

DOCKET NO. 6352-U:
**Petition of AT&T for the Commission to Establish Resale Rules, Rates,
Terms and Conditions and the Initial Unbundling of Services**

MOTION

I move that the Commission adopt the Staff's Recommendation submitted in this docket with the following revisions:

I. WHOLESALE DISCOUNT CALCULATION

The wholesale residential discount is established at 20.3% and the wholesale business discount is established at 17.3%. These interim levels shall remain in effect for a 12 month period effective June 15, 1996. At the end of this 12 month period the Commission shall conduct a review to determine if the need exist to modify these initial levels. I have attached to my motion a summary sheet which contains the derivation of the wholesale discounts. I will make it a part of the record, along with a copy of the Staff's recommendation.

I have revised the Staff's recommended avoided costs calculation in two instances. The Staff's recommendation contains avoided costs for sales and advertising totaling approximately \$50.6 million. This represents 61% of the total expenses contained in sales and advertising. I have utilized an approximate total of \$61.9 million for avoided costs in sales and advertising. This represents 75% of the total costs in those two accounts. After reviewing BellSouth's Accounts Records Categories for sales and advertising, I believe that the level of avoided costs contained in my calculation are appropriate.

The second area that I revised in the Staff's avoided costs calculation is the indirect expense. This cost is primarily related to overhead, support and administrative costs. The Staff recommendation presented a range of 30-50% to express the relationship between

directly assignable costs indirectly assignable costs as a percentage of total cost. The Staff actually utilized a 35% factor in computing its indirect avoided costs. I have utilized a 50% factor (which reflects the top end of the Staff's recommended range) to compute the indirect cost reflected in my calculation. The 50% factor contained in my calculation yields an indirect avoidable cost equivalent to \$85,191,759. This level represents approximately 5% of the total expense category (\$1,690,273,293) BellSouth deemed avoidable. The two areas I have highlighted represent the difference between the calculation of the Staff's recommended discount levels in those contained in my motion.

II. ELECTRONIC OPERATIONAL INTERFACES

Outside of the determination of the wholesale discount levels, I believe one of the most important issues addressed in this docket is the establishment of electronic operational interfaces between BellSouth and competing local exchange companies. It is imperative that a reseller have access to the same service ordering provisions, service trouble reporting and informational databases for their customers as does BellSouth. The Staff has correctly recommended that electronic operational interfaces be established. I move that these interfaces be implemented by July 15, 1996. BellSouth and AT&T shall comply with the reporting requirements contained in the Staff recommendation regarding the establishment of these interfaces.

I adopt all other aspects of the Staff's recommendation including the application of the wholesale discount, directories, tariff filing requirements and related matters as contained in their May 9, 1996, memorandum to the Commission; which in addition was submitted to all parties. That concludes my motion

CALCULATION OF AVOIDED COSTS

	<u>BELLSOUTH</u>	<u>STAFF</u>	<u>MOTION</u>
Sales	\$39,906,057	\$39,906,057	\$48,675,614*
Advertising	\$0.00	\$10,715,620	\$13,174,943**
Customer Service	\$84,823,776	\$84,823,776	\$84,823,776
Call Completion	\$0.00	\$3,031,565	\$3,031,565
Number Services	\$0.00	\$8,281,083	\$8,281,083
Uncollectible	\$12,396,537	\$12,396,537	\$12,396,537
Direct Total	\$137,126,370	\$159,154,638	\$170,383,518
Indirect	\$0.00	\$55,704,123	\$85,191,759***
TOTAL	<u>\$137,126,370</u>	<u>\$214,858,761</u>	<u>\$255,575,277</u>

*Avoided Sales costs calculated utilizing 75% factor (Staff recommendation contained 61% factor)

**Avoided Advertising costs calculated utilizing 75% factor (Staff recommendation contained 61% factor)

***Avoided Indirect costs calculated utilizing 50% factor (Staff recommendation contained 35% factor)

CALCULATION OF DISCOUNT

RESIDENTIAL DISCOUNT =	$\frac{\$132,899,144}{\$653,955,846} \times 100 = 20.3\%$
BUSINESS DISCOUNT =	$\frac{\$122,676,133}{\$709,781,717} \times 100 = 17.3\%$

