BELLSOUTH TELECOMMUNICATIONS, INC.

REBUTTAL TESTIMONY OF WALTER S. REID

BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

DOCKET NO. [redacted]

AUGUST 30, 1996

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

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

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

A. Yes. I filed direct testimony on behalf of BellSouth on August 12, 1996, and I filed supplemental direct testimony on August 23, 1996.

Q. WHAT IS THE PURPOSE OF YOUR REBUTTAL TESTIMONY?

A. The purpose of my rebuttal testimony is to address the positions taken in the direct and supplemental direct testimonies of AT&T witness Mr. Art Lerma and in the direct testimony of AT&T witness Mr. Joseph

Gillan in this proceeding related to the issue: "What is the appropriate rate for BellSouth to sell its services to AT&T for resale?" Mr. Lerma's direct testimony describes AT&T's Avoided Retail Cost Model (as identified on page 5, line 18 of Mr. Lerma's direct testimony), one of two avoided cost studies AT&T has filed in this proceeding. Mr. Lerma's supplemental direct testimony presents AT&T's second avoided cost study, called the AT&T simplified avoided cost study (as identified on page 2, lines 1-2 of Mr. Lerma's supplemental testimony). Mr. Lerma claims that the second AT&T study complies with the regulations regarding wholesale prices as set forth in the Federal Communications Commission's ("FCC's") Order released August 8, 1996. My testimony will show that both of these AT&T studies result in an overstated wholesale discount rate and that the second study does not comply with the FCC Order. I will also address Mr. Gillan's so-called "simple model" for estimating avoided costs.

Q. HOW IS YOUR REBUTTAL TESTIMONY ORGANIZED?

A. My rebuttal testimony is organized in four major sections: 1) response to Mr. Lerma's direct testimony (the AT&T avoided retail cost model); 2) response to Mr. Lerma's supplemental testimony (the AT&T simplified avoided cost study); 3) response to Mr. Gillan's simple model; and 4) a summary of my testimony.

RESPONSE TO MR. LERMA'S DIRECT TESTIMONY

Q. DID YOUR DIRECT TESTIMONY, FILED IN THIS PROCEEDING ON AUGUST 12, 1996, INCLUDE COMMENTS ON AT&T'S FIRST STUDY, THE AVOIDED RETAIL COST MODEL?

A. Yes. Beginning at page 13 of my direct testimony, I discussed numerous flaws which are present in this AT&T study. AT&T attached its Avoided Retail Cost Model (the first study) to its petition in this proceeding. Therefore, I was able to prepare comments for my direct testimony regarding its study methodology based on the attachment to its petition. Mr. Lerma's direct testimony, which was filed subsequent to AT&T's petition, describes the AT&T study methodology and provides additional comments and discussion regarding AT&T's rationale. Because my direct testimony already identifies many of the flaws in AT&T's first study, I will primarily focus my rebuttal comments regarding this study on the criteria and rationale Mr. Lerma says AT&T utilized in determining avoided cost amounts. I will describe the major differences between the BellSouth avoided cost study as presented in my direct testimony and the AT&T avoided retail cost model as presented in Mr. Lerma's direct testimony.

Q. WHAT ARE THE MAJOR AREAS OF DIFFERENCE BETWEEN THE BELLSOUTH METHODOLOGY FOR CALCULATING A WHOLESALE DISCOUNT AND THE METHODOLOGY AT&T USED IN ITS FIRST STUDY?

A. There are least two major areas of difference between the studies as presented in the direct testimonies of AT&T and BellSouth. The first area of difference is the type of costs which are considered by each company to be avoided by BellSouth in resale transactions. The second area of difference is AT&T's segmentation of BellSouth revenues and expenses into service categories.

Q. PLEASE EXPLAIN THE FIRST MAJOR AREA OF DIFFERENCE BETWEEN BELLSOUTH AND AT&T?

A. The first major difference between the BellSouth study and the AT&T study is in the determination of the types of costs that will be avoided by BellSouth when the Company sells its services to a reseller, rather than to a residence or business customer. AT&T's first study treats certain amounts of depreciation, network expense, call completion expense, number services expense, general and administrative expense, product management, product advertising, return, taxes and interest on customer deposits, as amounts that will be avoided. BellSouth does not believe expenses of this type will be avoided with resale, and therefore, did not identify them as avoided in its study. My direct testimony gives examples of these expenses (Reid direct testimony pages 19 - 21), which AT&T's study inappropriately identified as avoided, and which BellSouth believes will not be avoided. In Exhibit AL-5 attached to Mr. Lerma's testimony, the sum of the avoided retail amounts for these expense categories in AT&T's study is $349,766,000. Removing this amount from AT&T's total avoided cost of $624,305,000 would drop AT&T's total avoided cost to $274,539,000 and its calculated wholesale discount to 18.4% ($274,539/$1,495,388) from 41.7%.

