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Legal Department

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October 15, 1996

Mrs. Blanca S. Bayo
Director, Division of Records and Reporting
Florida Public Service Commission
2540 Shumard Oak Boulevard
Tallahassee, Florida 32399

RE: Docket No. 961150-TP

Dear Mrs. Bayo:

Enclosed are an original and fifteen copies of BellSouth Telecommunications, Inc.'s Direct Testimony of Vic Atherton, Daonne Caldwell, Gloria Calhoun, Keith Milner, Tony Pecoraro, Walter Reid, Robert Scheye, and Al Varner. Please file these documents in the captioned docket.

A copy of this letter is enclosed. Please mark it to indicate that the original was filed and return the copy to me. Copies have been served on the parties shown on the attached Certificate of Service.

Sincerely,

Nancy B. White
Nancy B. White (AW)

Enclosures

cc: All Parties of Record
A. M. Lombardo
R. G. Beatty
W. J. Ellenberg

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AFA
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CAF
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LEG 2
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SEC 1
WAS
OTH

Atherton 11030-96
Caldwell 11031-96
Calhoun 11034-96
Milner 11035-96
Pecoraro 11036-96
Reid 11037-96
Scheye 11038-96
Varner 11039-96

CERTIFICATE OF SERVICE
Docket No. 961150-TP

I HEREBY CERTIFY that a copy of the foregoing has been furnished by Federal Express this 15th day of October, 1996 to:

Benjamin W. Fincher
Sprint
3100 Cumberland Circle
#802
Atlanta, GA 30339

Monica Barone
Florida Public Service
Commission
2540 Shumard Oak Boulevard
Tallahassee, FL 32399

Nancy B. White (jm)

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BELLSOUTH TELECOMMUNICATIONS, INC.

TESTIMONY OF WALTER S. REID

BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

DOCKET NO. 961150-TP

OCTOBER 15, 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, Atlanta, Georgia. My position is Senior Director for the Finance Department of BellSouth Telecommunications, Inc. (hereinafter referred to as "BellSouth" or "the Company").

Q. BRIEFLY OUTLINE YOUR EDUCATIONAL BACKGROUND AND BUSINESS EXPERIENCE IN THE TELECOMMUNICATIONS INDUSTRY.

A. I received bachelor and master of science degrees in industrial engineering in 1969 and 1971, respectively, from the Georgia Institute of Technology. I was employed by BellSouth in November, 1971, as a management trainee in the Comptrollers

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Department in Jacksonville, Florida. Since that time, I have held various positions of increasing responsibility in the areas of budget and forecast preparation, cost accounting, separations, and regulatory matters. I was transferred to my current position at Company Headquarters in October, 1987. Overall, I have over 24 years experience dealing with the financial issues of the Company.

Q. WHAT ARE YOUR CURRENT RESPONSIBILITIES?

A. I am responsible for the preparation and analysis of the Company's financial results, the provision of accounting and cost information requested in proceedings before state regulatory commissions and the coordination of other regulatory activities.

Q. HAVE YOU TESTIFIED PREVIOUSLY REGARDING FINANCIAL ISSUES IN STATE REGULATORY PROCEEDINGS?

A. Yes. I have testified in numerous regulatory proceedings before this Commission, as well as the Commissions in Georgia, North Carolina, South Carolina and Tennessee.

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

A. The purpose of my testimony in this proceeding is to address the appropriate methodology for use in determining BellSouth's retail costs that will be avoided when sales are made to resellers rather than to end user customers, and to present the study that calculates the appropriate wholesale discounts for the Company's Florida operations based on the determination of the costs that will be avoided. The study results for Florida are wholesale discounts of 19.0% for residential services and 12.2% for business services. A summary of BellSouth's study is included as Exhibit WSR-1 of my testimony. Exhibit WSR-2, page 1 depicts the basic equation used in the Company's study, and page 2 of this exhibit depicts the analysis of work operations performed in the study.