MEMORANDUM

DATE: May 9, 1996

TO: All Commissioners
B.B. Knowles

FROM: David L. Burgess, Director, Rates and Tariffs ~~2/2/96~~

IN RE: Docket No. 6352-U, Petition of AT&T for the Commission to Establish Resale Rules, Rates, Terms and Conditions and the Initial Unbundling Services

Please find attached the Staff's recommendation in this case. A summary of all pertinent issues are presented outlining each parties position on the individual issue. If you have any questions regarding this matter please do not hesitate to contact me.

DOCKET NO. 6352-U
AT&T's Petition to Establish Resale
Rules, Rates, Terms and Conditions

SUMMARY OF ISSUES:

Issue #1: What retail services should be made available for resale?

PARTY

POSITION

AT&T	All existing retail services and new services as they are available.
BELLSOUTH	All existing services except current offerings which are grandfathered.
MFS	All services provided at retail to non-telecommunications carrier. (Federal Act standard)
SPRINT	All services provided at retail to non-telecommunications carriers. (Federal Act standard)
MCI	All services provided at retail to non-telecommunications carriers. This includes any discounted retail service, discounted package, or promotional offering.
ATA	All retail services should be made available for resale.
COMPTTEL	All services provided at retail to non-telecommunications carriers. (Federal Act standard)
STAFF	All existing retail services sold to non-telecommunications providers except those services which are presently grandfathered. This includes any discounted retail service, discounted package, and new service offerings as they become available. Promotions are not included because they are not tariffed offerings.

Issue #2: What restrictions should be placed on services resold?

PARTY

POSITION

AT&T	Class restriction for one-party residence flat rate service only. Joint marketing of interLATA services with resold local services.
BELLSOUTH	Class restriction for all services where a rate differential exist. Joint marketing of interLATA services with resold local services
MFS	Class restriction contained in the Georgia Act and the Federal Act.
SPRINT	Restrict resale between classes until local rates are rebalanced to eliminate the differential between business and residential customers.
MCI	Class restriction contained in the Federal Act.
ATA	Class of service restrictions
CUC	Adopt restrictions on resale contained in the Georgia Act and the Federal Act.
COMPTEL	State Commission may permit incumbent LEC to limit a reseller's ability to resell a service that is available only to one category of customers to that same category of customers.
STAFF	Commission shall impose class of service restriction on the resale of all retail service offerings. In addition the Commission shall adopt the interLATA joint marketing restriction contained in the Federal Act.

Issue #3: Should a separate wholesale tariff be established?

PARTY

POSITION

AT&T	Separate tariff should be established containing rules, service descriptions, and price. 90 day advance notice on new offerings and 30 day advance notice on promotions.
BELLSOUTH	Separate tariff or separate section of existing retail tariff containing rates, terms and conditions. Existing 30 day notice on new offerings and promotions.
MFS	No position taken in brief filed.
SPRINT	No position taken in brief filed.
MCI	No position taken in brief filed.
ATA	Separate tariff should be established.
CUC	No position taken in brief filed.
COMPTEL	Commission should establish separate wholesale tariff.
STAFF	Within 30 days of the issuance of a Order in this docket the Commission shall require BellSouth to file a separate wholesale tariff containing the rates, terms and conditions for all services provided. This initial filing as well as proposed revisions will be subject to Commission approval. All proposed revisions to this tariff shall comply with the existing 30 day filing requirement. BellSouth shall also continue to comply with the existing provision in its' General Subscriber Service Tariff which requires a 30 day notice to the Commission of all promotional offerings.

Issue #4: What appropriate cost methodology should the Commission adopt for the establishment of wholesale rates?