Q. WHAT ARE THE DIFFERENCES IN THE CRITERIA USED BY AT&T AND BELLSOUTH TO DETERMINE THE VARIOUS TYPES OF COSTS THAT WILL BE AVOIDED?

A. Mr. Lerma lists three criteria (Lerma direct testimony, page 9, lines 19 through 21) that AT&T's first study utilized to identify direct costs that will be avoided. AT&T's criteria defines avoided direct costs as: "(1) one of three types of costs that the Act specifically identifies as costs that will be avoided; (2) costs that will be duplicated by the reseller when it sells at retail; or (3) costs that are caused by BellSouth's retail activities." Mr. Lerma identifies avoided indirect costs by assuming that these costs will vary directly in proportion to the changes in direct costs that will be avoided (Lerma direct testimony page 12, lines 11-13). AT&T's criteria and assumptions are inappropriate. For example, while AT&T uses costs that will be duplicated by the reseller when it sells at retail as a criteria to treat a BellSouth cost as avoided, the Act does not. The Act also does not say that <u>all</u> costs in the categories of marketing, billing, and collection should be treated as avoided, but AT&T's first criteria apparently applies this logic. In addition, the Act does not refer to costs that are assumed to vary in proportion to avoided direct costs. However, AT&T's methodology uses this logic to allocate many overhead costs to avoided expense.

In BellSouth's study, the Company utilized the basic criteria that costs avoided are any marketing, billing, collection, and other costs that <u>will be avoided</u> by BellSouth when it sells to a reseller. In this regard the Company identified volume sensitive costs, primarily associated with customer contact functions, that will not be performed in a resale transaction. The Company's study is based on a detailed analysis of the work functions BellSouth performs related to its retail business that would not be performed in resale transactions. Operating cost data for 1995 was used.

Q. WHAT IMPACT DO THESE DIFFERENCES IN CRITERIA HAVE ON THE TYPES AND AMOUNTS OF COSTS THAT ARE TREATED AS AVOIDED IN THE AT&T AND BELLSOUTH STUDIES?

A. AT&T has utilized its assumption regarding indirect costs to arbitrarily treat some of BellSouth's general and administrative expenses and investment related costs for depreciation, network support, return, and taxes as avoided costs. The impact of these indirect allocations is to add approximately $205,725,000 to AT&T's total avoided costs on Mr. Lerma's Exhibit AL-5. This amount is equivalent to 13.76 percentage points of AT&T's 41.7% proposed wholesale discount. BellSouth does not agree that these indirect amounts represent costs that will be avoided. Investment related costs (those amounts relating to costs of fixed assets such as buildings) will not be avoided because of resale. These costs are not volume sensitive and they represent past expenditures which must be recovered from all of the Company's services. Likewise, general and administrative expenses are generally fixed in amount and will not be avoided with resale. AT&T's approach for identifying avoided amounts for these expenses is arbitrary and unreasonable.

AT&T also treats product management and product advertising expenses as avoided costs. Mr. Lerma states, beginning on page 10, line 5: "The Act specifically lists 'marketing' costs as costs that will be avoided." He also states at line 14: "In addition, AT&T will incur all of these types of costs when selling at retail." As stated in the discussion regarding AT&T's criteria 1 and 2, BellSouth does not agree that the Act summarily treats marketing costs as avoided, nor does it believe that the types of costs that a reseller incurs is a relevant criteria under the Act. For example, product management expense includes expenditures for such functions as developing rates and tariffs, forecasting product revenues, developing and enhancing products, etc., which BellSouth will continue to incur in its provision of wholesale services as well as retail services. It is unreasonable to treat BellSouth product management expenses as avoided because AT&T may incur similar types of costs in its retail operations. AT&T's treatment of product management and product advertising costs adds $52,606,000 to avoided costs and equates to approximately 3.52 percentage points of its 41.7% proposed wholesale discount.

