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BELLSOUTH

W. W. (Whit) Jordan
Director-Federal Regulatory

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March 19, 1993

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FEDERAL COMMUNICATIONS COMMISSION
OFFICE OF THE SECRETARY

Ms. Donna R. Searcy
Secretary
1919 "M" Street N.W., Room 222
Washington, D.C. 20554

RE: CC Docket No. 92-24

Dear Ms. Searcy:

Today, the attached correspondence was provided to Mr. Greg Vogt of the Common Carrier Bureau's Tariff Division in connection with the above captioned proceeding.

Please call me if you have any questions.

Sincerely,

Whit Jordan

W.W. (Whit) Jordan
Director - Federal Communications

Attachment

cc: Greg Vogt

No. of Copies rec'd 0+1
List A B C D E

BELLSOUTH

W. W. (Whit) Jordan
Director-Federal Regulatory

Suite 900
1133-21st Street, N.W.
Washington, D.C. 20036
202 463-4114

March 18, 1993

Mr. Gregory J. Vogt
Chief, Tariff Division
Federal Communications Commission
1919 M Street, NW, Room 518
Washington, DC 20554

RE: CC Docket No. 92-24

Dear Mr. Vogt:

Use of ARMIS data to calculate direct cost ratios and overhead ratios for application to BellSouth's forward looking incremental investments is inappropriate. First, use of ARMIS data for developing direct cost ratios (i.e., annual cost factors) does not recognize differences in the mix of plant account specific investments among different services. Second, ARMIS data is based on embedded investments and expenses. Applying ratios developed from this embedded data directly to BellSouth's forward looking investments without making adjustments for the differences in embedded versus forward looking investments leads to an inappropriate overhead ratio. BellSouth will demonstrate that, if the appropriate adjustments are made to place the embedded ARMIS costs and the forward looking BellSouth LIDB costs filed with the Commission in CC Docket No. 92-24 on an equal basis, the overhead ratios resulting from the process using ARMIS data are very close to those used by BellSouth in its filing.

The methodology BellSouth uses to calculate a price ceiling for new services first develops the incremental cost, i.e., the price floor, for the new service by identifying the incremental investment and the incremental noninvestment related annual costs. The total incremental costs are the investments times the appropriate annual cost factors, plus the noninvestment related annual costs. Next, BellSouth develops the price ceiling ratio by dividing the total revenue for the category in which the new service will reside (e.g. Local Transport) by the total incremental costs for the category. The price ceiling is calculated by multiplying the ratio (total revenues to incremental costs) times the incremental costs of the new service. This methodology sets the appropriate ceiling relative to incremental costs. As information, LIDB rates were set below the ceiling.

A direct cost ratio based on ARMIS direct cost and investment for the Traffic Sensitive Switched Access Basket applied to BellSouth's incremental investment developed in its LIDB cost studies results in a false presumption that the mix of plant account specific investments associated with each of the elements of LIDB is the same as that for the Traffic Sensitive Switched Access Basket. It also does not account for the occurrence of varying levels of noninvestment related direct costs such as service specific software right-to-use fees. There are even significant differences in levels of noninvestment related direct costs among the LIDB rate elements. For example, the LIDB Access Line rate element has $607.63 of investment related unit costs and zero noninvestment related unit costs with a ratio of total unit annual costs to total unit investment of .2601. The LIDB Access Port has $3709.80 of investment related unit costs and [illegible]

In the Attachment, BellSouth demonstrates that, when the appropriate adjustments are made to account for the mismatch of embedded ARMIS costs and incremental LIDB costs, using ARMIS based methodology results in an overhead ratio that is very close to what is used in the BellSouth LIDB tariff filing. The Attachment displays BellSouth ARMIS data on line numbers 1 through 31. Lines 32 through 36 indicate the steps necessary to develop the appropriate overhead ratio. Using the ARMIS

Attachment
3/18/93

BELLSOUTH
ARMIS BASED OVERHEAD LOADING
1991 DATA (000)

		Transport
	INVESTMENT	
1	Investment - COE+IOT+CWF	1,208,771
2	Investment - GSF	274,717
3	Total (Ln1+Ln2)	1,483,488
4	COE+IOT+CWF Factor (Ln1/Ln3)	0.8148
5	GSF Factor (Ln2/Ln3)	0.1852
	NET INVESTMENT	
6	Net Investment - COE+IOT+CWF	601,539
7	Net Investment - GSF	149,959
8	Total Investment (Ln6+Ln7)	751,498
9	Net Investment Factor - COE+IOT+CWF (Ln6/Ln8)	0.8005
10	Net Investment Factor - GSF (Ln7/Ln8)	0.1995
	CAPITAL COSTS	
11	Plant Specific Expense - COE+IOT+CWF	63,123
12	Plant Specific Expense - GSF	36,152
13	Depreciation/Amortization Exp	129,853
14	Depr/Amort - COE+IOT+CWF	109,580
15	Depr/Amort - GSF	20,273
16	Federal Income Taxes	38,023
17	FIT - COE+IOT+CWF (Ln9*Ln16)	30,436
18	FIT - GSF (Ln10*Ln16)	7,587
19	State & Local Taxes	26,710
20	State & Local Income Taxes	8,331
21	St & Lcl Inc Tax - COE+IOT+CWF (Ln9*Ln20)	6,669
22	St & Lcl Inc Tax - GSF (Ln10*Ln20)	1,662
23	Net Return - COE+IOT+CWF (Ln6*0.1125)	67,673
24	Net Return - GSF (Ln7*0.1125)	16,870
25	Direct Costs - Lower Limit (Lns11+14+17+21+23)	277,480
26	Direct Costs - Upper Limit (Lns11+14+17+21+23+27+29)	320,473
	OTHER COSTS	
27	Plant Non-Specific	37,551
28	Customer Operations - Mktg	14,472
29	Customer Operations - Svcs	5,442
30	Corporate Operations	36,007
31	TOTAL COSTS (Lns11+12+14+15+17+18+19+21+22+23+24+27+28+29+30)	480,208
32	ARMIS Direct Cost Ratio - (Ln26/Ln1)	.2651
33	ARMIS Overhead Ratio - (Ln31/Ln25)	1.7306
34	BST Incremental Cost -	129,033
35	Ratio of Direct Cost ARMIS/BST (L25/L34)	2.1505
36	Adjusted ARMIS O.H. Ratio (L33xL35)	3.7217

NOTES: Source for Investment and Capital Costs, ARMIS 43-04; Source for Other Costs, A