<u>PARTY</u>	<u>POSITION</u>
AT&T	Federal Act standard of avoided cost. Avoided cost determined using embedded cost. Additional discount should be established for interface inefficiencies.
BELLSOUTH	Federal Act standard of avoided cost. Avoided cost determined using embedded cost. No additional discount should be for operational interfaces. Separate discount rates for residential and business.
MFS	Federal Act standard applying "net" avoided cost. Avoided cost determined using embedded cost. Wholesale rates established service by service. Discount should reflect a 1.5% differential between residential and business class.
SPRINT	Federal Act standard applying "net" avoided cost. Avoided cost determined using TSLRIC. Wholesale rates established by class and service by service. No discount for interface inefficiencies.
MCI	Federal Act standard of avoided cost. Avoided cost determined using embedded. Any "net" avoided cost should be recovered in service mark up.
ATA	Federal Act standard of calculating avoided cost should reflect the BellSouth employee downsizing and other cost cutting measures taken by the Company. Additional discounts should be established for interface inefficiencies and long term agreements.
CUC	Federal Act standard applying "net" avoided cost. Avoided cost should be determined using embedded cost. Commission should establish a ceiling and floor wholesale discount.
COMPTEL	Federal Act standard calculating avoided cost.
STAFF	Federal Act standard using avoided cost. Initially, avoided cost shall be determined using embedded cost. Separate discount for residential and business class. The discount shall apply equally to all services in BellSouth wholesale tariff. There shall be no additional discount for interface inefficiencies. Negotiated agreements may reflect additional discounts for longer terms.

Issue #5: What is the appropriate discount level for wholesale rates?

PARTY

POSITION

AT&T Overall discount 38.3%. AT&T cost study reflect 28.3% discount. Additional 10% discount for interface inefficiencies.

BELLSOUTH BellSouth cost study reflects 11% discount for residential services and a 9.5% discount applicable for business services.

MFS MFS has not conducted its own study. Deep discounts will discourage the beneficial development of facilities-based competition. BellSouth's estimate of avoided cost are more consistent with the underlying principles of the Federal Act.

SPRINT Sprint has not conducted its own study. Without conducting such a study the Company does not know the appropriate resale rate.

MCI MCI has not conducted its own study. The Company believes the 38.3% discount proposed by AT&T is consistent with the Federal Act.

ATA ATA has not conducted its own study. The Company supports the 38.3% discount proposed by AT&T.

CUC Floor level discount should be 11% for residential services and 9.5% for business services. The ceiling discount level should be 20% as ordered by the Illinois Commerce Commission. These level shall remain in effect for a interim two year period.

COMPTEL COMPTEL has not conducted its own study. The association supports AT&T recommended 38.3% discount level.

STAFF **17.1% discount shall apply to residential services. A 14.5% discount shall apply to business services. These discounts shall apply to recurring, non-recurring and intrastate toll retail offerings. The Commission shall monitor these initial discounts to insure that effective competition evolves in the local service market. (calculations supporting Staff's recommended discount level are included in the next attachment)**

CALCULATIONS SUPPORTING STAFF'S RECOMMENDED DISCOUNT LEVEL

The Staff recommended discount level was calculated utilizing the Avoided Cost Discount Model proposed by BellSouth witness Frank R. Kolb. The basis equation contained in Mr. Kolb's model is reflected below:

$$\% \text{ DISCOUNT} = \frac{\text{COST AVOIDED AS A RESULT OF RESALE}}{\text{REVENUE FROM RESOLD SERVICES}} \times 100$$

The Staff made adjustments to the avoided cost calculated by Mr. Kolb to reflect additional avoided cost for advertising, call completion services, number services and an assignment of indirect cost associated with the direct cost allocation contained in BellSouth's calculations. The numerical information utilized to make these adjustments were derived from Staff data request submitted in the context of the public hearing regarding this matter.

The first adjustment the Staff made to BellSouth's avoided cost calculation is to recognize avoided expenses associated with advertising. The Company did not include any advertising expense in their calculations. Staff has included in its calculation avoided advertising expenses of \$10,715,620. This represents 61% of the total advertising dollars included in the BellSouth's 1995 Georgia Operations. The 61% allocation factor was determined by reviewing the percentage of Sales Expense that were deemed avoidable by BellSouth witness Kolb. The BellSouth cost study reflected this same factor for direct cost allocated to Sales Expense. The Staff believes that it is reasonable to assume that there is a direct correlation between Sales and Product Advertising.

