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Before the
FEDERAL COMMUNICATIONS COMMISSION
Washington, D.C. 20554

Federal Communications Commission
Office of the Secretary

In the Matter of)
)
Local Exchange Carrier Line) CC Docket No. 92-24
Information Database)

DIRECT CASE

BellSouth Telecommunications, Inc. ("BellSouth") hereby submits its direct case pertaining to the offer of Line Information Database (LIDB) Access Service.¹ As demonstrated below, the rates and conditions for LIDB Access Service filed under Transmittal No. 439² satisfy all statutory requirements and all criteria of the Commission's price cap rules. Responding to the specific issues designated for investigation, BellSouth provides the following additional support for its tariffed offering of LIDB Access Service:

- I. Have the LECs adequately described the LIDB query service in the tariffs?

Neither the Communications Act nor the Commission's rules require inclusion in the tariff of every provision related to a service offering. This is especially true for service parameters and administrative requirements, which may call for discussion between carriers and customers and

¹ This Direct Case is submitted in the instant proceeding pursuant to the Order Designating Issues for Investigation, DA 92-347, released March 20, 1992.

² The BellSouth Telephone Companies, Transmittal No. 439, November 15, 1991.

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the flexibility to address questions arising in the daily transaction of business. Thus, for example, the Commission has previously held that local exchange company (LEC) tariffs need not include requirements for the supply of billing information established by the Ordering Billing Forum (OBF).³ Similarly, requirements to tariff technical specifications related to database update and "call gapping" would needlessly constrain BellSouth and other LECs in their ability to adjust to changing circumstances and thereby maximize service quality. Technical publications have long been recognized as the appropriate vehicle to address such matters⁴--an approach which was adopted for purposes of the LIDB filing. That current editions of referenced publications are readily available to any requesting party is not seriously disputed. Petitioners merely contend that, for LIDB Access Service, inclusion in the tariff of technically specific provisions is required. There is no reasonable basis for this differentiation and the Commission should so find. With respect to BellSouth's liability for errors and omissions in the rendition of LIDB Access Service, this issue is already addressed in Section 2.1.3 of BellSouth Telecommunications, Inc. Tariff F.C.C. No. 1 and

³ Annual 1985 Access Tariff Filings (Phase II), Memorandum Opinion and Order, CC Docket No. 86-125, 2 FCC Rcd 1416 (1987), para. 203.

⁴ See, e.g., Investigation of Access and Divestiture Related Tariffs, CC Docket No. 83-1145, Phase I, 97 F.C.C.2d 1082 (1984).

requires no elaboration. Moreover, it would be improper to hold BellSouth to a different standard of care for LIDB Access Service than is applicable to interstate access services generally.

BellSouth Transmittal No. 439 fully satisfies its purpose of apprising the Commission and customers of significant provisions governing the offer of LIDB Access Service. The tariff is unambiguous as to the service BellSouth will provide, the terms and conditions upon which the service will be rendered and the rights and obligations of both the telephone company and its customers; it need not do more. To adopt the position urged by petitioners would lead to the unnecessary expansion of the tariff, rendering it cumbersome, confusing and difficult to administer.

II. Should the tariffs contain additional detail regarding the technical parameters for the CCS interconnection link?

Transmittal No. 439 contains a level of detail respecting the LIDB Access Line commensurate with that provided for 56 Kbps lines furnished under the special access tariff. In both cases the tariffs employ references to technical publications to obtain necessary detail regarding parameters associated with the service. As noted above, inclusion of additional matter of this nature would introduce unwanted complexity and inefficiency in the administration of the tariff.

III. Are the rate levels established in the tariffs excessive?

- (1) Bell Communications Research, Inc., has developed a cost model called "Common Channel Signalling Cost Information System" (CCSCIS). Any carrier who relied on CCSCIS to develop its rates must explain why use of such a model is appropriate for common channel signalling services.

BellSouth did not use the Common Channel Signalling Cost Information System (CCSCIS) to develop rates for LIDB Access Service.

- (2) Those carriers who did not use CCSCIS to allocate investment should fully explain how they identified the plant used to provide LIDB service.

The incremental investment in plant used to provide LIDB Access Service was identified by Network personnel responsible for the planning, technical evaluation and procurement of database services. Using industry standards, a technical service description is developed to define the service and its operation. If selection has not already occurred, vendors for the service are evaluated and selected by Network based upon numerous attributes including price, performance, reliability and software quality. Working with BellSouth's cost analysts, Network subsequently quantifies the incremental investment (i.e., the additional investment incurred as a result of offering the service) based on system design, vendor prices, installation labor and supporting equipment associated with the new offering-- in this instance LIDB Access Service.