In addition, my testimony will provide information relative to the impact on this proceeding of the resale provisions of the Federal Communications Commission's (hereinafter referred to as the "FCC" or "FCC's") First Report and Order ("Order") in CC

Docket No. 96-98, In the Matter of Implementation of the Local Competition Provisions in the Telecommunications Act of 1996 (hereinafter referred to as "the Act"), including Appendix B- Final Rules ("Rules"), which was released on August 8, 1996. Specifically, I will provide the calculation of a wholesale discount for retail services in Florida based on the FCC's criteria (the Order, paragraphs 911 through 920, also the Rules, Section 51.609) for avoided cost studies, and the Company's analysis of the accounts for which the FCC allows for rebuttable presumptions. The Company does not agree with the FCC's criteria regarding the determination of avoided/avoidable costs, and it believes that BellSouth's study complies with the Act. However, in order to provide the Commission with information relative to the impact of the FCC's Order, I have prepared Exhibit WSR-3 to demonstrate this methodology and to provide the calculations for the resulting Florida wholesale discount. Based on this methodology, the wholesale discount applicable to all retail services (business and residence) would be 19.7%.

Finally, my testimony will respond to the direct testimony of Sprint witness Mr. David E. Stahly regarding the appropriate wholesale pricing methodology for resale.

Q. HOW IS YOUR TESTIMONY ORGANIZED?

A. My testimony begins with an identification of the federal requirements included in the Act related to wholesale pricing. The subject of the testimony next focuses on the Company's methodology to fulfill the federal requirements and the computation of wholesale discounts specific to BellSouth's Florida operations. I then address the impact of the FCC's Order and Rules on the methodology for determining the wholesale discount. Finally, I will respond to the positions taken by Sprint witness Mr. David E. Stahly in his direct testimony related to wholesale pricing for resale.

FEDERAL REQUIREMENTS RELATED TO WHOLESALE PRICING

Q. WHAT DOES THE ACT REQUIRE AS IT RELATES TO THE DETERMINATION OF WHOLESALE RATES TO BE CHARGED BY BELLSOUTH?

A. Section 252(d)(3) of the Act under the caption, "WHOLESALE PRICES FOR TELECOMMUNICATIONS SERVICES", states:

"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."

<u>BELLSOUTH'S METHODOLOGY FOR DETERMINING WHOLESALE DISCOUNTS</u>

Q. WHAT IS THE APPROPRIATE METHODOLOGY TO USE IN CALCULATING A WHOLESALE DISCOUNT?

A. The basic equation for calculating the discount is displayed on Exhibit WSR-2, page 1 of 2. The discount is based on the relationship between avoided costs and revenues and is calculated by dividing the 1995 costs that will be avoided by the amount of 1995 revenue subject to being discounted. Separate calculations are performed for residential service and business service. The result of applying this equation is that on average, for each residential customer that buys telecommunication service from a reseller, the costs that will be avoided as a percent of revenue equals a wholesale discount of 19.0%. Similarly, for business customers buying service from a reseller, the costs that will be avoided as a percent of revenue result in a wholesale discount of 12.2%. Using residential service as an example, if the customer consumes $20.00 (based on retail tariff rates) of local and toll services per month, then BellSouth will avoid $3.80 of costs on a monthly basis when the customer is served by a reseller. The Company would charge the reseller $16.20 ($20.00 less a discount of $3.80) for the same level of consumption of service for this customer.

Q. WHY DOES BELLSOUTH RECOMMEND SEPARATE DISCOUNTS FOR RESIDENCE AND BUSINESS RETAIL SERVICES IN DETERMINING WHOLESALE PRICES?

A. Because characteristics and levels of revenues and costs vary between residential and business customers, the Company is recommending two separate discounts. Inherent in the Company's methodology and application of the wholesale discounts is the assumption that residence or business customers that choose to go with a reseller will be average revenue customers for that class of service. To the extent that a reseller targets higher than average revenue customers, the monetary discount that the reseller will receive will logically exceed the costs that will be avoided by BellSouth.

