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FEDERAL COMMUNICATIONS COMMISSION
OFFICE OF SECRETARY

March 24, 1997

Mr. William F. Caton
Acting Secretary
Federal Communications Commission
1919 M Street, N.W.
Room 222
Washington, D.C. 20554

Re: Implementation of the Pay Telephone Reclassification and Compensation Provisions of the Telecommunications Act of 1996, CC Docket No. 96-128

Dear Mr. Caton:

Pursuant to the Commission's September 20, 1996 ruling in CC Docket No. 96-128[1] (Payphone Order), Southwestern Bell Telephone Company (SWBT) and the other incumbent local exchange carriers (LECs) are required to classify their payphone operations as nonregulated for Part 32 accounting purposes. Specifically, the Order states:

> "LECs should establish whatever Part 64 cost pools are needed and should file revisions to their cost allocations manuals (CAM) within sixty (60) days prior to the effective date of the change."[2]

In accordance with the Commission's directive, SWBT diligently reviewed its CAM to determine whether any Part 64 cost pools were needed to comply with this Order. As a result of this review, SWBT determined that its CAM already contained all of the cost pools necessary for the reclassification of payphone operations as nonregulated.

SWBT concluded that it would not be necessary to establish additional cost pools nor to make further revisions to its CAM. Thus, on February 14, 1997, SWBT filed a letter with the Commission informing the Commission that SWBT did not need to make any changes to its CAM to comply with the Commission's Payphone Order.

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[1] Implementation of the Pay Telephone Reclassification and Compensation Provisions of the Telecommunications Act of 1996, CC Docket No. 96-128 (1996).
[2] Id., ¶ 163.

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SWBT had determined that no additional CAM changes were necessary because SWBT already had nonregulated cost pools in all of the accounts affected by the reclassification of payphones. For instance, SWBT's CAM already contained nonregulated cost pools in Account 2351 and Account 6351. Further, even though SWBT was not required to do so, it had filed changes to its CAM in July 1996 pursuant to the Commission's Declaratory Ruling[3] concerning inmate payphones. SWBT's July 1996 CAM filing had adopted all of the cost pool changes necessary to reclassify inmate payphones, and no additional cost pool changes were needed to reclassify the remaining payphones. Pursuant to the Commission's Public Notice (DA 96-1294), released August 14, 1996 requesting comments on SWBT's and other LEC's inmate payphone CAM filings, the Inmate Calling Services Providers Coalition (ICSP Coalition) submitted certain objections to SWBT's and the other LEC's CAM filings. On October 2, 1996, SWBT responded to the ICSP Coalition's objections. The Commision has not yet ruled on the ICSP Coalition's objections to SWBT's and the other LEC's inmate payphone CAM filings.

Since SWBT's February 14, 1997 letter, members of the Commission's Staff have contacted SWBT to express their desire that additional changes were needed to SWBT's CAM in connection with the reclassification of payphones. In discussions on March 19 and 20, 1997, Staff has recommended that SWBT make the additional changes to its CAM reflected on the enclosed pages. While SWBT maintains that the changes recommended by Staff are not needed for purposes of the reclassification of payphones as nonregulated, SWBT voluntarily agrees to make the recommended changes. Even if SWBT did not make the changes requested by Staff, SWBT would have all of the cost pools necessary to properly categorize the costs of nonregulated payphone operations. Because SWBT remains of the view that these changes are not needed for the reclassification of payphones as nonregulated, SWBT submits these changes under protest and subject to the final ruling regarding the ICSP Coalition's objections to SWBT's inmate payphone CAM filing.

Further, SWBT is submitting these CAM changes in reliance upon representations by Commission staff that the enclosed CAM changes are acceptable and complete from the Commission's perspective. Indeed, these are precisely the changes that staff has told SWBT's representative were necessary to be filed. In the event that these CAM changes are not deemed effective as of the April 15, 1997 effective date of SWBT's Pay Telephone Tariff filings[4], SWBT voluntarily commits to keep sufficient cost records in order to re-categorize the costs of nonregulated payphone operations to the extent necessary. Thus, for all of the above reasons, this filing should resolve all of the Commission's concerns relative to the

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[3] Declaratory Ruling RM-8181, 11 FCC Rcd. 7362 (1996).

[4] See SWBT's Pay Telephone Tariff filings (Transmittal No. 2608, January 15, 1997 and Transmittal No. 2614, February 24, 1997).

reclassification of SWBT's payphone operations as a nonregulated activity effective April 15, 1997.

SWBT urges the Commission to expeditiously approve these amendments to its Cost Allocations Manual.