- (3) All filing carriers should provide total investment underlying each of the four rate elements and identify the accounts established by Part 32 of the Commission's Rules, 47 C.F.R. Part 32, in which these investments are recorded.

The investment-related component of the Access Line rate element is a 56 Kbps line from the customer's Switching Point of Interface (SPOI) to a BellSouth Regional Signal Transfer Point (RSTP). Total incremental investment per Access Line is \$2,336.00 and is recorded in the following accounts:

2111	Land
2121	Buildings
2232	Circuit Equipment
2411	Poles
2421	Aerial Cable
2422	Underground Cable
2433	Buried Cable
2441	Conduit System

The investment-related component of the Access Port rate element is the termination equipment required in the RSTP for each Access Line. Total incremental investment per Access Port is \$13,500.00 and is associated with the single account 2212 Digital Electronic Switching.

The Common Transport rate element is composed of the following investment-related items: the 56 Kbps links between BellSouth's RSTPs and Service Control Points (SCPs) and the termination equipment (ports) required in the RSTPs. Total incremental investment for the Common Transport rate element is \$44,030.00 and is recorded in the following accounts:

2111	Land (Links)
2121	Buildings (Links)
2212	Digital Electronic Switching (Ports)
2232	Circuit Equipment (Links)
2411	Poles (Links)
2421	Aerial Cable (Links)
2422	Underground Cable (Links)
2433	Buried Cable (Links)
2441	Conduit System (Links)

The Validation rate element is composed of the following investment-related items: the SCP (Database), the DataBase Administration System (DBAS), the Message Investigation System (MIS) and the 9.6 Kbps links used by DBAS. Total incremental investment for the Validation rate element is \$2,187,660.00 and is recorded in the following accounts:

2111	Land (SCP, DBAS, MIS)
2121	Buildings (SCP, DBAS, MIS)
2212	Digital Electronic Switching (SCP, DBAS, MIS)
2232	Circuit Equipment (DBAS Links)
2421	Aerial Cable (DBAS Links)
2422	Underground Cable (DBAS Links)
2423	Buried Cable (DBAS Links)
2441	Conduit System (DBAS Links)

- (4) All filing carriers should identify and fully document all factors applied to the investment identified in response to the requests for information above to develop the rates, cross-referencing to Automated Reporting Management Information System (ARMIS) data where possible.

Appendix A to this filing describes in detail the process used by BellSouth to develop annual cost factors. Summarizing Appendix A, BellSouth states that to develop the investment-related annual cost of rate elements for LIDB Access Service each investment identified in (3) above was multiplied by its corresponding annual cost factor. This

resulting annual cost represents the recurring cost for one year associated with the acquisition and use of a particular investment. The annual cost factor includes capital-related costs, further subdivided into cost-of-money, income tax and depreciation; and operations-related costs, comprising maintenance costs, ad valorem and other taxes and directly assignable administrative costs. Annual cost factors for LIDB investments and the components included are as follows:

2111	Land Cost of Money Income Tax Ad Valorem	Factor: 0.1850
2121	Buildings Depreciation Cost of Money Income Tax Maintenance Ad Valorem	Factor: 0.3264
2212	Digital Electronic Switching Depreciation Cost of Money Income Tax Maintenance Administration Ad Valorem	Factor: 0.2748
2232	Circuit Equipment Depreciation Cost of Money Income Tax Maintenance Administration Ad Valorem	Factor: 0.2872
2411	Poles Depreciation Cost of Money Income Tax Maintenance Administration Ad Valorem	Factor: 0.2909

2421	Aerial Cable Depreciation Cost of Money Income Tax Maintenance Administration Ad Valorem	Factor: 0.2704
2422	Underground Cable Depreciation Cost of Money Income Tax Maintenance Administration Ad Valorem	Factor: 0.2672
2423	Buried Cable Depreciation Cost of Money Income Tax Maintenance Administration Ad Valorem	Factor: 0.2677
2441	Conduit System Depreciation Cost of Money Income Tax Maintenance Administration Ad Valorem	Factor: 0.2312

To develop the rates for LIDB Access Service, the annual cost of each rate element, calculated as described above, was multiplied by a factor of 3.0. This factor, representing the contribution of LIDB Access Service to recovery of general overhead costs, was selected because it is comparable to the level of overhead loadings established for services with which LIDB Access is grouped for purposes of Price Cap Administration. The product of this calculation was subsequently rounded up to the nearest \$5.00 if greater than \$1.00 and less than \$1,000.00 or to the

nearest \$10.00 if greater than \$1,000.00 to establish final rates within the parameters of the Commission's price cap ceiling test. See The BellSouth Telephone Companies, Transmittal No. 439, Appendix A, Workpaper 2.