Q. ARE THERE DIFFERENCES, OTHER THAN THE BASIC CRITERIA USED, WHICH CAUSE AT&T TO INCLUDE ADDITIONAL TYPES OF COSTS AS AVOIDED?

A. Yes. AT&T is requesting that BellSouth unbundle parts of its retail services for purposes of calculating a wholesale discount. It further proposes to treat the costs for certain of these unbundled parts (operator services and certain repair services) as avoided costs . For example, Mr. Lerma states at page 11, lines 7-9: "Moreover, if AT&T achieves direct routing of local telephone calls to its operators, as AT&T has requested, all operator costs become costs that BellSouth will avoid." In effect, this request is an attempt to mix the concepts of unbundling and the resale of telecommunications services. BellSouth's believes that the unbundling of services should be handled through the unbundled tariffs not through the wholesale tariffs. The wholesale service price should correspond to the related retail service provided by BellSouth. Company witness Mr. Bob Scheye discusses the Company's position regarding AT&T's request to route certain local telephone calls to an AT&T operator and repair calls to an AT&T repair center on pages 23-28 of his direct testimony in this docket.

Q. IS THERE ANOTHER REASON WHY OPERATOR SERVICES COSTS SHOULD NOT BE TREATED AS AVOIDED?

A. Yes. In addition to the fact that unbundling and resale should not be intertwined, to the extent AT&T takes over the operator services functions from BellSouth by direct routing of local telephone calls to its operators, it is taking over a line of business with its own revenue stream. Under this scenario, the Company is not selling its retail operator services to AT&T at wholesale. Instead, AT&T is taking over a competitive line of business and one can reasonably assume that AT&T will be receiving revenues from customers to compensate it for its operator services expenses. Certainly it is inappropriate for BellSouth to be required to give AT&T an increased discount on other services it is providing to AT&T just because AT&T chooses to take over this business. However, AT&T has inappropriately treated BellSouth's costs for these functions as avoided costs. This treatment adds $90,533,000 to AT&T's total avoided costs and equates to approximately 6.05 percentage points of its 41.7% proposed wholesale discount.

Q. ARE THERE ANY OTHER TYPES OF COSTS WHICH AT&T TREATS AS AVOIDED?

A. Yes. AT&T also identifies $902,000 of interest related to customer deposits as an avoided cost. To the extent that the Company has any reduction in interest related to customer deposits due to resale, it follows that it would also experience a reduction in customer deposit funds used in operations. Therefore, the Company would have offsetting costs related to this issue. Any reduction in interest cost paid to customers would be offset by interest cost paid on the funds needed to replace the use of customer deposits. AT&T's approach to this issue is inappropriate.

Q. PLEASE EXPLAIN THE SECOND MAJOR AREA OF DIFFERENCE IN THE STUDIES?

A. The second major difference is the fact that AT&T used BellSouth's total revenues and expenses and attempted to allocate a portion to what AT&T refers to as "the local services market" or "the local BU" (local business unit). AT&T then used the revenues and expenses allocated to this "local BU" to calculate the amounts for avoided costs and the wholesale discount. My direct testimony points out numerous flaws in the methodology AT&T used to accomplish this allocation (Reid direct testimony pages 15 - 19). For example, a category of expense for directory assistance ("DA") services assigned by AT&T to the local business unit reflects a total which equals the entire amount of both interstate and intrastate DA expense and intercept expense reported by the Company to the FCC on ARMIS Report 43-04 for 1995. Certainly, a portion of these expenses are related to the toll and access services provided by the Company and should not be assigned to local. It is clear from the results of AT&T's study, as presented on Mr. Lerma's Exhibit AL-5, that AT&T's arbitrary cost allocations are not representative of the costs that underlie the local retail tariffs. In its study, AT&T allocates costs to the local BU that exceed all sources of local revenues by over $1.3 billion. Therefore, it is not surprising that AT&T's approach leads to a distorted wholesale discount rate.