Should there be any questions concerning this matter, please contact me at 202-326-8894.

Sincerely,

Attachments

cc: Mr. Ken Moran
Mr. Jose Rodriguez
Ms. Debbie Weber

# TRANSMITTAL LETTER MATRIX
# CAM CHANGES

## Description of Change

| Page USOA Account | Change From | Change To | Reason for Change | Annualized Quantification |
|---|---|---|---|---|
| II-4 | N/A | Pay Telephone CPE and Service (PSP). . . . . provider are charged. | Per CC Docket 96-128 "Implementation of the Pay Telephone Reclassification and Compensation Provisions of the Telecommunications Act of 1996" | N/A |
| II-5 thru II-9 | N/A | Added "PSP" (Pay Telephone CPE and Service) to matrix | See above explanation for II-4 | N/A |
| VI-6 | Deleted Account 2351 | N/A | To reflect matrix change | N/A |
| | N/A | Added Account 5010 | To reflect matrix change | N/A |
| VI-8 | N/A | Added Account 2351 to "Cost Pool Equals Account" | To reflect matrix change | N/A |
| | Accounts 5001-5169 | Account 5001-5004<br>Account 5040-5169 | To reflect matrix change | N/A |
| VI-12 | N/A | Added Account 5010 | To reflect matrix change | N/A |
| VI-13 | Accounts 5001-5270 | Accounts 5001-5004<br>Accounts 5040-5169<br>Accounts 5240-5270 | To reflect matrix change | N/A |
| | Delete Accounts 2351 and 6351 | | | |
| Matrix VI-41 2351 | Delete Direct Regulated Cost Pool | N/A | Per CC Docket 96-128 | ($208.0 M) from regulated operations |
| | Direct Cost Pool. Based on description of functional accounting code | Direct Cost Pool. Cost Pool Equals Account | Per CC Docket 96-128 | N/A |
| VI-50 5001-5169 | 5001-5169 Revenue Accounts | 5001-5004 Revenue Accounts<br>5010 Public Telephone Revenue<br>5040-5169 Revenue Accounts | Per CC Docket 96-128 | N/A |
| VI-50 5010 | N/A | Direct Cost Pool. Directly Assigned to Nonregulated | Per CC Docket 96-128 | ($168.6 M) from regulated operations |
| VI-57 6351 | Direct Cost Pool Account Balance . . . cost pool | N/A | Per CC Docket 96-128 | ($25.4 M) from regulated operations |

SOUTHWESTERN BELL TELEPHONE COMPANY

COST ALLOCATION MANUAL

(CAM)

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## NONREGULATED ACTIVITIES INFORMATION

### Payment Processing Services (PPS)

This service involves providing payment processing for other companies' customer bill payments. The service includes receiving, depositing and processing the payments and creating the payment data.

### Wireless Data Service (WDS)

This service involves providing the capability for customers to access their computer systems from mobile sites via wireless communications links.

### White Pages' Advertising (WPA)

This service involves providing individual business customers with advertising in the business White Pages through the sale of enhanced listings (e.g., "Feature Bold Listing") and cover advertising.

### Marketing Service (MKT)

This service provides marketing services, including sales support operations, and retail sales of other companies' products.

### Pay Telephone CPE and Service (PSP)

CC Docket 96-128, Implementation of the Pay Telephone Reclassification and Compensation Provisions of the Telecommunications Act of 1996, adopted rules to implement Section 276 of the Telecommunications Act of 1996 which establish pay telephone service as a competitive nonregulated service. The new law required the reclassification of pay telephone equipment and service to nonregulated effective April 15, 1997. Consistent with the 1996 Act's definition, "payphone service" means the provision of public and semi-public pay telephones, the provision of inmate telephone service in correctional facilities and any ancillary services. SWBT's payphone services will provide location providers and the transient public with the use of payphones to place coin, collect, card or other types of telephone calls. Tariffed network services used in the provision of pay telephone service will be charged to this nonregulated service just as other private pay telephone providers are charged.