An example of the calculations will demonstrate the impact that the loss of customers with differing average levels of monthly revenue will have on the Company. Assume a situation in which the Company would avoid approximately $3.45 in average retail costs for residential customers and the average monthly bill for residential customers is $18 per customer. Based on this information, the residential wholesale discount would be 19% (i.e., $3.45/$18). Also, assume that the Company will avoid approximately $5.20 in average retail costs for business customers and the average monthly bill for business customers is $42.75. Based on this information, the business wholesale discount would be approximately 12.2% (i.e., $5.20/$42.75). If residential customers provided 49% of total retail revenues and business customers provided 51%, the composite discount for total customers would be 15.5% (i.e., 49% x 19% plus 51% x 12.2%). However, the use of the composite discount would give inappropriate results, because in the case of a business customer, the Company would give the reseller a discount of $6.63 (i.e., the average monthly bill of $42.75 times the wholesale discount of 15.5%), but the Company would only avoid $5.20 of costs. Thus, in this example the Company would lose $1.43 on a net basis from the resale transaction.

This effect is also present for customers within the residence and business categories who have different average monthly bills, but the Company has only addressed the disparity at the total residence and total business level. If resellers target high revenue customers within the residence and business categories, a likely scenario, then the Company's calculated wholesale discounts will generate more monetary discount for the reseller than the costs that will be avoided by the Company.

Q. HOW DID THE COMPANY DETERMINE WHICH RETAIL COSTS WILL BE AVOIDED WHEN THE COMPANY PROVIDES SERVICES ON A WHOLESALE BASIS?

A. To determine the costs that will be avoided, the Company analyzed the work functions that are currently being performed to provide retail services to the Company's customers. The Company has an internal accounting system that identifies the major work functions of the business and tracks the costs associated with various work functions being performed. The information from this system is used both for management of the business, as well as for input to the system that assigns costs between regulated and non-regulated operations. The Company analyzed each of its work functions for the categories of expense that would be impacted by a wholesale situation and identified, using 1995 Florida operating data, the level of expense for each work function that will be avoided with resale. A graphic representation of the approach is given on Exhibit WSR-2, page 2 of 2.

Q. PLEASE DESCRIBE THE NATURE OF THE COSTS THAT WILL BE AVOIDED.

A. The costs that will be avoided are included in the expense categories for customer services, billing, sales, uncollectibles, and advertising. These costs are volume sensitive amounts that are associated with the provision of regulated residential or business retail services. Further, the avoided costs are associated with work functions that directly relate to interaction between the Company and the customer, an interaction which will normally not occur under resale. For example, it is assumed that the Company will not mail a bill to customers of local service resellers and therefore, the costs of postage, paper, printing, labor, etc., associated with the customer billing work functions are identified as avoided costs for that customer.

If, however, the customer subscribes to any service from BellSouth, such as intraLATA toll, in addition to subscribing to service from a reseller, the avoided costs identified for billing are overstated because the interaction with the customer represented by the bill would not be avoided. In addition, to the extent billing costs are incurred to prepare the bill for the reseller, the amount of avoided billing costs and the wholesale discount are both overstated.

Q. HOW DID THE COMPANY DETERMINE THE AMOUNT OF CUSTOMER SERVICES COSTS THAT WILL BE AVOIDED?

A. The costs associated with customer services are recorded in Account 6623 under the FCC's Uniform System of Accounts ("USOA"). The Company's internal accounting system identifies and tracks the costs for numerous work functions which underlie the total charges to this account. The study examined the nature of each of these work functions in order to determine whether or not that function would continue to be performed for the customer under resale. The functions that will not be performed for the resold accounts include remittance operations, service representative training, service order entry, collections, account inquiry, demand sales, address information, and customer payment operations. Many functions in Account 6623 will continue to be performed for the resold accounts. Therefore, the costs associated with those functions will not be avoided. These functions include, for example, local and toll message processing, accounts operations, message investigation, support and indirect supervision.