- (5) Bell Atlantic, BellSouth, NYNEX, and Pacific Bell were providing CCS interconnection service under tariff before the filing of the transmittals under investigation in this docket. Those carriers should demonstrate how their CCS interconnection service rates meet the requirements for restructured services in Part 61.49(f) of the Commission's Rules.

With respect to BellSouth's filing, Transmittal No. 439 established new rate elements for the LIDB Access Line and the LIDB Access Port. The facilities in question are customer and application specific and may be used for no other purpose than the transport of LIDB queries from the customer's Switching Point of Interface (SPOI) to a BellSouth Regional Signal Transfer Point (RSTP). LIDB Access, which "enlarge[s] the range of service offerings available to customers,"⁵ is properly classified as a new service under price cap rules and accordingly was filed in conformity with the criteria for a new offering. Existing CCS interconnection services are unchanged in the "method of charging or provisioning"⁶ by the offer of LIDB Access;

⁵ Policy and Rules Concerning Rates for Dominant Carriers, Second Report and Order, CC Docket No. 87-313, 5 FCC Rcd 6786, 6824 (1990).

⁶ Id.

hence, requirements for a service restructure under Part 61.49(f) are not triggered by the filing.

CONCLUSION

BellSouth's tariff governing provision of LIDB Access Service complies with all statutory requirements of Title II of the Communications Act and specifically meets every test for a new service offering under price cap rules. This conclusion is sustained by the documentation submitted concurrently with Transmittal No. 439 and provided in this direct case, which in its totality far exceeds the level of detail contemplated by the Commission when incentive regulation for local exchange carriers was inaugurated. Accordingly, the Commission should conclude its investigation with a finding that BellSouth's tariff for LIDB Access Service is in all respects lawful and that no change in current rates and conditions of service is warranted at this time.

Respectfully submitted,

BELLSOUTH TELECOMMUNICATIONS, INC.

By: Helen A. Shockey
William B. Barfield
Richard M. Sbaratta
Helen A. Shockey

Its Attorneys

1155 Peachtree Street, N.E.
Suite 1800
Atlanta, Georgia 30367-6000

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APPENDIX A

The investment-related annual cost associated with each rate element was developed by multiplying the investments, by account, by their corresponding annual cost factors. Annual cost factors are translators used to determine the amount of recurring cost for one year associated with acquiring and using a particular piece of investment. There are basically two types of costs associated with investment: capital-related costs and operation-related costs. The total annual cost factor is the sum of all applicable capital-related and operation-related factor components.

Capital-related costs consist of three major subcategories: cost-of-money, income tax, and depreciation. In calculating these capital-related costs, plant survivor characteristics, the cost of debt vs. the cost of equity, the debt ratio, accelerated tax depreciation procedures, and investment tax credits, when applicable, are considered.

Costs are produced which have been levelized over the planning period. Over the life of an investment, some costs fall while others rise. As an example, the costs of money and income tax associated with an investment normally decrease while maintenance and administrative expenses normally increase. In other words, the total costs associated with an investment are not consistent over the service life of that investment. Changing demand, inflation, and decreasing capital costs are the primary causes of inconsistent total annual unit capital costs.

Costs are levelized over the time period in which the study results will be used (i.e., over the planning period). Levelization produces annual costs which are equal from year to year over the effective planning/tariff period. The obvious advantage of constant annual costs from year to year during the study period is the opportunity to establish a fixed service rate for the planning period.

The levelization process is accomplished by calculating the present worth of costs for each year in the planning period, calculating the present worth of the number of units for each year in the planning period, summing those values to obtain the cumulative present worth of costs and of units, and dividing the cumulative present worth of costs by the cumulative present worth of units.

Except for extraordinary situations, the planning period is equal to the proposed economic life of the plant or ten years, whichever is shorter. A decision to limit the planning period to a maximum of ten years was made for two reasons: (1) difficulties in projecting economic life beyond ten years (with new technologies continually entering the marketplace, early

retirements and obsolescence become considerations) and (2) little difference between levelized capital-related cost factors based on a ten year planning period and those based on a period greater than ten years.

The depreciation components of the annual cost factors reflect the accounting or book depreciation, i.e., the accounting process by which the costs of a fixed asset are spread over the useful life of that asset.