# NONREGULATED ACTIVITIES MATRIX

| USOA ACCOUNT | PW | PC | BDS/LAN | TT | NCTE | CS | CBS | CPE | TC/MW | PGI | IS | GMS | OS | PPS | WDS | WPA | MKT | R&D |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| 1220 | X | X | X | X | X | X | X | X | X | X | X | | X | X | X | | X | X |
| 1410 | | | | | | | | | | | | | | | | | | |
| 1438 | | | | | | | | | | | | | | | | | | |
| 1439 | X | X | X | X | X | X | X | X | X | X | X | | X | X | X | X | X | X |
| 1500 | | | | | | | | | | | | | | | | | | |
| 2001 | X | X | X | X | X | X | X | X | X | X | X | X | X | X | X | X | X | |
| 2002 | | | | | | | | X | | | | | | | | | | |
| 2003 | X | X | X | X | | | | X | | | X | | | | | | | |
| 2005 | | | | | | | | | | | | | | | | | | |
| 2111 | X | X | X | X | X | X | X | X | X | X | X | | X | X | X | X | X | X |
| 2112 | X | X | X | X | X | X | X | X | X | X | X | | X | X | X | X | X | X |
| 2113 | | | | | | | | | | | | | | | | | | |
| 2114 | | | | | | | | | | | | | | | | | | |
| 2115 | X | X | X | X | X | X | X | X | X | X | X | | X | X | X | X | X | X |
| 2116 | X | X | X | X | X | X | X | X | X | X | X | | X | X | X | X | X | X |
| 2121 | X | X | X | X | X | X | X | X | X | X | X | X | X | X | X | X | X | X |
| 2122 | X | X | X | X | X | X | X | X | X | X | X | | X | X | X | X | X | X |
| 2123 | X | X | X | X | X | X | X | X | X | X | X | X | X | X | X | X | X | X |
| 2124 | X | X | X | X | X | X | X | X | X | X | X | X | X | X | X | X | X | X |
| 2211 | | | | | | | | | | | | | | | | | | |
| 2212 | | X | | X | | | | | | | | | | | | | | |
| 2215 | | | | | | | | | | | | | | | | | | |
| 2220 | X | | | | | | | | | | X | | | | | | | |
| 2231 | | | | | | | | | | | | | | | | | | |
| 2232 | X | | X | | | | | X | | | X | | | | | | | |
| 2312 | X | | X | X | | | | X | | | | | | | | | | |
| 2321 | | | | | | | | | | | | | | | | | | |
| 2341 | X | | X | | | | | X | | | | | | | | | | |
| 2351 | X | | | | | | | X | | | | | | | | | | X |
| 2362 | X | | | | | | | X | | | | | | | | | | |
| 2411 | | | | | | | | | | | | | | | | | | |
| 2421 | | | | | | | | | | | | | | | | | | |

# NONREGULATED ACTIVITIES MATRIX

| USOA ACCOUNT | PW | PC | BDS/LAN | TT | NCTE | CS | CBS | CPE | TC/MW | PGI | IS | GMS | OS | PPS | WDS | MPA | MKT | PSP |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| 2422 | | | | | | | | | | | | | | | | | | |
| 2423 | | | | | | | | | | | | | | | | | | |
| 2425 | | | | | | | | | | | | | | | | | | |
| 2426 | | | | | | | | | | | | | | | | | | |
| 2431 | | | | | | | | | | | | | | | | | | |
| 2441 | | | | | | | | | | | | | | | | | | |
| 2681 | X | X | X | X | X | X | X | X | X | X | X | | X | X | X | X | X | X |
| 2682 | X | X | X | X | X | X | X | X | X | X | X | | X | X | X | X | X | X |
| 2690 | | | | | | | | | | | | | | | | | | |
| 3100 | X | X | X | X | X | X | X | X | X | X | X | X | X | X | X | X | X | X |
| 3200 | | | | | | | | | | | | | | | | | | |
| 3410 | X | X | X | X | X | X | X | X | X | X | X | | X | X | X | X | X | X |
| 3420 | X | X | X | X | X | X | X | X | X | X | X | | X | X | X | X | X | X |
| 3500 | | | | | | | | | | | | | | | | | | |
| 3600 | | | | | | | | | | | | | | | | | | |
| 4040 | | | | | | | | | | | | | | | | | | |
| 4100 | X | X | X | X | X | X | X | X | X | X | X | | X | X | X | X | X | X |
| 4120 | X | X | X | X | X | X | X | X | X | X | X | | X | X | X | X | X | X |
| 4310 | X | X | X | X | X | X | X | X | X | X | X | | X | X | X | X | X | X |
| 4340 | X | X | X | X | X | X | X | X | X | X | X | X | X | X | X | X | X | X |
| 4360 | X | X | X | X | X | X | X | X | X | X | X | | X | X | X | X | X | X |
| 4370 | | | | | | | | | | | | | | | | | | |
| 8010 | | | | | | | | | | | | | | | | | | X |
| 5230 | | | | | | | | | | | | | | | | X | | |
| 5280 | X | X | X | | X | X | X | X | X | X | X | | X | X | X | | X | X |
| 5300 | X | X | X | | X | X | X | X | | | X | | | X | | | X | |
| 5301 | X | X | X | | X | X | X | X | X | X | X | | X | X | X | | X | X |
| 5302 | | | | | | | | | | | | | | | | | | |
| 6110 | X | X | X | X | X | X | X | X | X | X | X | | X | X | X | X | X | X |
| 6112 | X | X | X | X | X | X | X | X | X | X | X | | X | X | X | X | X | X |
| 6113 | | | | | | | | | | | | | | | | | | |
| 6114 | | | | | | | | | | | | | | | | | | |
| 6115 | X | X | X | X | | X | X | X | X | | X | | | X | | X | X | X |