Q. HOW DOES AT&T'S APPROACH DIFFER FROM BELLSOUTH'S?

A. In contrast to AT&T's approach, BellSouth did not attempt to allocate its costs to certain markets or services. BellSouth believes that the retail costs that will be avoided with resale will be avoided because of the loss of the customer contact work operations and not because of the loss of individual services. The Company recognizes that there are many joint and shared costs that are common to numerous services and that these costs will not be avoided unless all services sharing the cost are affected. The Company's study analyzed the costs of customer contact work functions for all retail services. Based on internal accounting data that tracks expenses associated with work functions, the Company determined costs that will be avoided when the customer moves all of his/her services to a reseller. The Company's study calculates separate discounts for services provided to residence customers and services provided to business customers. AT&T's study calculates a wholesale discount that would apparently be applicable only to local retail services, excluding operator services.

Q. DO YOU HAVE ANY OVERALL COMMENTS RELATED TO THE SECOND MAJOR DIFFERENCE BETWEEN AT&T'S FIRST STUDY AND BELLSOUTH'S STUDY?

A. Yes. Mr. Lerma's testimony describes a very complex methodology that involves arbitrary allocations of BellSouth costs to local service and then further arbitrary allocations of these local service costs to an avoided cost category. Mr. Lerma describes the methodology as being "reasonable" (Lerma direct testimony page 6, line 12), but I strongly disagree. As I pointed out in my direct testimony, AT&T's whole approach to the calculation of wholesale discounts is unreasonable and produces overstated results. My direct testimony gives several examples of flaws in AT&T's methodology.

Q. DOES MR. LERMA COMMENT ON BELLSOUTH'S ABILITY TO RECOVER ITS JOINT AND COMMON COSTS UNDER AT&T'S APPROACH?

A. Yes. Mr. Lerma addresses this subject in response to questions beginning at page 15, line 21 of his direct testimony and ending at line 14 of page 16. The first question addressed is: "DOES AT&T'S MEASUREMENT OF COSTS THAT WILL BE AVOIDED ALLOW BELLSOUTH TO RECOVER ANY OF ITS JOINT AND COMMON COSTS?". Mr. Lerma's initial response to this question is misleading.

He responds: "Absolutely. Joint and common costs that are caused by, or provide benefit to wholesale functions, would be recovered by BellSouth in the wholesale price it charges AT&T for wholesale services.......". This response is not consistent with the study submitted by Mr. Lerma. Referring to his Exhibit AL-5, if AT&T's proposed discount of 41.7 % is applied to the total local revenues subject to discount, $1,495,388,000, the resulting BellSouth revenues on a discounted basis would be approximately $871,811,000 ($1,495,388,000 x (1-0.417)). This amount is not even sufficient to cover the non-avoided depreciation and network expenses for local service of $1,254,244,000, identified from his Exhibit AL-5 (total local amounts less avoided retail amounts). The point here is that the discounted local service rates per AT&T's study are well below the costs AT&T's study indicates BellSouth incurs to provide local service. Based on this study, the local service wholesale rates charged to AT&T would cover only about 40% (discounted local revenues of $871,811,000 divided by local non-avoided costs of $2,186,999,000) of the wholesale costs of providing local service. Thus, the AT&T study indicates that BellSouth would be dependent on the continuation of sufficient revenues from other services for coverage of the remaining 60% of the wholesale costs for local service.

Mr. Lerma goes on in his testimony to clarify his initial response to the question beginning at page 15 line 21. On page 16 lines 12-14, he states: "Thus, although wholesale prices for particular services might appear to be under cost, BellSouth continues to receive these subsidies and, thus, is fully compensated for its wholesale costs." The corollary to his statement is that if BellSouth does not continue to receive these subsidies, then wholesale prices will not compensate BellSouth for its wholesale costs.

Q. DOES THE METHODOLOGY USED BY BELLSOUTH TO COMPUTE ITS PROPOSED WHOLESALE DISCOUNT ASSUME THAT SUBSIDIES TO LOCAL RATES WILL CONTINUE?

A. Yes. Because BellSouth's study identified the total costs that will be avoided with resale and divided this amount by only the local revenues that are subject to resale, there is an underlying assumption that subsidies to local rates will continue.

RESPONSE TO MR. LERMA'S SUPPLEMENTAL DIRECT TESTIMONY

Q. MR. REID, HAVE YOU HAD THE OPPORTUNITY TO REVIEW MR. LERMA'S SUPPLEMENTAL DIRECT TESTIMONY FILED IN THIS PROCEEDING ON AUGUST 23, 1996?