Book depreciation is calculated using the straight-line method. The straight-line method requires that the difference between gross investment and net salvage be spread ratably over the life of the plant. The depreciation rate (before levelization) is calculated as follows:

$$\frac{\text{Initial Investment} - (\text{Gross Salvage} - \text{Cost of Removal})}{\text{Proposed Life}}$$

The depreciation rate above, also called the book depreciation factor component rate, is greater than the depreciation factor component mainly due to the levelization process. Under straight-line depreciation, the depreciation rate is applied to the gross investment in order to spread depreciation over the life of the plant even though net investment is decreasing over the life, since depreciation costs are accumulating (hence, straight-line depreciation gives no recognition to the time value of money). The levelization process, however, does give some recognition to the time value of money.

Cost-of-money is determined in part by the financial market and represents the investor's expected return on his investment. The levelized cost-of-money factor developed is dependent on net investment in plant and the overall cost-of-money rate. The overall cost-of-money rate is determined by BellSouth Treasury and depends on the cost of equity financing, the cost of debt financing, and the debt to equity ratio of the capital structure of the company (i.e., the debt ratio). This cost-of-money rate represents the long term objective debt/equity mix and component costs of each. For example, an overall cost-of-money rate of 13% may result from the following:

	<u>Cost Rate</u>	<u>% of Capital</u>		
Debt Financing	.097	38%	=	.037
Equity Financing	.150	62%	=	.093
Composite COST-OF-MONEY RATE				<u>.130</u>

It may be noted that the cost-of-money levelized factor will be lower than the composite cost-of-money rate. This is true because the net investment per unit is decreasing as the plant is being depreciated and because of the levelization process itself. (As mentioned in the levelization section above, levelized costs for capital-related components will be lower in early stages of

the planning period than unlevelized costs would be in the same stages.)

The income tax factor component is developed to reflect the income tax in two situations: payment of dividends to stockholders, which are neither tax deductions nor accounting expenses; and the existence of a tax-timing difference between book depreciation and tax depreciation and frequently a depreciation basis difference, as well. While interest paid to bondholders is a book expense and deductible for income tax purposes, the federal government and most state governments levy a tax on the revenues which are earned to compensate stockholders for the use of their money. A company must pay income taxes on the equity portion of return, but the debt portion is tax-exempt. If taxation of the equity portion of return on investment was the only tax factor to consider, the unlevelized income tax factor component would be relatively easy to calculate using the following formula:

$$(1 \times \text{COM}\%) \times \left[\frac{\text{C TAX } \%}{1 - \text{C TAX } \%} \right] \times \left[\frac{1 - \text{DEBT RATIO} \times \text{DEBT } \%}{\text{COM } \%} \right] = \text{INC}$$

COM% represents the overall cost-of-money rate
 C TAX % represents the state & federal composite tax rate
 DEBT RATIO represents the % of financing done using debt
 DEBT % represents the cost of debt.

However, tax timing differences related to the depreciation of telecommunications plant make this formula too simplistic. For regulated telecommunications companies straight-line depreciation is required for accounting. However, for tax purposes accelerated depreciation is available for most plant categories and used when available. Another major difference exists between book depreciation and tax depreciation. For book purposes, an investment is depreciated over its expected revenue producing life (as negotiated with and prescribed by the Federal Communications Commission and state Public Service Commissions). The federal Internal Revenue Service (IRS) and state taxing authorities might require the company to depreciate the investment over a shorter or longer period of time for computing the depreciation income tax deduction. The tax-timing differences for depreciation are the result of both different depreciable lives and different depreciation methods (straight-line vs. accelerated). In addition, the basis for tax depreciation may be different from the basis for accounting.

Operation-related costs are those costs associated with company operations; unlike capital-related costs, operation-related costs exist because the company is operating and earning revenues. In their simplest form, operation-related cost factor components are nothing more than the ratio of annual operating expenses to investments. Those considered in the development of the FCC incremental annual cost factors are: maintenance costs, ad valorem and other taxes, and directly assignable administrative costs.

Investments must be maintained in order to be used for telecommunications operations. Ordinary repairs and maintenance, as well as rearrangements and changes, are necessary costs for all categories of plant (except land) in order to provide proper service. The maintenance factor component includes the cost of material used and direct labor; it also includes maintenance-type expenses that cannot be directly assigned to a given plant category, such as transmission power, subscriber line testing, and trunk testing, when applicable.