# NONREGULATED ACTIVITIES MATRIX

| USOA ACCOUNT | PW | PC | BIS/LAN | TT | NCTE | CS | CBS | CPE | TC/MM | PGI | IS | GMS | OS | PPS | WDS | WPA | MKT | PBP |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| 6116 | X | X | X | X | X | X | X | X | X | X | X | | X | X | X | X | X | X |
| 6120 | X | X | X | X | X | X | X | X | X | X | X | | X | X | X | X | X | X |
| 6121 | X | X | X | X | X | X | X | X | X | X | X | X | X | X | X | X | X | X |
| 6122 | X | X | X | X | X | X | X | X | X | X | X | | X | X | X | X | X | X |
| 6123 | X | X | X | X | X | X | X | X | X | X | X | X | X | X | X | X | X | X |
| 6124 | X | X | X | X | X | X | X | X | X | X | X | X | X | X | X | X | X | X |
| 6210 | X | X | | | | | | X | | | X | | | | | | | |
| 6211 | | | | | | | | | | | X | | | | | | | |
| 6212 | | X | | | | | | | | | X | | | | | | | |
| 6215 | | | | | | | | | | | | | | | | | | |
| 6220 | | | | | | | | | | | X | | | | | | | |
| 6230 | | | | | | | | X | X | | X | | | | | | X | |
| 6231 | | | | | | | | X | | | | | | | | | | |
| 6232 | | | | | | | | X | X | | | | | | | X | | |
| 6310 | X | | X | X | | X | X | X | | | X | | | | | | | |
| 6311 | X | | | X | | X | X | X | | | | | | | | | | |
| 6341 | | | X | X | | | | X | | | X | | | | | | | |
| 6351 | X | | | | | | | X | | | | | | | | | | X |
| 6362 | X | | X | X | | | | X | | | X | | | | | | | |
| 6410 | X | | X | | | | | X | X | | | | | | | | | |
| 6411 | X | | | | | | | | | | | | | | | | | |
| 6421 | X | | | | | | | X | X | | | | | | | | | |
| 6422 | | | X | | | | | | X | | | | | | | | | |
| 6423 | X | | X | | | | | X | X | | | | | | | | | |
| 6424 | | | | | | | | | | | | | | | | | | |
| 6425 | | | | | | | | | | | | | | | | | | |
| 6426 | | | | | | | | | | | | | | | | | | |
| 6431 | | | | | | | | X | | | | | | | | | | |
| 6441 | | | | | | | | | X | | | | | | | | | |
| 6510 | X | X | X | X | X | X | X | X | X | | X | X | | X | | X | X | X |
| 6511 | | | | | | | | | | | | | | | | | | |
| 6512 | X | X | X | X | X | X | X | X | X | X | X | X | X | X | X | X | X | X |