Q. WHAT ARE THE BILLING COSTS THAT WILL BE AVOIDED?

A. The costs for billing are also recorded in Account 6623. The only billing costs that will be avoided due to resale are the costs associated with printing and mailing a bill to the customer. These costs are captured in a unique job function code underlying the charges to Account 6623. The Company will still be maintaining a customer record for each customer served by a reseller. BellSouth will record and maintain usage and service characteristics of each customer so that it can render a bill to the reseller. While the Company will incur an additional cost in sorting, printing and mailing the customer bill information to the reseller, the Company did not include costs for this additional work in its study.

Q. WHAT ARE THE SALES EXPENSES THAT WILL BE AVOIDED?

A. The Company's sales expenses are recorded in Account 6612. The Company's study assumes sales expenses for customers that choose to buy service from a reseller will not be incurred. In this regard, the Company identified all direct regulated residential and business sales expenses in Account 6612 as avoided costs.

Q. DID THE COMPANY IDENTIFY ANY PRODUCT MANAGEMENT OR ADVERTISING COSTS AS AVOIDED COSTS?

A. The Company identified some advertising costs associated with bill inserts as an avoided cost. Because the Company will not be sending the customer of the reseller a bill, it follows that this type of advertising will also be avoided. Product management and advertising costs, other than through bill inserts, will not be avoided however, because these costs are not volume sensitive. The level of these costs is not dependent on whether an individual customer obtains service from a reseller or from BellSouth.

The activities associated with product management span functions that include research and development, product introduction, tariff application, methods and procedures, and product delivery. The level of costs associated with these functions is not sensitive to whether or not the services will be resold. In addition, product advertising costs, which are associated with individual products or families of products, are not sensitive to the volume of customers and will not decrease with customer migration to resellers. Therefore, these costs do not represent avoided costs, and it would be inappropriate to include them in the calculation of the wholesale discount.

Q. HOW DID THE COMPANY TREAT UNCOLLECTIBLES IN ITS STUDY?

A. For purposes of this study, the Company assumed that uncollectibles from customers who buy from resellers will be avoided by BellSouth. The reseller is responsible for absorbing any bad debt on the part of its customers. If BellSouth experiences reseller related uncollectibles, then it may be appropriate to reduce the level of avoided costs by the amount of reseller uncollectibles and decrease the wholesale discount.

<u>**IMPACT OF THE FCC'S ORDER ON THE WHOLESALE DISCOUNT**</u>

Q. DOES THE COMPANY'S STUDY YOU HAVE JUST DESCRIBED FOLLOW THE CRITERIA SET OUT BY THE FCC IN ITS ORDER REGARDING RESALE ISSUES?

A. No. The Company's study does not comply with the FCC's Order. However, BellSouth believes that its study does comply with the Act.

Q. WHAT ARE THE DIFFERENCES BETWEEN THE COMPANY'S STUDY AND THE CRITERIA FOR AN AVOIDED COST STUDY AS SET FORTH IN THE FCC'S ORDER?

A. There are three major points where the criteria used in the Company's study differ from those contained in the FCC's Order. First, the Company's study identifies those retail costs that will be avoided (the terminology used in the Act) when services are sold at wholesale to a reseller. The Company assumes for this purpose that it will provide both retail and wholesale services. In contrast, the FCC's Order uses the terminology "reasonably avoidable" when referring to costs to be considered avoided. The FCC's criteria treats avoided costs as 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. The Company disagrees with the FCC's "reasonably avoidable" criteria because this approach overstates avoided costs. Avoided costs are overstated by the FCC's approach because certain costs that are not volume sensitive or that are joint and shared in nature are treated as avoided when in fact the Company will continue to incur the costs. For example, the Company believes that it will continue to incur product advertising expenses, but the FCC's approach presumptively assumes that 100% of product advertising expenses will be avoided.

The second major difference between the Company's study and the FCC's criteria is the requirement in the FCC's Rules (Section 51.609(c)(2)) that a portion of indirect costs in certain general support and corporate operations expense accounts be included as avoided retail costs. The Company does not believe that these indirect costs will be avoided with resale transactions. Therefore, the Company's study does not allocate indirect costs to the avoided retail costs total in its study. The inclusion of indirect costs is another area where the FCC's criteria overstates the amount of avoided cost.