The following accounting data are used in the development of the maintenance factor component:

- Actual maintenance expenses by USOA field reporting code (FRC) for the previous year taken from the company's ledgers.
- Actual investment at the end of June of the previous year (used as average investment) from company report 2A.
- Actual investment at the end of December of the previous year (used to determine average investment in first projected year).
- Projected maintenance expenses and projected end-of-year investments from company forecasted budgets created for internal decision-making purposes.
- Ratio of service order activity hours to total hours in central office categories of plant, taken from company accounting reports.
- Ratio of feature-related right-to-use (RTU) fees to total RTU fees, furnished by company subject matter expert in RTU expenditures.

The maintenance factor is derived by dividing the sum of the present worth of one year of actual maintenance expense and three years of budgeted maintenance expense (both adjusted to exclude

subsequent feature-related RTU fees and central office service order activity) for a particular category of investment by the sum of the present worth of one year of actual investment and three years of budgeted investment for a particular category of investment (this quotient is hereafter referred to as the unloaded maintenance factor), then adding a "loading" amount for transmission power, subscriber line testing, and trunk testing when applicable. Maintenance loadings for transmission power, subscriber line testing, and trunk testing are developed similarly.

The Ad Valorem and Other Tax factor component is an effective tax factor furnished by the BellSouth Corporation Tax Department. The Tax Department develops the factor by calculating the ratio of tax expense accounts 7240.1000, 7240.3000, and 7240.9000 to the telephone plant in service. Account 7240.1000 includes taxes levied upon the assessed value of property. Account 7240.3000 includes taxes levied upon the value or number of shares of outstanding capital stock, upon invested capital, upon rate of dividends paid, etc. Account 7240.9000 includes other non-income, non-revenue taxes such as municipal license taxes, state privilege taxes, state self-insurer's tax, etc.

The administrative expense factors are developed to assign expenses categorized as administrative overheads across telephone products and services on the basis of investment. The administrative expense factors are included in the operating expenses of the annual cost factors and are therefore spread over an investment.

The directly assigned administrative expense factor calculation is developed by dividing the sum of the present worth of one year of actual direct administrative expense and three years of budgeted direct administrative expense by the sum of the present worth of one year of actual primary investment and three years of budgeted primary investment.

The total direct administrative expenses are the sum of carrying charges associated with secondary investments, general support, plant operations administration, engineering, access, customer services, accounting & finance, and human resources.

The primary investment is the primary average plant in service less the secondary investments NOT considered primary average plant in service. These secondary investments are land, motor vehicles, special purpose vehicles, garage work equipment, other work equipment, buildings, furniture, office equipment, and computers.

The annual cost factors for the Accounts associated with LIDB Service, and their components are as follows:

2111	Land	Depreciation	0.0000
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		Cost of Money	0.1192
		Income Tax	0.0537
		Maintenance	0.0000
		Administration	0.0000
		Ad Valorem	0.0121
		TOTAL	0.1850
2121	Buildings	Depreciation	0.0259
		Cost of Money	0.2246
		Income Tax	0.0510
		Maintenance	0.0037
		Administration	0.0000
		Ad Valorem	0.0212
		TOTAL	0.3264
2212	Digital Electronic Switching	Depreciation	0.0719
		Cost of Money	0.0831
		Income Tax	0.0371
		Maintenance	0.0342
		Administration	0.0364
		Ad Valorem	0.0121
		TOTAL	0.2748
2232	Circuit Equipment	Depreciation	0.1171
		Cost of Money	0.0766
		Income Tax	0.0370
		Maintenance	0.0080
		Administration	0.0364
		Ad Valorem	0.0121
		TOTAL	0.2872
2411	Poles	Depreciation	0.0633
		Cost of Money	0.1020
		Income Tax	0.0448
		Maintenance	0.0323
		Administration	0.0364
		Ad Valorem	0.0121
		TOTAL	0.2909
2421	Aerial Cable	Depreciation	0.0580
		Cost of Money	0.1029
		Income Tax	0.0456
		Maintenance	0.0154
		Administration	0.0364
		Ad Valorem	0.0121
		TOTAL	0.2704
2422	Underground Cable	Depreciation	0.0607
		Cost of Money	0.1029
		Income Tax	0.0454
		Maintenance	0.0097
		Administration	0.0364
		Ad Valorem	0.0121
		TOTAL	0.2672

2423	Buried Cable	Depreciation	0.0583
		Cost of Money	0.1032
		Income Tax	0.0458
		Maintenance	0.0119
		Administration	0.0364
		Ad Valorem	0.0121
		TOTAL	0.2677
2441	Conduit System	Depreciation	0.0235
		Cost of Money	0.1079
		Income Tax	0.0483
		Maintenance	0.0030
		Administration	0.0364
		Ad Valorem	0.0121
		TOTAL	0.2312