# NONREGULATED ACTIVITIES MATRIX

| USOA ACCOUNT | PN | PC | BDS/LAN | TT | NCTE | CS | CBS | CPE | TC/MW | PGI | IS | GMS | OS | PPS | WDS | WPA | MKT | PSP |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| 6530 | X | X | X | X | X | X | X | X | X | X | X | X | X | X | X | X | X | |
| 6531 | X | X | X | | | | | X | | | X | | | | | | | |
| 6532 | X | | | | | | X | X | | | X | | | | | | | |
| 6533 | X | | | | | | | X | | | X | | | | | | | |
| 6534 | X | X | X | X | X | X | X | X | X | X | X | X | X | X | X | X | X | X |
| 6535 | X | X | X | X | X | X | X | X | X | X | X | | X | X | X | X | X | |
| 6540 | | | | | | | | | | | | | | | | | | |
| 6560 | X | X | X | X | X | X | X | X | X | X | X | X | X | X | X | X | X | X |
| 6561 | X | X | X | X | X | X | X | X | X | | X | X | | X | | X | X | X |
| 6562 | | | | | | | | | | | | | | | | | | |
| 6563 | X | X | X | X | X | X | X | X | X | X | X | | X | X | X | X | X | X |
| 6564 | | | | | | | | | | | | | | | | | | |
| 6565 | X | X | X | X | X | X | X | X | X | X | X | X | X | X | X | X | X | X |
| 6610 | X | X | X | | | X | X | X | | X | X | | X | | X | | X | X |
| 6611 | X | | X | | | X | X | X | | | X | | | | | | X | X |
| 6612 | X | X | X | | | X | | X | | X | X | | X | | X | | X | X |
| 6613 | X | | X | | | X | | X | | | X | | | | | | X | X |
| 6620 | X | X | X | | X | X | X | X | | X | X | | X | X | X | X | X | X |
| 6621 | | | | | | X | | | | | X | | | | | | | |
| 6622 | X | | | | | X | | | | | X | | | | | X | | X |
| 6623 | X | X | X | | X | X | X | X | | X | X | | X | X | X | | X | X |
| 6710 | X | X | X | X | X | X | X | X | X | X | X | X | X | X | X | X | X | X |
| 6711 | X | X | X | X | X | X | X | X | X | X | X | X | X | X | X | X | X | X |
| 6712 | X | X | X | X | X | X | X | X | X | X | X | X | X | X | X | X | X | X |
| 6720 | X | X | X | X | X | X | X | X | X | X | X | X | X | X | X | X | X | X |
| 6721 | X | X | X | X | X | X | X | X | X | X | X | X | X | X | X | X | X | X |
| 6722 | X | X | X | X | X | X | X | X | X | X | X | X | X | X | X | X | X | X |
| 6723 | X | X | X | X | X | X | X | X | X | X | X | X | X | X | X | X | X | X |
| 6724 | X | X | X | X | X | X | X | X | X | X | X | X | X | X | X | X | X | X |
| 6725 | X | X | X | | | X | X | X | | X | X | | X | X | X | | X | X |
| 6726 | X | X | X | X | X | X | X | X | X | X | X | | X | X | X | X | X | X |
| 6727 | X | X | X | X | X | X | X | X | X | X | X | X | X | X | X | X | X | X |

# NONREGULATED ACTIVITIES MATRIX

| USOA ACCOUNT | PW | PC | BDS/LAN | TT | NCTE | CS | CBS | CPE | TC/MW | PGI | IS | GMS | OS | PPS | HDS | WPA | MKT | PSP |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| 6728 | X | X | X | X | X | X | X | X | X | X | X | X | X | X | X | X | X | X |
| 6790 | | | | | | | | | | | | | | | | | | |
| 7100 | X | | X | | X | X | X | X | | X | X | | X | X | X | | X | X |
| 7110 | | | | | | | | | | | | | | | | | | |
| 7130 | | | | | | | | | | | | | | | | | | |
| 7140 | | | | | | | | | | | | | | | | | | X |
| 7150 | | | | | | | | | | | | | | | | | | |
| 7160 | X | | X | | X | X | X | X | | X | X | | X | X | X | | X | X |
| 7200 | X | X | X | X | X | X | X | X | X | X | X | X | X | X | X | X | X | |
| 7210 | X | X | X | X | | | | X | | X | X | | X | | X | | | |
| 7220 | X | X | X | X | X | X | X | X | X | X | X | X | X | X | X | X | X | X |
| 7230 | X | X | X | X | X | X | X | X | | X | X | X | X | X | X | X | X | X |
| 7240 | X | X | X | X | X | X | X | X | X | X | X | X | X | X | X | X | X | X |
| 7250 | X | X | X | X | X | X | X | X | X | X | X | X | X | X | X | X | X | X |
| 7300 | X | X | X | X | X | X | X | X | X | X | X | X | X | X | X | X | X | X |
| 7310 | | | | | | | | X | | | | | | | | | | |
| 7320 | | | | | | | | | | | | | | | | | | |
| 7330 | | | | | | | | | | | | | | | | | | |
| 7340 | X | X | X | X | | | | X | | | X | | | | | | | |
| 7350 | | | | | | | | | | | | | | | | | | |
| 7360 | | | | | | | | | | | | | | | | | | |
| 7370 | X | X | X | X | X | X | X | X | X | X | X | X | X | X | X | X | X | X |
| 7500 | X | X | X | X | X | X | X | X | X | X | X | X | X | X | X | X | X | X |
| 7510 | X | X | X | X | X | X | X | X | X | X | X | X | X | X | X | X | X | X |
| 7520 | X | X | X | X | X | X | X | X | X | X | X | | X | X | X | X | X | X |
| 7530 | X | X | X | X | | X | X | X | | | X | X | | | | X | X | X |
| 7540 | X | X | X | X | X | X | X | X | X | X | X | X | X | X | X | X | X | X |
| 7600 | | | | | | | | | | | | | | | | | | |
| 7610 | | | | | | | | | | | | | | | | | | |
| 7620 | | | | | | | | | | | | | | | | | | |
| 7630 | | | | | | | | | | | | | | | | | | |
| 7640 | | | | | | | | | | | | | | | | | | |
| 7910 | | | | | | | | | | | | | | | | | | |
| 7990 | | | | | | | | | | | | | | | | | | |