The final major difference between the Company's study and the FCC's criteria is the treatment of operator services expenses. The FCC's criteria treats operator services expenses for call completion and number services as presumptively avoidable expenses because resellers have stated they will either provide these services themselves or contract for them separately from the local exchange carrier or from third parties. The Company believes that access to its operator services is part of its retail offerings and should not be unbundled for purposes of determining wholesale discounts. Therefore, the Company's study does not treat operator services expenses as avoided retail costs because they will not be avoided as a result of resale transactions. For purposes of its criteria for an avoided cost study, the FCC has allowed the Company the option to rebut the presumption that these expenses are avoidable. This third difference can, therefore, be cured if the Company can prove to the state commission that specific costs in these accounts will be incurred with respect to services sold at wholesale, or that costs in these accounts are not included in the retail prices of the resold services (the Order at paragraph 917). The Company believes that these required conditions exist for its operator services expenses, and for this reason these expenses should not be treated as avoidable.

Q. DOES YOUR EXHIBIT WSR-3 PROVIDE AN AVOIDED COST STUDY WHICH COMPLIES WITH THE CRITERIA ESTABLISHED IN THE FCC'S ORDER and Rules?

A. Yes. Exhibit WSR-3 shows the calculation of a wholesale discount rate that is based on the criteria set forth in the FCC's Order and Rules.

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

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

Q. PLEASE DESCRIBE EXHIBIT WSR-3.

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

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

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

A. The FCC's Order and Rules treat accounts 6611-6613 and 6621-6623 as presumptively avoided, but allows the incumbent local exchange carrier ("LEC") to rebut this presumption to the state commission (the Order at paragraph 917). The amounts in Column 3 for the direct avoided expense accounts represents the Company's analysis, utilizing the FCC's avoided/avoidable criteria, of the work operations performed applicable to these accounts.

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

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

For accounts 6621 (call completion) and 6622 (number services), the Company treats these expenses in the analysis as non-avoidable for resale purposes. To the extent an alternative local exchange carrier ("ALEC") 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. Call completion and number service expenses are appropriately not treated as avoided because they are not associated with the retail lines of business that the Company would retain under this scenario. If on the other hand the ALEC continues to secure operator services from BellSouth, these expenses are non-avoidable because the functions will continue to be performed as currently.

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

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

A. In paragraph 918 of the Order, the FCC stated: "General support expenses (accounts 6121-6124), corporate operations expenses (accounts 6711, 6612 (sic.), 6721-6728), and telecommunications uncollectibles (account 5301) are presumed to be avoided in proportion to the avoided direct expenses identified in the previous paragraph." I have used these accounts on Exhibit WSR-3, with the exception of account 6612 which is a typographical error and has now been corrected by the FCC to read account 6712 (planning).

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

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

Q. DOES THE AVOIDED COST STUDY YOU HAVE SHOWN ON EXHIBIT WSR-3 OVERSTATE THE CALCULATED WHOLESALE DISCOUNT?

A. Yes. Because the criteria used for this study was the FCC's "reasonably avoidable" criteria, and because the study includes an allocated portion of indirect costs, the resulting wholesale discount rate is overstated.

RESPONSE TO SPRINT WITNESS MR. DAVID E. STAHLY

Q. DOES MR. STAHLY RECOMMEND DISCOUNT RATES TO BE USED IN PRICING WHOLESALE SERVICES?

A. No. Mr. Stahly discusses Sprint's support of the FCC's avoided cost study methodology described in the Order, with an additional recommendation that separate discounts should be calculated for at least five different categories of service.

Q. DO YOU AGREE WITH MR. STAHLY THAT WHOLESALE DISCOUNTS SHOULD BE SPECIFIED FOR AT LEAST FIVE CATEGORIES OF SERVICE?

A. No. While the characteristics and the levels of revenues and costs may vary from service to service, it is not practical to calculate separate discounts for the five service categories recommended by Sprint. The Company believes that the costs it will avoid due to resale are most reasonably identified by associating the cost with the type of customer served (e.g., residence customers, business customers, carriers, etc.). In this regard, BellSouth is recommending two separate discounts; one for residential services and one for business services. This delineation is based on work function data available in the Company's accounting system.

