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March 17, 1997

ExParte

MAR

Mr. William F. Caton
Acting Secretary
1919 M Street, NW, Room 222
Washington, D.C. 20554

Re: BellSouth Tariff FCC No. 1, Transmittal No. 385, dated December 11, 1996 and CC Docket No. 96-128

Dear Mr. Caton:

The attached information is provided by the undersigned at the request of Mr. Dan Abeyta of the Common Carrier Bureau's Competitive Pricing Division in connection with the above reference tariff transmittal.

Please call me if you have any questions.

Yours truly,

WW Jordan

W. W. Jordan
Executive Director - Federal Regulatory

Attachment

cc: Richard Metzger
Dan Abeyta

No. of Copies rec'd 0+1
List ABCDE

Interstate Payphone Operations
BellSouth's Market Valuation Process and Exogenous Cost Change

Market Valuation:
BST will be utilizing the valuation methodology set out by the Federal Communications Commission in Part 32 and as expanded in its Report and Order on CC Docket No. 96-128. All identified assets will be valued for transfer at the higher of net book value or fair market value, as specified in Part 32.27(c). Fair market value will include applicable intangible elements as specified in the Payphone Report and Order on CC Docket No. 96-128 at paragraph 164. The fair market valuation is being determined by independent appraisers, Valuation Counselors, engaged by BST. That value will be determined at the transfer date of April 1, 1997. If the fair market value to net book value comparison results in a gain, that gain will be recorded in Account 32.7350, Gains or losses from the disposition of certain property. Valuation Counselors will issue a report on the results of their valuation at the conclusion of the engagement, which will be some time after the April 1, 1997 effective date. BST can make available a copy of the report to the FCC shortly after it is issued.

Permanent Exogenous Cost Change:
In compliance with FCC methods prescribed in the Commission's Report and Order, BellSouth has used the 1995 ARMIS costs reported in FCC Report 43-01 as the basis for determining the payphone portion of its common line costs currently recovered through CCL charges. BellSouth has treated the removal of these costs from its interstate access tariff rates as an exogenous cost change to the common line basket pursuant to the Report and Order on CC Docket No. 96-128 released on September 20, 1996 and to Section 61.45(d)(1)(v) of the Commission's rules. The exogenous cost change amount includes the interstate portion of certain costs such as the net book cost of payphone sets, the net book cost of attributable support assets, annual operating expenses and taxes, as reflected in Transmittal No. 385 to the FCC. Pursuant to FCC rule 65.450(c), gains or losses related to the disposition of property that was never included in the rate base have not been considered for ratemaking purposes. In BellSouth, the value of certain intangible items such as location provider contracts have not been included in the rate base and should not be considered in the exogenous costs change to access rates. Because BellSouth's regulated annual operating expenses attributable to location provider contracts are reported in ARMIS, those annual expenses have been included in the exogenous cost calculation.

Temporary Exogenous Cost Change:
If the fair market valuation of payphone assets results in a gain, that gain will be recorded on company books in 1997. Pursuant to FCC rule 65.450(d) the Commission may specifically determine that the gain be included in regulated interstate net income for calendar year 1997. If BellSouth should elect a productivity factor in its 1997 Annual Access Tariff Filing that includes sharing, and if BellSouth's interstate earnings, in combination with such productivity factor, results in a sharing obligation, a temporary exogenous cost change would be made to share the gain with customers pursuant to FCC rule 61.45(d)(2) effective with July, 1998 rates. Reversal of the temporary exogenous cost change would be made effective with July, 1999 rates.