Based on Description of Field Reporting Codes/Functional Accounting Codes

An analysis of Field Reporting Codes (FRCs) or Functional Accounting Codes (FA Codes) is used to identify selected cost pools. FRCs and FA Codes are used in operations to report activities for which time and expenses are incurred. Separate FRCs are used with investment accounts to record the capitalized investments of an account.

FRCs associated with operations are assigned to specific work activities and are reported by employees using positive time reporting procedures.

FRCs associated with investment accounts are used to identify unique classifications of plant within an account. An example would be investment assigned to Equal Access and Network Reconfiguration is identified within an account by separate FRCs.

JFCs are preassigned to all employees based on an analysis of their normal work activities. When these employees work on other activities, their work is reported through exception time reporting procedures.

Selected cost pools in the following accounts use description of Field Reporting Codes/Functional Accounting Codes as a basis for pool assignment:

| | | | | | |
|---|---|---|---|---|---|
| 2002 | 4360 | 6123 | 6411 | 6565 | 6725 |
| 2003 | 5230 | 6124 | 6421 | 6611 | 6726 |
| 2111 | 5301 | 6211 | 6422 | 6612 | 6727 |
| 2112 | 6112 | 6212 | 6423 | 6613 | 6728 |
| 2116 | 6115 | 6215 | 6431 | 6621 | 7160 |
| 2121 | 6116 | 6220 | 6441 | 6622 | 7210 |
| 2123 | 6121 | 6231 | 6512 | 6623 | 7220 |
| 2124 | 6122 | 6232 | 6532 | 6711 | 7230 |
| 2311 | | 6311 | 6533 | 6712 | 7240 |
| 2341 | | 6341 | 6534 | 6722 | 7250 |
| | | 6351 | 6535 | 6723 | 7350 |
| 3100 | | 6362 | 6561 | 6724 | 7370 |
| | | | | | 7540 |

## Cost Pool Equals Account

When an entire account is considered homogeneous, it is assigned to a single cost pool. A cost pool can be directly assigned to regulated services or nonregulated activities. If the cost pool cannot be directly assigned, then it is allocated on some other basis. The specific allocation method used depends upon the account involved.

Selected cost pools in the following accounts use cost pool equals account as a basis for assigning costs to pools:

| | | | |
|---|---|---|---|
| 1410 | 2423 | 5280 | 7310 |
| 1438 | 2424 | 5302 | 7320 |
| 1500 | 2426 | 6424 | 7340 |
| 2115 | 2431 | 6426 | 7360 |
| 2122 | 2441 | 6531 | 7510 |
| 2215 | 3420 | 6540 | 7530 |
| 2231 | 4040 | 6790 | 7630 |
| 2321 | 4310 | 7110 | 7640 |
| 2351 | 4370 | 7130 | 7910 |
| 2411 | 5001-5004 | 7140 | 7990 |
| 2421 | 5040-5169 | 7150 | |
| 2422 | 5240-5270 | | |

## Cost Pool Equals Subaccount

When a subaccount is considered homogeneous, it is assigned to a single cost pool. A cost pool can be directly assigned to regulated services or nonregulated activities. If the cost pool cannot be directly assigned, then it is allocated on some other basis. The specific allocation method used depends upon the account involved.