A. Yes. However, I only had a very short period of time in which to review his supplemental direct testimony before filing my rebuttal testimony. After further review of his workpapers, I may have additional comments.

Q. DOES AT&T'S SIMPLIFIED AVOIDED COST STUDY (SECOND STUDY), AS PRESENTED IN MR. LERMA'S SUPPLEMENTAL TESTIMONY, COMPLY WITH THE REGULATIONS REGARDING WHOLESALE PRICES FOR SERVICES SUBJECT TO RESALE AS SET FORTH IN THE FCC'S ORDER RELEASED AUGUST 8, 1996?

A. No. Even though in response to some questions, Mr. Lerma claims that AT&T study complies with the FCC's Order (see Lerma supplemental testimony page 2, lines 2 - 4, and page 5, lines 4 - 7), his response to another question indicates that the AT&T study treats at least one item differently. On page 10 of his supplemental testimony, beginning at line 11, is the question: "IS AT&T'S TREATMENT OF UNCOLLECTIBLES DIFFERENT FROM THAT REFLECTED IN THE FCC ORDER AND REGULATIONS? IF SO, WHY? His response to this question is yes and he goes on to give an explanation of why AT&T chose to differ with the FCC Order and regulations. However, regardless of his reasons for not complying with the FCC order, the simple matter is that at least on this issue his study does not comply with the Order. This variance from the Order has the impact of increasing AT&T's calculated wholesale discount.

In addition to the variance from the Order mentioned above, AT&T also continued to treat certain of BellSouth's repair costs as though they were unbundled from local service (see Lerma testimony at page 8, line

23 through page 9, line 20). The FCC's Order at paragraph 877 states: " On the other hand, section 251(c)(4) does not impose on incumbent LECs the obligation to disaggregate a retail service into more discrete retail services. The 1996 Act merely requires that any retail services offered to customers be made available for resale." AT&T's treatment of these repair costs as if they were unbundled from the associated retail services is, therefore, not in compliance with the Order.

Finally, AT&T's study produces a wholesale discount for Florida that is approximately 15 percentage points (39.99% less 25%) or 60% higher than the highest discount rate in the FCC's default range. AT&T's proposed wholesale rate is approximately 20.8 percentage points (39.99% less 19.2%) or 83% higher than the discount rate of 19.2% reported for BellSouth in the FCC"s Order (paragraph 930 of the Order). The wholesale discount rate that BellSouth has calculated for Florida based on the FCC's criteria is 19.7%. This is well within the default range and is 0.5 percentage points (19.7% less 19.2%) higher than the number reported by the FCC for BellSouth. This is a further indication of the unreasonable results produced by the AT&T methodology.

Q. BASED ON YOUR REVIEW, DO YOU HAVE ANY OVERALL COMMENTS REGARDING MR. LERMA'S SUPPLEMENTAL TESTIMONY?

A. Yes. AT&T's second study contains almost all of the same inappropriate types of avoided costs that caused its first study, the avoided retail cost model, to yield an overstated wholesale discount. The only exception that I note is the apparent absence of a calculated avoided amount related to interest on customer deposits.. Therefore, it is not surprising that AT&T calculated another excessive wholesale discount with its second study. It appears as though AT&T's approach to the second study is basically to continue to treat as avoided all of the same types of costs which it previously treated as avoided and to argue its reasons for doing so under the rebuttable presumptions language in the Order. My previous responses related to these inappropriate types of avoided costs, therefore, apply equally well to the study attached to Mr. Lerma's supplemental testimony. For example, AT&T's simplified avoided cost study continues to treat operator costs as avoided expenses based on the rationale that AT&T would perform this function. As I previously responded, this treatment is inappropriate because operator services is a line of business with its own retail tariffs. By taking over this business, AT&T will receive revenues from customers for performing the service and BellSouth will lose the revenues associated with the services. It is entirely inappropriate for BellSouth to then give AT&T an increased discount on other retail services because of this competitive loss.

In addition, because AT&T does not attempt to allocate BellSouth's revenues and costs to a local business unit, one would think that my concerns related to its arbitrary cost allocations would be eliminated. However, on closer review, I notice that Mr. Lerma has again used arbitrary allocations to impact the calculations.