Several parties in this docket indicated their intention to utilize their existing operators to provide local operator and call completion services (i.e., 0+, 0-, Directory assistance). BellSouth did not include any expenses related to Call Completion and Number Services which are expense categories directly related to the provision of operator services. Staff has included \$3,031,565 in its calculation as avoided Call Completion expenses. This represent 25% of the total Call Completion expense incurred by the Company for 1995. Similarly, the Staff has included \$8,281,083 in its calculation as avoided Number Services expenses. This represents 25% of the total Number Service Expense incurred by BellSouth. The Staff believes that a 25% allocator represents a reasonable initial assignment of avoidable expenses and it may possibly grow as competitors call completion traffic increases utilizing their own operators.

The final adjustment the Staff made to the BellSouth cost study relates to the assignment of indirect cost which will be avoided. The expenses identified in the Company's calculations all related to directly assignable cost. BellSouth did not reflect any indirect cost such as General Support and Corporate Operations Expense in its study. The total avoidable expense included in the Company's study is \$137,126,370 (all of which relate to directly assignable cost). The total avoidable expense included in the Staff's calculations is \$159,154,638. The Staff believes it is reasonable to reflect a level of indirect avoidable expense associated with the direct avoidable expense previously identified and calculated. Staff review of previous cost studies submitted by BellSouth to the Commission reflect a range for indirect cost as a percentage of total cost to be 30% to 50%. The Staff has utilized an allocator of 35% to calculate the indirect cost associated with its directly assignable cost determination. This yields an additional avoidable expense of \$55,704,123. The total avoidable expense calculated by the Staff is \$214,858,761.

The Staff utilized the same total revenues from resold services as contained in the BellSouth study. The study contains residential revenues in the amount of \$653,955,846 and business revenues of \$709,781,717. The total revenues contained in the study are \$1,363,737,563. BellSouth's study reflect that 52% of its total calculated avoided expense is attributable to residential services and 48% to business services. The Staff utilized these same percentages in calculating its separate residential and business wholesale discounts. The Staff's recommended discount are calculated below:

$$\text{RESIDENTIAL DISCOUNT} = \frac{\$111,726,556}{\$653,955,846} \times 100 = 17.1\%$$

$$\text{BUSINESS DISCOUNT} = \frac{\$103,132,205}{\$709,781,717} \times 100 = 14.5\%$$

Issue #6 **What appropriate operational interfaces should be established between BellSouth and resellers? What type access and medium should be provided for these interfaces?**

PARTY

POSITION

AT&T	BellSouth should establish real-time electronic interfaces for pre-service ordering, service ordering and provisioning, directory listing and line information databases, service trouble reporting and daily usage data.
BELLSOUTH	BellSouth plans to provide interfaces for each of the five operational interface categories. It is BellSouth's position that direct access and electronic procedures are not required today in order to provide comparable service to a reseller's end user.
MFS	Access to operational systems is being addressed by industry forums. The standards for "electronic bonding" are being considered by the Electronic Communications Implementation Committee. The Commission should leave resolution of these issues to the industry.
SPRINT	The following network elements should be unbundled and made available: access to pre-ordering systems; access to service ordering/provisioning systems; database access to allow resellers access to their customers' information in LEC databases; access to service trouble reporting systems; and daily local usage data. The prices for these elements should be based on TSLRIC plus a reasonable contribution
MCI	Online electronic access to pre-service ordering; service ordering/initiation system; daily usage data on a line specific basis; real time monitoring systems.
ATA	Electronic access to databases equivalent to the incumbents access. Electronic service provisioning. Paper provisioning would result in disruptions in service.
CUC	The Commission should require the incumbent LEC and the reseller to share equally all of the cost involved in establishing operational interfaces requested by the new entrant.
STAFF	BellSouth shall provide real-time electronic interfaces for pre-service ordering, service ordering and provisioning, directory listing and line information databases, service trouble reporting and daily usage data. These interfaces shall provide access to resellers which is equivalent to that of the incumbent LEC. BellSouth and AT&T shall submit a joint report to the Commission within 30 days after a Commission Order is issued in this docket which will update the activities and implementation time frames necessary to deploy these interfaces. Access to these interfaces shall be made available to any requesting party at the same terms and conditions.

