . a minimum set of criteria for avoided cost studies used to determine wholesale discount rates." (para. 909) Sections 605-617 of part 51 of the FCC Rules set forth the FCC's methodology. These Rules are attached as Appendix II. Beyond the minimum criteria, the FCC allows states ". . . broad latitude in selecting costing methodologies that comport with their own ratemaking practices for retail services." (para. 910) States are allowed to select interim "default" rates from within a range prescribed by the FCC if an avoided cost study such as the one presented here is not available. (See FCC Rules Section 51.611.)

The methodology described here follows the approach suggested by the FCC. However, it is appropriate to account for the jurisdictional nature of some of the

expenses that are avoided when ILECs no longer perform the retail function. The necessary adjustments are described in Section III.D below. As discussed below, these adjustments are consistent with state rate making practices and therefore comply with the express desire of the FCC to provide latitude to states.

## II. NECESSARY CONDITIONS FOR EFFECTIVE RESALE

There are several conditions necessary for an effective local resale market. In general, the price of wholesale services must be reasonably related to the cost of providing the service and the wholesale services must be offered on reasonable terms and conditions. The specific conditions necessary for effective resale are discussed below.

### A. Wholesale Rates Must Not Include ILEC Retailing Costs

Retail competition will provide consumer benefits. If ILECs are allowed to charge excessive wholesale service prices, competition will be thwarted. In any market, resellers or retailers require a margin between the retail price and the wholesale price sufficient to allow recovery of their expenses, including a reasonable profit. The FCC points out that:

There has been considerable debate on the record in this proceeding and before the state commissions on whether section 252(d)(3) embodies an "avoided" cost standard or an "avoidable" cost standard. We find that "the portion [of the retail rate] . . . attributable to costs that will be avoided" includes all of the costs that the LEC incurs in maintaining a retail, as opposed to a wholesale, business. In other words, the avoided costs are those that an incumbent LEC would no longer incur if it were to cease retail operations and instead provide all of its services through resellers. Thus, we reject the arguments of incumbent LECs and others who maintain that the LEC must actually experience a reduction in its operating expenses for a cost to be considered "avoided" for purposes of

section 252(d)(3). We do not believe that Congress intended to allow incumbent LECs to sustain artificially high wholesale prices by declining to reduce their expenditures to the degree that certain costs are readily avoidable. We therefore interpret the 1996 Act as requiring states to make an objective assessment of what costs are reasonably avoidable when a LEC sells its services wholesale. We note that Colorado, Georgia, Illinois, New York, and Ohio commissions have all interpreted the 1996 Act in this manner. (251 Order, Para. 911).

If avoided costs are estimated correctly, and then subtracted from retail prices, efficient resellers should be able to succeed in the retail market.

**B. All Retail Services Must Be Offered at a Discount**

All of the telecommunications services offered to end-users must be made available to resellers at a wholesale discount.<sup>1</sup> This includes Centrex, optional plans, grandfathered services, promotions and contract services.<sup>2</sup> All ILEC retail services are at least partial substitutes for one another.<sup>3</sup> Therefore, absent this requirement, ILECs will be able to discriminate against resellers by making offers to customers that their retail competitors are unable to match.

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<sup>1</sup> Retail competitors may wish to resell services such as Voice Mail and Inside Wire. These services would likely be made available at avoided cost if the wholesale market were competitive.

<sup>2</sup> All contract services must be available for resale. This includes government and state agency contracts as well as any "umbrella" contract that allows other entities to participate and obtain the benefits of a master contract.

<sup>3</sup> The FCC Rules permit states to restrict "cross-class" selling. See Section 51.613(a)(1).

Ancillary services must also be made available for resale. This includes custom calling services, CLASS features, and all Centrex features.<sup>4</sup> While some of these features may not be regulated, depending on the state jurisdiction or the jurisdictional nature of the service, they are all telecommunications services. If some features are not discounted, the ILECs' reseller competitors effectively will be denied the opportunity to market to a significant group of customers because the lack of a discount on these features will reduce reseller margins to inadequate levels.

Several state Commissions have already addressed the need for identifying services available for resale and the need for unrestricted resale. Several of these decisions are described in the FCC's 251 Order. (See paras. 898-906.)