The Company's approach is more practical and reasonable than the recommendation for five separate service categories as presented by Sprint. For example, the costs for billing a residential customer are avoided when the customer no longer receives local services directly from BellSouth, but receives these services through a reseller. BellSouth's approach appropriately identifies the avoidance of the billing costs with the loss of the residential customer to the reseller. In contrast, Sprint's service category approach would require that the billing costs for the residential customer be allocated to various services. This increases the complexity and difficulty of the calculations and would most likely result in further contentious issues among the parties concerning the methodologies used to allocate costs. In this proceeding, Sprint has not filed a proposed methodology to accomplish these allocations. For these reasons, BellSouth believes that Sprint's recommendation for wholesale discounts for five service categories should be rejected.

Q. PLEASE SUMMARIZE YOUR TESTIMONY.

A. BellSouth's methodology for calculating wholesale discounts for residence and business services is a reasonable approach which meets the federal requirements of the Act. The study is generous to resellers in at least three areas: 1) the study does not include increases in cost that the Company may incur to serve resellers; 2) the study does not include any uncollectibles related to resellers; 3) the study assumes that resellers will serve average revenue customers even though it is likely that high revenue customers will be targeted. The separate wholesale discount rates of 19.0% for residence and 12.2% for business should be approved. Even if the Commission finds that it should comply with the FCC's criteria for an avoided cost study, the wholesale discount should be set at 19.7% as reflected on Exhibit WSR-3.

Q. DOES THIS COMPLETE YOUR TESTIMONY?

A. Yes.

Florida Resale Study

August 12, 1996

DESCRIPTION OF STUDY PROCEDURES

FLORIDA RESALE STUDY

This section describes the process used in developing the discount percentages to be applied to BellSouth's retail services which are subject to resale.

The study determined the costs that the Comp any will avoid when a customer decides to purchase telecommunications services from a reseller instead of BellSouth. Under the Federal legislation, the price the Company charges to the reseller is the retail price minus the retail costs that will be avoided. The costs that will be avoided include customer services, billing costs, sales expenses, uncollectibles, and bill inserts.

The expenses associated with customer services are in Account 6623. The study examined all of the job functions assigned to Account 6623. For each job function, a determination was made as to whether or not that function would be avoided due to resale. The functions that will not be performed for resold accounts included remittance operations, service representative training, service order entry, collections, account inquiry, demand sales, address information, and customer payment operations. Many functions in Account 6623 will continue to be performed for resold accounts; therefore, the expense associated with those functions will not be avoided. These functions include, for example, local and toll message processing, accounts operations, and message investigation.

The only billing costs that will be avoided due to resale are the costs associated with printing and mailing a bill to the end user. BellSouth will stiii be maintaining a customer record for each end user. The Company will record and maintain usage and service characteristics of each customer so that it can render a bill to the reseller.

Account 6612, the sales expense account, contains the marketing expenses that the Company may avoid as a result of resale. Accounts 6611 and 6613, product management and product advertising expenses (with the exception of bill inserts), however, should not be included in any avoided cost study because these costs are not volume sensitive.

For purposes of this study, it has been assumed that uncollectible expenses will be avoided. The reseller will be responsible for absorbing any bad debt on the part of its end users.

Once the avoided costs were determined, they were divided by the total local and toll revenue to calculate the percentage discount for business and residence services.