Selected cost pools in the following accounts use cost pool equals subaccount as a basis for assigning costs to pools:

| | | | |
|---|---|---|---|
| 1220 | 2123 | 2212 | 4100 |
| 1439 | | 2220 | 4340 |
| 2116 | 2211 | 2232 | 7540 |

BASIS FOR APPORTIONING COSTS TO REGULATED AND NONREGULATED

Whenever possible, cost pools are established using accounts, subaccounts, field reporting codes, and functional accounting codes to provide for the direct assignment of costs to regulated services and nonregulated activities. When a cost pool cannot be directly assigned, then an allocation must be made. If direct assignments are not available, then direct measures of cost causation are used to make apportionments. Indirect measures of cost causation are used when no direct method exists. Finally, when there are no direct or indirect measures of cost causation available, either a marketing allocator or a general allocator is applied. In some instances direct assignments to regulated or nonregulated occur in an account where a direct cost pool does not exist. This is due to either reconciliation activity at year end, or exception time reporting in an account where it is not expected. Since these occasions are infrequent and not regularly expected, direct cost pools are not established. The basis for the apportionments in the Cost Apportionment Matrix are outlined below.

Assigned to Nonregulated

When a cost pool is identified as incurred exclusively for nonregulated activities, then a direct assignment to nonregulated is made.

Selected cost pools in the following accounts have a direct assignment to nonregulated activities as a basis for allocating costs:

| | | | | | |
|---|---|---|---|---|---|
| 1220 | 2681 | | 6362 | | |
| 2002 | 2682 | 6122 | 6411 | 6563 | 6725 |
| 2003 | 2690 | 6123 | 6421 | 6564 | 6726 |
| 2005 | 3100 | 6124 | 6422 | 6611 | 6727 |
| 2116 | 3200 | | 6423 | 6612 | 6728 |
| 2123 | 3410 | | 6431 | 6613 | 7350 |
| 2124 | 3500 | 6211 | 6441 | 6621 | 7370 |
| 2211 | 3600 | 6212 | 6511 | 6622 | 7520 |
| 2211 | 5010 | 6215 | 6512 | 6623 | 7540 |
| 2220 | 5230 | 6220 | 6532 | 6711 | 7610 |
| 2232 | 5280 | 6231 | 6533 | 6712 | 7620 |
| 2311 | 5301 | 6232 | 6534 | 6721 | 7990 |
| 2341 | 6112 | 6311 | 6535 | 6722 | |
| 2351 | 6116 | 6341 | 6561 | 6723 | |
| 2362 | 6121 | 6351 | 6562 | 6724 | |

BASIS FOR APPORTIONING COSTS TO REGULATED AND NONREGULATED (cont'd)

Assigned to Regulated

When a cost pool is identified as incurred exclusively for regulated services, then a direct assignment to regulated is made.

Selected cost pools in the following accounts have a direct assignment to regulated services as a basis for allocating costs:

| | | | | | |
|---|---|---|---|---|---|
| | | **5001-5004** | | | |
| | | **5040-5169** | | | |
| 1220 | 2411 | **5240-5270** | 6426 | 6712 | 7520 |
| 1438 | 2421 | 5301 | 6431 | 6721 | 7540 |
| 1439 | 2422 | 6112 | 6441 | 6722 | 7610 |
| 1500 | 2423 | 6121 | 6511 | 6723 | 7620 |
| 2002 | 2424 | 6122 | 6512 | 6724 | 7910 |
| 2003 | 2426 | 6123 | 6532 | 6725 | |
| 2123 | 2431 | 6124 | 6533 | 6726 | |
| 2005 | 2441 | 6211 | 6534 | 6727 | |
| 2121 | 2681 | 6212 | 6535 | 6728 | |
| 2124 | 2682 | 6215 | 6540 | 7110 | |
| 2211 | 2690 | 6220 | 6561 | 7130 | |
| 2212 | 3100 | 6231 | 6562 | 7160 | |
| 2215 | 3200 | 6232 | 6563 | 7210 | |
| 2220 | 3410 | 6311 | 6564 | 7220 | |
| 2231 | 3500 | 6341 | 6565 | 7230 | |
| 2232 | 3600 | | 6611 | 7240 | |
| 2311 | 4040 | 6362 | 6612 | 7250 | |
| 2321 | 4120 | 6411 | 6613 | 7310 | |
| 2341 | 4340 | 6421 | 6621 | 7320 | |
| | 4360 | 6422 | 6622 | 7330 | |
| 2362 | 4370 | 6423 | 6623 | 7360 | |
| | 6116 | 6424 | 6711 | 7370 | |