The FCC's Rules also require promotions to be offered at a discount in certain circumstances. (See Section 51.613(a)(2).) Granting exceptions to the requirement that all services be made available at wholesale discounts may lead to abuse. States should be alert to this possibility and be prepared to take corrective action against ILECs that abuse the exceptions.

**C. Service Quality and Adequate Wholesale-Reseller Interfaces Must be Maintained**

The FCC has ruled that ILECs must provide resale services to competitors under the same terms and conditions it enjoys itself. It is crucial to a successful resale plan that interfaces between the ILEC's operations support systems and resellers' systems are adequate to allow the reseller to provide service to its customers efficiently. The

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<sup>4</sup> These services are marketed by different names in different telephone company service areas.

Commission must also ensure that ILECs offer resellers the same quality service they provide to themselves and their own retail customers. To accomplish this, ILECs must implement systems and procedures that permit the ordering and use of wholesale services under the same timetables available to the ILEC. These systems must include:

- Pre-Service Ordering Capabilities. On-line access to all information needed to verify availability of services and features, scheduling of service installation, and number assignment.
- On-Line, automated order processing. Capability of transmitting customer orders to the switch office and provide the reseller with notice of confirmation and completion of its order. Competitively-neutral long distance and local presubscribed carrier administration processes must be implemented.
- Exchange of billing data and exchange of customer account data on a timely basis. This must be done on a confidential basis.
- On-Line Monitoring. Monitor the network, isolate trouble spots, perform network tests, and schedule reports.
- Service quality reports. Documenting service quality ILECs provide themselves compared to the service they provide to others.

All of these requirements are consistent with the Commission's finding that "... service made available for resale be at least equal in quality to that provided by the incumbent LEC to itself or to any subsidiary, affiliate, or any other party . . ." (FCC Order, para. 970).

**D. Branding Is an Important Element of Resale Competition**

Resellers require carrier-specific branding for all customer contacts. Customers naturally expect services to be provisioned, serviced and maintained by their carrier of choice, regardless of whether the service is actually provided by another carrier

through a resale arrangement. Customer confusion will be significantly diminished if the customer does not perceive that resold services are actually provided by another carrier.

Customers would experience concern, confusion and dissatisfaction when placing a bill inquiry, a directory assistance call, or an operator service call to their provider of choice if they are greeted with the name of their old telephone company. Customers may even conclude that they have been "slammed." State Commissions must ensure that resale of all ILEC retail services occurs with the least amount of customer confusion possible. Branding will minimize customer confusion with respect to resold ILEC services.

In a resale environment, differentiation of the underlying product is virtually impossible. Competitors must rely upon other factors to win customer loyalty. Superior customer service, simplified billing, and innovative pricing will provide the only opportunities to differentiate products from the underlying network provider. Without the ability to brand all resold LEC services, reseller efforts to provide superior customer services are diluted. Brand dilution makes the investment in these new service or billing innovations more difficult to justify.

A uniform branding standard will also reduce customer confusion as the industry moves into an unbundled environment. For example, as competitors develop their own operator services capabilities, the change in the provider of this service will be transparent to the customer.



In sum, when the end user selects a local reseller it is important that they can clearly identify their service provider and its brand. Without a clear brand image the customer could face uncertainty when using directory or operator services. Such clarity can only be achieved by: (1) making reasonably available to local service resellers the ability to brand their service at all points of customer-contact; and (2) barring the incumbent LEC from unreasonably interfering with such branding. As the FCC points out, "this brand identification is critical to reseller attempts to compete with incumbent LECs and will minimize customer confusion." (251 Order, para. 971)

### III. SETTING WHOLESALE RATES – PRACTICE

The FCC's Order establishes minimum criteria for the avoided cost methodology based broadly on the MCI study. Essentially, the costs in certain FCC Part 32 Uniform System of Accounts ("USOA") accounts are identified as directly avoided while costs in other accounts are treated as indirectly avoided. The avoided indirect costs are calculated by determining the ratio of directly avoided costs to total costs and then applying that proportion to the accounts containing indirectly avoided costs.