1	**Florida 1995 - Residential Summary**		
2	**Analysis of the impact of resale on Residential Service**		
3			
4	**Revenues - Residential**	**Source/Calculation**	
5			
6	Local Service Revenue	Extracted from billing system data	$ 699,779,298
7	Long Distance Revenue	Extracted from billing system data	$ 124,576,643
8			
9	Total Residential Revenue	L6 + L7	$ 824,355,941
10			
11			
12	**Avoided Expenses**		
13			
14	Customer Services	Expense Worksheet A, Line 20, Col C	$ 108,456,475
15	Billing	Expense Worksheet A, Line 22, Col C	$ 17,651,626
16	Sales	Extracted from financial systems data	$ 1,867,966
17	Uncollectibles	Extracted from billing system data	$ 27,421,185
18	Advertising - Bill Inserts	Extracted from financial systems data	$ 1,137,486
19			
20	TOTAL Avoided Expenses	L14 + L15 + L16 + L17 + L18	$ 156,534,738
21			
22			
23			
24	**Discount as a Percent of Revenue**	(L20 / L9) * 100	18.99%
25			
26			

BellSouth Telecommunications, Inc.
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1	**Florida 1995 - Business Summary**		
2	**Analysis of the impact of resale on Business Service**		
3			
4	**Revenues - Business**	**Source/Calculation**	
5			
6	Local Service Revenue	Extracted from billing system data	$ 704,504,942
7	Long Distance Revenue	Extracted from billing system data	$ 147,621,115
8			
9	Total Business Revenue	L6 + L7	$ 852,126,057
10			
11			
12	**Avoided Expenses**		
13			
14	Customer Services	Expense Worksheet B, Line 20, Col D	$ 43,356,437
15	Billing	Expense Worksheet B, Line 22, Col D	$ 5,012,505
16	Sales	Extracted from financial systems data	$ 46,475,545
17	Uncollectibles	Extracted from billing system data	$ 8,564,908
18	Advertising - Bill Inserts	Extracted from financial systems data	$ 314,930
19			
20	TOTAL Avoided Expenses	L14 + L15 + L16 + L17 + L18	$ 103,724,326
21			
22			
23			
24	**Discount as a Percent of Revenue**	(L20 / L9) * 100	12.17%
25			
26			
27			

1	Florida 1995 - Expenses Worksheet A		
2	Analysis of Account 6623 - Customer Services for Residence		
3			
4	A		
5		B	C
6	**Description of Job Function**		
7		**JFC**	**Dollars Avoided**
8	Remittance Center	1250	$ 3,657,441
9	Training	17xx	$ 1,015,033
10	Service Order Entry Business-	2810*	$ 66,955
11	Account Inquiry	2850*	$ 154,217
12	Demand Sales/Order Negotiation	2870*,2E70*	$ 34,565,660
13	Service Order Entry Residence	2E10*	$ 137,427
14	Address Information Services	2E30*	$ 452,714
15	Collections - Residence	2E40*	$ 31,043,715
16	Billing Inquiry	2E50*	$ 33,816,454
17	Customer Payments Operations	2E60*	$ 668,242
18	Authorized Payment Agency	2E80*	$ 2,878,617
19			
20	Total Avoided Customer Services Expenses		$ 108,456,475
21			
22	Billing Expenses	1270	$ 17,651,626
23			
24	Advertising - Bill Inserts	Misc.	$ 1,137,486
25			
26	* Adjusted for Supervision and Support		
27	Source: Extracted from financial systems data		

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1	**Florida 1995 - Expenses Worksheet B**		
2	**Analysis of Account 6623 - Customer Services for Business**		
3			
4	A		
5		B	C
6	**Description of Job Function**		
7		**JFC**	**Dollars Avoided**
8	Remittance Center	1250	$ 876,812
9	Training	17xx	$ 502,018
10	Service Order Entry Business	2810*	$ 1,039,664
11	Collections Business	2840*	$ 6,163,381
12	Account Inquiry	2850*	$ 12,883,696
13	Demand Sales/Order Negotiation	2870*,2E70*	$ 16,007,526
14	Vendor Service Center	2880*	$ 4,348,224
15	Address Information Services	2E30*	$ 1,206,572
16	Customer Payments Operations	2E60*	$ 30,286
17	Authorized Payment Agency	2E80*	$ 298,258
18			
19			
20	Total Avoided Customer Services Expenses		
21			$ 43,356,437
22	Billing Expenses		
23		1270	$ 5,012,505
24	Advertising - Bill Inserts		
25		Misc.	314,930
26	* Adjusted for Supervision and Support		
27	Source: Extracted from financial systems data		