Q. PLEASE EXPLAIN WHAT YOU MEAN BY YOUR COMMENT THAT MR. LERMA HAS USED ARBITRARY ALLOCATIONS?

A. My comment refers to Mr. Lerma's determination of access and miscellaneous expenses to remove from his total calculated avoided expenses. Beginning on page 6, line 22 of his supplemental testimony and continuing through line 11 of page 7, Mr. Lerma explains that he needs to remove access and miscellaneous costs from his study. He makes the following statement on lines 5 - 7 of page 7: "Access services (see 47 C. F. R. § 51.607(b)) and miscellaneous services are not generally offered to 'subscribers that are not telecommunications carriers' and are excluded from the ASAC study." I had some difficulty following his methodology for calculating the amount of access and miscellaneous expenses he excluded because it appears as though he inadvertently provided as support for his Florida study a workpaper for a Bell Atlantic - Pennsylvania study (see Lerma Exhibit ALS-2, page 3 of 4). However, I can tell from the unreasonable amount of access expense that he has identified, that his study methodology does not even approximate the method by which access expenses have been determined in previous regulatory proceedings. For example, on his exhibit ALS-1, he reports that access costs associated with the expenses in Accounts 6610, 6620, 6220, 6533, 6534, and 6560 amounts to only $6,677,000.

A quick check of the reasonableness of this amount can be made by referring to the Florida Surveillance Report for 1995 for BellSouth. On page 2 of the surveillance report, the total combined regulated amounts for Accounts 6610 and 6620 for 1995 are shown on line 10 column 1 as $489,048,000 (customer operations expense). This approximates the $489,121,000 total that can be obtained by adding the amounts from Mr. Lerma's Exhibit ALS-1 for these same accounts ($134,143,000 + $354,978,000 = $489,121,000). The differences in total amounts can be attributed to differences in FCC and PSC accounting for certain costs. Continuing to refer to the data on sheet 2 of the surveillance report, the Company identifies in column 2 that the interstate amount (primarily interstate access) of customer operations expense is $91,622,000 and in column 5 that intrastate access amount is $36,114,000. Therefore, the traditional regulatory approach for determining the access portion of customer operations expense would identify approximately $127,736,000 (less any small amount related to interstate intraLATA services) of expense as access related. However, Mr. Lerma's study determines that only $6,677,000 of the expenses for customer operations and his other listed avoided direct accounts are related to access. This is not a reasonable result. His allocation procedure obviously assigns very little of the Company's expenses to access and certainly cannot be related to the traditional regulatory procedures for allocating costs to access that have impacted the current retail prices.

RESPONSE TO MR. GILLAN'S SIMPLE MODEL

Q. WHAT ARE YOUR COMMENTS RELATED TO MR. GILLAN'S SIMPLE MODEL?

A. Mr. Gillan's direct testimony regarding his simple model concerns me due to his misuse of certain BellSouth state level information. Mr. Gillan states on page 26 beginning at line 3 that he has performed a linear regression to estimate the relationship between the level of corporate expenses and retail revenues using 1995 actual data for the nine BellSouth states. He goes on to say that his Exhibit JPG-2 shows that the "modeled" relationship closely predicts the actual data (Gillan testimony page 26, lines 10 - 12). I believe his analysis is misleading because the corporate expenses that he is correlating with revenues are predominantly centrally incurred expenses that are allocated to the states. His correlation is more an indication that BellSouth allocates corporate expenses to states based on size related factors than it is proof that revenues are a predictor of corporate expenses. Therefore, his Exhibit JPG-2 does not provide any useful information for this proceeding.

SUMMARY

Q. PLEASE SUMMARIZE YOUR TESTIMONY.

A. BellSouth has provided a calculation of a reasonable wholesale discount based on an analysis of the costs of the customer contact related work functions which the Company believes it will avoid with resale. The Company believes that its study is in compliance with the Act. In addition, the Company has provided a study in my supplemental testimony that reflects the criteria included in the FCC's Order and Rules. AT&T has conducted two studies which are based on criteria that lead it to include costs that will not be avoided by BellSouth. AT&T's first study is complex and contains many arbitrary allocations and many flaws. AT&T's second study does not comply with the FCC's Order and still contains arbitrary allocations and many flaws. BellSouth's discounts are in compliance with the Act and should be approved in this proceeding.

Q. DOES THIS CONCLUDE YOUR TESTIMONY?

A. Yes.