#### A. Directly Avoided Costs

The following specific accounts from the USOA are directly avoided (see Code of Federal Regulations, Title 47, Telecommunication, Part 32):

*Account 6611: Product management - This account includes costs incurred in performing administrative activities related to marketing products and services. This includes competitive analysis, product and service identification and specification, test market planning, demand forecasting, product life cycle analysis, pricing analysis, and identification and establishment of distribution channels. This account is one of the ILECs' marketing costs, which are expressly listed as avoided by the 1996*

Act. Product management is a function specifically tied to determining the market demand for retail sales, which the ILEC will offer in competition with the purchaser of wholesale services. Purchasers of wholesale service from the ILECs should not be required to subsidize the ILECs' costs of competing with them.

Account 6612: Sales - This account includes costs incurred in selling products and services. This includes determination of individual customer needs, development and presentation of customer proposals, sales order preparation and handling, and preparation of sales records. In contrast, carriers seeking to resell an ILEC service will simply order the service on a wholesale basis - no ILEC sales resources are required.

Account 6613: Product advertising - This account includes costs incurred in developing and implementing promotional strategies to stimulate the purchase of products and services, but excludes non-product-related advertising, such as corporate image, stock and bond issue and employment advertisement, which are included in the appropriate functional accounts. This is another of the Marketing expenses specifically excluded by the 1996 Act. As in the case of Sales and Product Management costs, Product Advertising is a function that is required to make retail sales, and is therefore avoided if the ILEC sells a wholesale service.

Account 6621: Call completion services - This account includes costs incurred in helping customers place and complete calls, except directory assistance. This includes handling and recording, intercept, quoting rates, time and charges; and all other activities involved in the manual handling of calls. These expenses are incurred to serve the retail customers of the ILEC. Competing ILECs will either provide this service themselves or contract for it separately with the ILEC or some other service provider. In either case, the costs recorded in this account should not be bundled into the wholesale rate.

Account 6622: Number services - This account includes costs incurred in providing customer number and classified listings. This includes preparing or purchasing, compiling, and disseminating those listings through directory assistance or other means. As with Account 6621, a purchaser of the ILECs' wholesale services will either purchase this separately from the ILEC or some other provider, or provide this service itself. In either case, the costs recorded in this account should not be bundled into the wholesale rate.

**Account 6623: Customer services -**

- (a) This account includes costs incurred in establishing and servicing customer accounts. This includes:
  - (1) Initiating customer service orders and records;
  - (2) Maintaining and billing customer accounts;
  - (3) Collecting and investigating customer accounts, including collecting revenues, reporting receipts, administering collection treatment, and handling contacts with customers regarding adjustments of bills;
  - (4) Collecting and reporting pay station receipts; and
  - (5) Instructing customers in the use of products and services.
  
- b) This account also includes amounts paid by interexchange carriers or other exchange carriers to another exchange carrier for billing and collection services.

**B. Indirectly Avoided Costs**

Within the USOA there are a number of expense accounts that are either common costs or general overhead. By definition, overhead costs support all other functions, including those that are avoided, such as marketing. For example, the Human Resources department incurs expenditures in the staffing of the marketing department. As marketing expenses are avoided, so are the expenses incurred in supporting marketing. Therefore, the portion of these expense items equal to the proportion of direct avoided costs to total expense is excluded as an avoided cost. Consistent with the FCC's paragraph 918, account 5301 rather than 6790 is used to calculate the avoided uncollectible revenues.

The following USOA accounts include common costs or general overhead which support marketing and customer service operations:

6120 - General Support

6711 - Executive  
6712 - Planning  
6721 - Accounting and finance  
6723 - Human resources  
6724 - Information management  
6725 - Legal  
6726 - Procurement  
6728 - Other general and administrative, and  
5301 - Uncollectibles

Expenses in these accounts are, at least, partially avoidable.

C. Wholesaling Costs

While the ILECs will avoid substantial costs when they provide wholesale services, they will incur a small amount of incremental expenses to service the accounts of the resellers. However, these costs will be quite small. The ILECs already are set-up to perform the wholesaling function because they provide wholesale-like functions to interexchange carriers ("IXCs") and Enhanced Service Providers ("ESPs"). The incremental cost of providing these services to resellers of wholesale local exchange service should be minimal. The FCC addresses this issue by treating only 90 percent of the costs in certain of the directly avoided categories as avoided for purposes of setting default discounts. Specifically, the FCC determined that 90 percent of accounts 6610, and 6623 would be avoided, while 100 percent of accounts 6621 and 6622 would be avoided.