Issue #7 **How should telephone directories be maintained and distributed?**

PARTY **POSITION**

AT&T **BellSouth should be required to include basic white page listings for reseller residential and business customers as well as basic yellow page listings for business customers. Additional or enhanced listings should be made available to the reseller at the same rates, terms and conditions as available to BellSouth customers. BellSouth must make directory listing data available for purchase so that the reseller can package and brand its own white and yellow page directories. Reseller should be afforded the opportunity to place local customer service information in BellSouth's directories.**

BELLSOUTH **For all aspects of directory matters other than insertion of regular listings in the white pages, arrangements will be made with BellSouth directory affiliate, BellSouth Advertising and Publishing Corp. BellSouth supports the inclusion of new entrants' customers listings in its directories. There would initially be no charge to new entrants for such arrangements as long as they provide the info in a format compatible with BellSouth's system. Directory Publishers Database Service will make this product available to a reseller who chooses to provide its' own directories. Plans are being developed to include at no charge, information regarding customer service and repair contact numbers for all local service providers who wish to have their information included.**

MFS, SPRINT, MCI, ATA, COMPTTEL, CUC **No position taken.**

BAPCO **(BellSouth Advertising & Publishing Company) The Commission need take no action with respect to AT&T's request for access to directories. Any such requirement will be fulfilled by BAPCO's service agent to BellSouth. The provision of call guide information for AT&T will be handled by direct arrangements between AT&T and BAPCO. BAPCO will include basic call guide information in its white pages for all local exchange carriers. The Commission is without jurisdiction and authority to require BAPCO to include basic listings for AT&T's customers in BAPCO yellow pages. However, AT&T can secure such listing by contracting with BAPCO.**

STAFF **BellSouth shall include white page listing for all new entrants customers' in its directory. All other directory arrangements should be made with BellSouth's service agent BAPCO. BellSouth's service agent has indicated an express willingness to provide the additional directory arrangements requested by AT&T.**

Issue #8 **Should the Commission require the unbundling of operator services, directory assistance, and repair service?**

PARTY **POSITION**

AT&T **AT&T has requested the ability to purchase from BellSouth "branded" operator services (including directory assistance, 0+, 0-toll dialing, busy line verification and interrupt). Alternatively the Company requests that BellSouth be ordered to provide selective routing arrangements that will enable an AT&T customer to reach an AT&T operator platform just as a BellSouth customer can reach a BellSouth operator today (i.e., through dialing 0 or 611, etc.).**

BELLSOUTH **BellSouth stands ready to unbundle any network elements required by telecommunications carriers where technically feasible. Embedded cost should be utilized in determining the cost of an unbundled network element. There is simply no evidence upon which the Commission can enter an order directing the unbundling of BellSouth's network at any specific price.**

MFS **AT&T's request for the unbundling of directory assistance, 0+, 0-toll assistance, busy line verification and emergency interrupt services is consistent with the Telecommunications Act of 1996. LECs should be required to provide these services to competitive entrants.**

SPRINT **Incumbent LECs should offer resellers a mechanism for custom branding resold services. Custom branding for resellers is a service that resellers should pay for. Some branding request may not be technically possible. The Commission should avoid imposing a requirement on LECs if they cannot reasonably comply.**

MCI, CUC, COMPTTEL **No position taken in brief filed.**

ATA **No position taken in testimony presented.**

STAFF **The record in this case lacks credible evidence to grant or deny AT&T's request for the unbundling of operator services or selective routing capabilities. Specific issues regarding technical limitations, cost incurred, and cost recovery mechanisms were not adequately addressed. AT&T and BellSouth are directed to submit to the Commission, within 30 days of a signed Order, a joint report which addresses a resolution of these issues. If the parties do not reach a resolution of these outstanding issues, each party should reflect their positions and factual evidence which supports same in the body of the report. Absent a resolution, this report shall be used as a primary basis for a Commission decision in granting or denying AT&T's unbundling request.**