

nonregulated business line providing service to Bellcore. Though this is, by definition, an affiliate transaction meriting inclusion in SWBT's Cost Allocation Manual, Rule 32.27(d) does not apply. The Part 32 rules specifically address transactions between a carrier performing regulated functions and an affiliate. A carrier performing a nonregulated function need not comply with the rules regarding that nonregulated function. "When a carrier provides a nonregulated service to its affiliate and records the transaction in a nonregulated revenue account, 32.27 [the affiliated costing rule] does not apply."<sup>46</sup> Even though Allnet thinks a market rate is more appropriate than fully distributed costing, SWBT is not required to adopt this approach.

Allnet, still apparently unable to sleep, further asserts that "the decision of SWBT to arbitrarily have 'reclassified from regulated to unregulated' a majority of the services offered by its computer center 'because these services were being marketed and managed as line of business' is highly suspect."<sup>47</sup> SWBT's decision, however, was consistent with FCC rules and was not, in any way, arbitrary. These data center services provided to various customers are nonregulated, like other SWBT nonregulated services such as software sales. In the past, SWBT treated KCDC services as regulated, because they were so-called "incidental" services; i.e., incidental to the provision of regulated service. The Commission, in the final order in CC Docket No. 86-111, allowed nonregulated

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<sup>46</sup> In the Matter of United Telephone System Companies' Permanent Cost Allocation Manuals for the Separation of Regulated and Non-Regulated Costs, Order, AAD 90-22, released July 10, 1992, ¶12.

<sup>47</sup> Allnet at 12.

services to remain classified as regulated as long as this group of "incidental" services did not exceed one percent of revenues. The FCC also precluded a service from being classified as "incidental" if it constituted a "line of business."

In recent years, the KCDC has become a line of business by marketing its services to customers outside SWBT. It was thus inappropriate to continue to consider these services as incidental and the KCDC services were reclassified as nonregulated.

#### VIII. CONCLUSION

Despite the protests of MCI, Ad Hoc and others, SWBT has properly calculated its 800 data base rates. For example, because the Commission has not excluded SSP costs from exogenous treatment, and because SWBT's only use for 800 SSP is to perform 800 data base queries, SWBT has properly treated its SSP costs as exogenous. Similarly, SWBT has properly allocated to exogenous costs the expense of SCP Processor replacement.

There is no "double recovery" in SWBT's rates, nor is SWBT's use of the Commission's Method 2 restructure technique inappropriate. Allnet is incorrect when it insinuates that KCDC expenses may be causing inflated 800 rates. Allnet is also mistaken in asserting that Commission Rule 32.27(d) applies to KCDC rates.

SWBT's rates, for the reasons discussed above, should be affirmed by the Commission.

Respectfully submitted,

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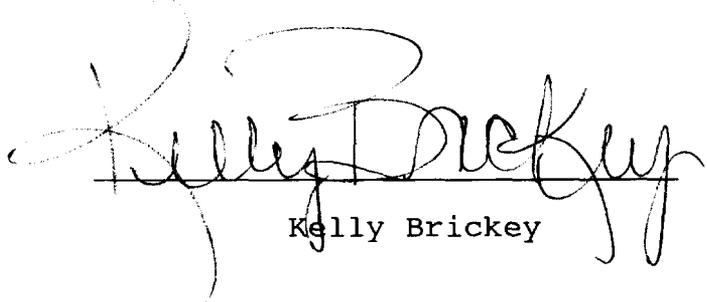
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**CERTIFICATE OF SERVICE**

I, Kelly Brickey, hereby certify that the foregoing "Reply of Southwestern Bell Telephone Company to Oppositions to Direct Case" has been served this 5th day of May, 1994 to the Parties of Record.

  
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