The FCC approach is very conservative. For example, Account 6623 (Customer Services) records the cost of setting up and billing end user accounts. The purchaser of wholesale services will be providing this service to its own end users. Any cost of billing the purchaser of wholesale services, who will be billed for many end user lines,

will be minuscule in comparison with the cost of billing each of those individual lines separately. Billing retail customers requires setting up accounts and billing individual customers. Wholesale customers, on the other hand, will be fewer in number, and are more acquainted with billing processes, thus enabling them to be served at much lower cost. Although there may be some minor Customer Services costs incurred by ILECs to provide wholesale services, those costs are so small that they could reasonably be completely excluded as avoided costs. Nevertheless, MCI has followed the approach used by the FCC for calculating default discounts and retained a portion of the expenses in these accounts in the wholesale rate.

#### D. Jurisdictional Issues

The FCC approach divides total avoided costs by total expenses on a "subject to separations" basis. That is, both interstate and intrastate costs were included. MCI's original model used this approach. However, this study uses the original MCI model, as modified by the FCC, using ARMIS 43-04 data on state operations, rather than the Subject to Separations data in the original study.

The services to be resold are largely intrastate. The FCC has specifically concluded that even though access charges will not be moved to economic cost until after a transition period, interstate access services will not be subject to the wholesale discount. (paras. 873-874) Therefore, it is necessary for consistency to calculate the appropriate wholesale discount by dividing total avoided ARMIS intrastate costs by the total intrastate expenses for services that will be resold. Absent this modification, both the numerator and the denominator of the discount calculation will include expenses

allocated to services that will not be resold. The necessary revision can be done with the aid of ARMIS Report 43-04, which breaks down the relevant costs on a jurisdictional basis.<sup>5</sup>

#### E. Results

Having identified the accounts that can be fully or partially associated with retailing functions that the ILEC will not perform, the next step is to quantify the actual savings and produce a percentage discount. The results on a holding company basis are shown below.<sup>6</sup>

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<sup>5</sup> Most of the interstate costs in the "directly avoided" ARMIS accounts will be avoided by ILECs selling local services at wholesale. That some of these costs appear in interstate accounts is an artifact of the separations process. Therefore, it would be appropriate to add interstate expenses in these accounts to the numerator of the discount calculation. This study does not take this step in recognition of the fact that complex jurisdictional issues are raised thereby. MCI will modify its wholesale discount studies if the FCC rules on this issue.

<sup>6</sup> GTE data are for California, Texas, Florida, and Washington only. There are data missing for one state for Bell Atlantic in 1991 and BellSouth and US West in 1992.

Wholesale Pricing Discount Model								
Summary, 1991 - 1995, 1996 Estimate								
Year	Ameritech	Bell Atlantic	BellSouth	NYNEX	Pac Tel	South- western Bell	U S West	GTE*
1991	21.6%	18.4%	21.6%	20.3%	22.4%	21.1%	18.9%	19.0%
1992	23.1%	21.4%	22.2%	21.3%	24.5%	20.4%	20.9%	18.7%
1993	24.5%	22.3%	22.8%	21.9%	26.0%	22.5%	20.9%	19.1%
1994	25.3%	22.0%	22.8%	21.4%	26.1%	21.9%	20.7%	19.4%
1995	27.4%	22.0%	22.3%	22.9%	25.6%	21.6%	20.8%	19.3%
1996E	29.1%	23.1%	22.5%	23.6%	26.5%	21.7%	21.3%	19.3%

Appendix III shows the spreadsheet model that produces these discounts. The 1996 estimate is based on the trend over time.

#### F. Application of Discounts

Discounts should be developed and applied on a uniform basis to promote consistency and simplify the process. The wholesale discount as calculated in this study for each ILEC should be applied to each of the telecommunications services offered at wholesale rates. The published information ARMIS Report 43-04 data provide a sufficient basis for an aggregate discount across all services. These data are broadly consistent across ILECs and are reported in a format that is familiar. Service by service data are much harder to come by. Even if more detailed information were publicly available on a product-by-product basis, the consistency of the information would be questionable due to the numerous allocations and assumptions the ILEC would have to make to develop the product-specific information. While the FCC Rules do not rule out service-specific discounts, requiring the ILEC to provide such detailed information on a product-by-product basis would be an administrative burden for the

ILECs and the responsible federal and state regulatory agencies. Moreover, the result would be highly debatable product by product discount levels.