| USOA Part 32 Accounts | Cost Pools | Basis for Assigning Costs to Cost Pools | Basis for Apportioning Costs to Regulated and Nonregulated | Comments |
|---|---|---|---|---|
| 2341 LARGE PBX | Directly Assigned Regulated | Based on description of field reporting codes. | Directly assigned to regulated. | Regulated investment includes Customer Premises Equipment for 911 emergency systems and embedded [as of 1/1/83] investment in centrex service (Plexar)* consoles. |
| | Directly Assigned Nonregulated | Based on description of functional accounting codes. | Directly assigned to nonregulated. | |
| 2351 PUBLIC TELEPHONE TERMINAL EQUIPMENT | | | | |
| | Direct Cost Pool | Cost pool equals account. | Directly assigned to nonregulated. | |
| 2362 OTHER TERMINAL EQUIPMENT | Direct Cost Pool | Account balance less amount assigned to the direct nonregulated cost pool. | Directly assigned to regulated. | |
| | Direct Cost Pool | Account Transaction Analysis. | Directly assigned to nonregulated. | |
| 2411 POLES | Direct Cost Pool | Cost Pool equals account. | Directly assigned to regulated. | SWBT does not use poles in the provision of non-regulated activities. |
| 2421 AERIAL CABLE | Direct Cost Pool | Cost Pool equals account. | Directly assigned to regulated. | SWBT does not use aerial cable in the provision of nonregulated activities. |
| 2422 UNDERGROUND CABLE | Direct Cost Pool | Cost Pool equals account. | Directly assigned to regulated. | SWBT does not use under-ground cable in the provision of nonregulated activities. |

| USOA Part 32 Accounts | Cost Pools | Basis for Assigning Costs to Cost Pools | Basis for Apportioning Costs to Regulated and Nonregulated | Comments |
|---|---|---|---|---|
| 4360 OTHER DEFERRED CREDITS (Cont.) | Other Accrued Employee Cost Pool | Based on description of functional accounting codes. | Indirectly Attributed based on company salaries and wages. | |
| | Other Cost Pool | Based on description of functional accounting codes. | General Allocator. | |
| 4370 OTHER JURISDICTIONAL LIABILITIES AND DEFERRED CREDITS - NET | Direct Cost Pool | Cost Pool equals account. | Directly assigned to regulated. | Amounts in this account will be excluded from ratemaking in the Separations process; thus allocation between regulated and nonregulated is not necessary. |
| 5001-5004 REVENUE ACCOUNTS | Direct Cost Pool | Cost Pool equals account. | Directly assigned to regulated. | |
| 5010 PUBLIC TELEPHONE REVENUE | Directly Assigned Nonregulated | Cost Pool equals account. | Directly assigned to nonregulated. | |
| 5060-5169 REVENUE ACCOUNTS | Direct Cost Pool | Cost Pool equals account. | Directly assigned to regulated. | |
| 5230 DIRECTORY REVENUE | Directly Assigned Regulated | Based on description of functional accounting codes. | Directly assigned to regulated. | |
| | Directly Assigned Nonregulated | Based on description of functional accounting codes. | Directly assigned to nonregulated. | |
| 5240 - 5270 REVENUE ACCOUNTS | Directly Assigned Regulated | Cost Pool equals account. | Directly assigned to regulated. | |
| 5280 NONREGULATED OPERATING REVENUE | Direct Cost Pool | Cost Pool equals account. | Directly assigned to nonregulated. | |

| USOA Part 32 Accounts | Cost Pools | Basis for Assigning Costs to Cost Pools | Basis for Apportioning Costs to Regulated and Nonregulated | Comments |
|---|---|---|---|---|
| 6311 STATION APPARATUS EXPENSE (Cont.) | Common-No Access/No Trouble Found Cost Pool | Based on description of functional accounting codes. | Indirectly Attributed based on assigned to regulated based on 75% of the ratio of regulated trouble counts cleared to total trouble counts cleared, with the residual assigned to nonregulated. | |
| 6341 LARGE PRIVATE BRANCH EXCHANGE EXPENSE | Directly Assigned Regulated | Based on description of field reporting codes. | Directly assigned to regulated. | Includes 50% of the travel associated with combination visits (i.e., jobs that include both regulated and nonregulated work). |
| | Directly Assigned Nonregulated | Based on description of field reporting codes. | Directly assigned to nonregulated. | Includes 50% of the travel associated with combination visits (i.e., jobs that include both regulated and nonregulated work). |
| | Common-No Access/No Trouble Found Cost Pool | Based on description of functional accounting codes. | Indirectly Attributed based on assigned to regulated based on 75% of the ratio of regulated trouble counts cleared to total trouble counts cleared, with the residual assigned to nonregulated. | |
| 6351 PUBLIC TELEPHONE TERMINAL EXPENSE | | | | |
| | Direct Cost Pool | Based on description of functional accounting codes. | Directly assigned to nonregulated. | |
| | No Access Cost Pool | Analysis of No Access Reports. | Indirectly Attributed based on relative value of regulated and nonregulated dispatched reports. | |