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AVOIDED COST DISCOUNT MODEL FOR RESALE

BASIC EQUATION

$$\text{\% DISCOUNT} = \frac{\text{COST AVOIDED AS A RESULT OF RESALE}}{\text{REVENUE SUBJECT TO RESALE}} \times 100$$

EQUATION APPLIED

$$\text{\% DISCOUNT} = \frac{\text{CUST. SERVICE + BILLING +SALES +BILL INSERTS+ UNCOLL.}}{\text{LOCAL NETWORK SERVICE + INTRALATA LONG DISTANCE}} \times 100$$

RESULTS

RESIDENCE DISCOUNT 19%

BUSINESS DISCOUNT 12.2 %

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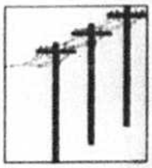
BELLSOUTH OPERATIONS

COSTS NOT SUBJECT TO IMPACT FROM RESALE

NETWORK RELATED COSTS



MAINTENANCE
DEPRECIATION AMORTIZATION
NETWORK OPERATIONS
PROVISIONING

SERVICE RELATED COSTS

PRODUCT MANAGEMENT AND ADVERTISING
CALL COMPLETION AND NUMBER SERVICES

GENERAL SUPPORT RELATED COSTS

LAND, BUILDINGS
FURNITURE AND OFFICE EQUIPMENT
COMPUTERS

OVERHEAD COSTS

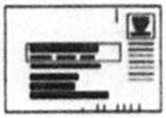
GENERAL AND ADMINISTRATIVE

TAXES

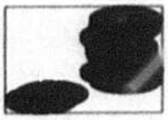
COSTS SUBJECT TO IMPACT FROM RESALE

CUSTOMER RELATED COSTS

MARKETING SALES
CUSTOMER SERVICES
BILL INSERTS



POSTAGE AND BILLING



UNCOLLECTIBLE REVENUES

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

Col. 1	Col. 2	Col. 3
(000)		
Accounts Direct Avoided	**1995 REG**	**AVOIDED AMOUNT**
A/C 6611 Product Mgt.	29,517	5,883
A/C 6612 Sales	72,454	62,355
A/C 6613 Product Adv.	32,172	30,766
A/C 6621 Call Completion	17,871	--
A/C 6622 Number Services	58,783	--
A/C 6623 Customer Serv.	278,324	182,467
TOTAL DIRECT AVOIDED	489,121	281,471
ACCOUNTS INDIRECTLY AVOIDED		**ALLOC. AMOUNT**
OVERHEAD ACCOUNTS		
A/C 6711 Executive	10,091	1,101
A/C 6712 Planning	3,904	426
A/C 6721 Accounting & Finance	28,412	3,101
A/C 6722 External Relations	25,108	2,741
A/C 6723 Human Resources	39,435	4,304
A/C 6724 Information Mgt.	148,221	16,179
A/C 6725 Legal	13,571	1,481
A/C 6726 Procurement	8,453	923
A/C 6727 Research & Dev.	7,997	873
A/C 6728 Other Gen. & Adm.	141,658	15,462
A/C 5301 Uncollectibles	47,835	5,221
TOTAL OVERHEAD ACCOUNTS	474,685	51,813
GENERAL SUPPORT ACCOUNTS		
A/C 6121 Land & Building	71,665	7,822
A/C 6122 Furn. & Artworks	5,471	597
A/C 6123 Office Eqpt.	6,433	702
A/C 6124 Gen. Purpose Comp.	83,973	9.166
TOTAL GENERAL SUPPORT	167,542	18,288
TOTAL O'HEAD & GEN. SUPP.	642,227	70,100
TOTAL DIRECT AVOIDED	281,471	
TOTAL EXPENSES	2,578,713	
ALLOCATION FACTOR	0.109151736	
TOTAL AVOIDED COSTS		351,571
REVENUES SUBJECT TO DISCOUNT		1,788,341
WHOLESALE DISCOUNT		19.7%