The discount should also apply to each rate element. Any other basis provides opportunities for abuse. For example, applying the discount on revenue per minute for a service may penalize resellers whose sales by rate element are weighted differently than those of the ILEC or other resellers.

#### IV. CONCLUSION

Wholesale discounts are essential to the development of local competition. Adequate wholesale discounts will provide immediate consumer benefits by allowing retail competition to begin in advance of full facilities based competition. The methodology described here for developing these discounts is analytically correct and easy to administer.



## Appendix I -- Sponsors

Greg Darnell  
Mark P. DeFalco  
Tony Dittiro  
Brenda J. DeHorn  
Joe Dunbar  
Tim Gates  
Annette S. Guariglia  
Michael Hydock  
Randy Klaus  
Don Price  
Dennis Ricca

## Appendix II -- Commission Resale Rules

### **§ 51.605 Additional obligations of incumbent local exchange carriers.**

(a) An incumbent LEC shall offer to any requesting telecommunications carrier any telecommunications service that the incumbent LEC offers on a retail basis to subscribers that are not telecommunications carriers for resale at wholesale rates that are at the election of the state commission--

(1) consistent with the avoided cost methodology described in §§ 51.607 and 51.609 of this part; or

(2) interim wholesale rates, pursuant to § 51.611 of this part,

(b) Except as provided in § 51.613 of this part, an incumbent LEC shall not impose restrictions on the resale by a requesting carrier of telecommunications services offered by the incumbent LEC.

### **§ 51.607 Wholesale pricing standard.**

(a) The wholesale rate that an incumbent LEC may charge for a telecommunications service provided for resale to other telecommunications carriers shall equal the incumbent LEC's existing retail rate for the telecommunications service, less avoided retail costs, as described in § 51.609 of this part.

(b) For purposes of this subpart, exchange access services, as defined in section 3 of the Act, shall not be considered to be telecommunications services that incumbent LECs must make available for resale at wholesale rates to requesting telecommunications carriers.

### **§ 51.609 Determination of avoided retail costs.**

(a) Except as provided in § 51.611 of this part, the amount of avoided retail costs shall be determined on the basis of a cost study that complies with the requirements of this section.

(b) Avoided retail costs shall be those costs that reasonably can be avoided when an incumbent LEC provides a telecommunications service for resale at wholesale rates to a requesting carrier.

(c) For incumbent LECs that are designated as Class A companies under § 32.11 of this chapter, except as provided in paragraph (d), avoided retail costs shall:

(1) include, as direct costs, the costs recorded in USOA accounts 6611 (product management), 6612 (sales), 6613 (product advertising), 6621 (call completion

services), 6622 (number services), and 6623 (customer services) (§§ 32.6611, 32.6612, 32.6613, 32.6621, 32.6622, and 32.6623);

(2) include, as indirect costs, a portion of the costs recorded in USOA accounts 6121-6124 (general support expenses), 6612, 6711, 6721-6728 (corporate operations expenses), and 5301 (telecommunications uncollectibles) (§§ 32.6121-32.6124, 32.6612, 32.6711, 32.6721-32.6728, and 32.5301); and

(3) not include plant-specific expenses and plant non-specific expenses, other than general support expenses (§§ 32.6110-32.6116, 32.6210-32.6565).

(d) Costs included in accounts 6611-6613 and 6621-6623 described in paragraph (c) (§§ 32.6611-32.6613 and 32.6621-32.6623) may be included in wholesale rates only to the extent that the incumbent LEC proves to a state commission that specific costs in these accounts will be incurred and are not avoidable with respect to services sold at wholesale, or that specific costs in these accounts are not included in the retail prices of resold services. Costs included in accounts 6110-6116 and 6210-6565 described in paragraph (c) (§§ 32.6110-32.6116, 32.6210-32.6565) may be treated as avoided retail costs, and excluded from wholesale rates, only to the extent that a party proves to a state commission that specific costs in these accounts can reasonably be avoided when an incumbent LEC provides a telecommunications service for resale to a requesting carrier.

(e) For incumbent LECs that are designated as Class B companies under § 32.11 of this chapter and that record information in summary accounts instead of specific USOA accounts, the entire relevant summary accounts may be used in lieu of the specific USOA accounts listed in paragraphs (c) and (d).

#### **§ 51.611 Interim wholesale rates.**

(a) If a state commission cannot, based on the information available to it, establish a wholesale rate using the methodology prescribed in § 51.609 of this part, then the state commission may elect to establish an interim wholesale rate as described in paragraph (b) of this section.

(b) The state commission may establish interim wholesale rates that are at least 17 percent, and no more than 25 percent, below the incumbent LEC's existing retail rates, and shall articulate the basis for selecting a particular discount rate. The same discount percentage rate shall be used to establish interim wholesale rates for each telecommunications service.

(c) A state commission that establishes interim wholesale rates shall, within a reasonable period of time thereafter, establish wholesale rates on the basis of an avoided retail cost study that complies with § 51.609 of this part.

**§ 51.613 Restrictions on resale.**

(a) Notwithstanding § 51.605(b) of this part, the following types of restrictions on resale may be imposed:

(1) Cross-class selling. A state commission may permit an incumbent LEC to prohibit a requesting telecommunications carrier that purchases at wholesale rates for resale, telecommunications services that the incumbent LEC makes available only to residential customers or to a limited class of residential customers, from offering such services to classes of customers that are not eligible to subscribe to such services from the incumbent LEC.

(2) Short term promotions. An incumbent LEC shall apply the wholesale discount to the ordinary rate for a retail service rather than a special promotional rate only if:

(A) such promotions involve rates that will be in effect for no more than 90 days; and

(B) the incumbent LEC does not use such promotional offerings to evade the wholesale rate obligation, for example by making available a sequential series of 90-day promotional rates.

(b) With respect to any restrictions on resale not permitted under paragraph (a), an incumbent LEC may impose a restriction only if it proves to the state commission that the restriction is reasonable and nondiscriminatory.

(c) Branding. Where operator, call completion, or directory assistance service is part of the service or service package an incumbent LEC offers for resale, failure by an incumbent LEC to comply with reseller unbranding or rebranding requests shall constitute a restriction on resale.

(1) An incumbent LEC may impose such a restriction only if it proves to the state commission that the restriction is reasonable and nondiscriminatory, such as by proving to a state commission that the incumbent LEC lacks the capability to comply with unbranding or rebranding requests.

(2) For purposes of this subpart, unbranding or rebranding shall mean that operator, call completion, or directory assistance services are offered in such a manner that an incumbent LEC's brand name or other identifying information is not identified to subscribers, or that such services are offered in such a manner that identifies to subscribers the requesting carrier's brand name or other identifying information.

**§ 51.615 Withdrawal of services.**

When an incumbent LEC makes a telecommunications service available only to a limited group of customers that have purchased such a service in the past, the incumbent LEC must also make such a service available at wholesale rates to requesting carriers to offer on a resale basis to the same limited group of customers that have purchased such a service in the past.

**§ 51.617      Assessment of end user common line charge on resellers.**

(a) Notwithstanding the provision in § 69.104(a) of this chapter that the end user common line charge be assessed upon end users, an incumbent LEC shall assess this charge, and the charge for changing the designated primary interexchange carrier, upon requesting carriers that purchase telephone exchange service for resale. The specific end user common line charge to be assessed will depend upon the identity of the end user served by the requesting carrier.

(b) When an incumbent LEC provides telephone exchange service to a requesting carrier at wholesale rates for resale, the incumbent LEC shall continue to assess the interstate access charges provided in part 69, other than the end user common line charge, upon interexchange carriers that use the incumbent LEC's facilities to provide interstate or international telecommunications services to the interexchange carriers' subscribers.

### Appendix III -- Spreadsheet Model

The simple spreadsheet model used to calculate the discounts is illustrated below. The example chosen is Bell Atlantic -- DC. The row number comes from the appropriate ARMIS Report. The 19.46 factor is the ratio between total directly avoided expenses and total expenses.

ARMIS Row Number	USOA Account	Row Name	
1	4040	5301	Uncollectible36/69
			5,663
2			% Avoided
			19.46%
3			\$ Avoided
			1,102
4	4050	Total Revenues	TotRevsUnc36/69
			343,358
5	5000	6110	NetworkSupp36/69
			138
6			% Avoided
			0.00%
7			\$ Avoided
			0
8	5010	6120	GeneralSupp36/69
			27,915
9			% Avoided
			19.46%
10			\$ Avoided
			5,431
11	5026	6210+6220+6230	TotCOExp36/69
			16,826
12			% Avoided
			0.00%
13			\$ Avoided
			0
14	5042	6310	TotOthlOT36/69
			7,668
15			% Avoided
			0.00%
16			\$ Avoided
			0
17	5076	6410	TotC&WExp36/69
			10,388
18			% Avoided
			0.00%
19			\$ Avoided
			0
20	6000	6510	OtherPP&E36/69
			700
21			% Avoided
			0.00%
22			\$ Avoided
			0
23	6010	6530	NetworkOper36/69
			29,098
24			% Avoided
			0.00%
25			\$ Avoided
			0
26	6012	6540	Access36/69
			0
27			% Avoided
			0.00%
28			\$ Avoided
			0
29	6260	6560	TotDep/Amort36/69
			77,493
30			% Avoided
			0.00%
31			\$ Avoided
			0
32	7000	6610	TotMkting36/69
			16,227

### Appendix III -- Spreadsheet Model

The simple spreadsheet model used to calculate the discounts is illustrated below. The example chosen is Bell Atlantic -- DC. The row number comes from the appropriate ARMIS Report. The 19.46 factor is the ratio between total directly avoided expenses and total expenses.

ARMIS Row Number	USOA Account	Row Name	
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			19.46%
3			\$ Avoided
			1,102
4	4050	Total Revenues	TotRevsUnc36/69
			343,358
5	5000	6110	NetworkSupp36/69
			138
6			% Avoided
			0.00%
7			\$ Avoided
			0
8	5010	6120	GeneralSupp36/69
			27,915
9			% Avoided
			19.46%
10			\$ Avoided
			5,431
11	5026	6210+6220+6230	TotCOExp36/69
			16,826
12			% Avoided
			0.00%
13			\$ Avoided
			0
14	5042	6310	TotOthIoT36/69
			7,668
15			% Avoided
			0.00%
16			\$ Avoided
			0
17	5076	6410	TotC&WExp36/69
			10,388
18			% Avoided
			0.00%
19			\$ Avoided
			0
20	6000	6510	OtherPP&E36/69
			700
21			% Avoided
			0.00%
22			\$ Avoided
			0
23	6010	6530	NetworkOper36/69
			29,098
24			% Avoided
			0.00%
25			\$ Avoided
			0
26	6012	6540	Access36/69
			0
27			% Avoided
			0.00%
28			\$ Avoided
			0
29	6260	6560	TotDep/Amort36/69
			77,493
30			% Avoided
			0.00%
31			\$ Avoided
			0
32	7000	6610	TotMkting36/69
			16,227

**Wholesale Pricing Discount Model**  
**BellSouth, 1991 - 1995, 1996 Estimate**

<i>BellSouth</i>							
<i>Year</i>	<i>Total</i>	<i>Florida</i>	<i>Georgia</i>	<i>North Carolina</i>	<i>South Carolina</i>	<i>Alabama</i>	<i>Kentucky</i>
1991	21.55%	23.83%	22.41%	21.34%	19.45%	19.23%	18.52%
1992	22.23%	23.56%	22.76%	22.26%	20.47%	19.72%	19.80%
1993	22.80%	24.82%	23.38%	22.26%	21.77%	20.62%	20.91%
1994	22.77%	25.13%	23.84%	21.37%	21.91%	20.18%	19.64%
1995	22.32%	25.06%	23.51%	20.35%	21.31%	19.58%	18.89%
1996E	22.51%	25.38%	23.79%	20.11%	21.80%	19.67%	18.99%

<i>Year</i>	<i>Louisiana</i>	<i>Mississippi</i>	<i>Tennessee</i>
1991	20.57%	18.94%	22.15%
1992	21.53%	#DIV/0!	22.86%
1993	22.39%	20.13%	22.42%
1994	22.80%	20.06%	22.06%
1995	21.81%	18.59%	22.46%
1996E	22.13%	18.51%	22.54%

\*\* Bell South data for 1992 excludes South Central Bell of Mississippi, for which data was not available.