

the total amount of revenue associated with all disputes that year; (5) the percentage of total revenue that this amount represents; and (6) documentation and explanation of the 143-day expense lag for PRTC's payment in lieu of taxes ("PILOT"). The Bureau also requested a copy of PRTC's full lead-lag study. This is attached hereto as Exhibit 1.

(1) Explanation of the Dispute Process Mandated by Puerto Rico Law

In 1985, the Puerto Rico government enacted Law 33, entitled an "Act to Establish Minimum Procedural Requirements for the Suspension of Essential Public Services."³ The stated purpose of the law is to "guarantee to the subscribers or consumers an adequate opportunity to question the accuracy and source of the charges invoiced, and an adequate notice of the decision to discontinue services for nonpayment, as well as to guarantee an adequate disclosure of the complete procedure established."⁴ The law applies to the Puerto Rico Telephone Authority, PRTC's parent.⁵ The procedure required by Law 33 is as follows:

The subscriber has 15 days from receipt of a bill to pay or to raise objections and request an investigation into the protested charges.

3. Puerto Rico Code, Title 27, Chapter 17, § 262 et seq.

4. Id.

5. Id. at § 262a.

The subscriber must be notified in writing of the outcome of the investigation. The law provides no time requirement, but PRTC's tariff⁶ states that subscribers will be notified of the outcome within 60 days after the objection is submitted, unless additional time is requested in accordance with Law No. 170 (August 12, 1988).⁷

If the outcome is favorable to the subscriber, PRTC has ten days to return a paid amount or credit the account. If the outcome is adverse to the customer, the customer has 10 days to pay the bill or contest the decision before a designated representative from the district or region in which the subscriber receives service. This representative has 20 days after notification to reach a decision.

The customer must be notified in writing of this decision. No timeframe is provided for this notification. However, the customer has 10 days after its receipt to pay or request reconsideration.⁸

Within 90 days of this customer request, the company president must appoint an attorney (not a company employee) to act as examiner or arbitrator in the dispute.

If the dispute is resolved, the customer must pay the debt within 20 days from notification of the decision or pursuant to a payment plan. If the customer still has a dispute, he or she may appeal within 20 days of notification to the Superior Court of Puerto Rico for review.

This dispute process results in a very attenuated process for PRTC to settle customer disputes. For example, even if the customer never requests that an independent examiner be appointed after two independent reviews, the process may still take 115

6. PRTC's local tariff sets forth the dispute process also. See PRTC's General Subscriber Tariff, General Provision No. IX, Procedure on Contested Charges at Page No. D-9-1 through D-9-3.

7. Law 170 is the Uniform Administrative Procedure Act, which establishes a systematic and uniform set of minimum procedures that all agencies must observe related to the rights and legal duties of particular individual.

8. If the customer requests a hearing at this stage, the Company may demand from the customer payment equal to the average billed payment over the previous six months.

days. Less contentious cases may be settled by the first arbitration decision after the company's investigation; by law, this initial decision could take over 100 days.

(2) The Number of Disputes Handled in 1994

PRTC has been able to determine that it received approximately 1.6 million contacts from end users in 1994. This figure is based on the number of claims by end users and does not represent the number of total disputes handled by PRTC. For example, one contact or call to a customer service representative could involve multiple disputes or claims.

(3) The Length of Time Needed to Resolve Each Dispute in 1994

Disputes involving sums greater than \$100.00 were resolved on average between 30 and 45 days. Disputes involving sums less than \$100 were resolved on average between 90 and 120 days. Data is not available to determine the length of time required to settle each case on a per dispute basis.

(4) and (5) The Total Amount of Revenue Involved with All Disputes in 1994 and the Percentage of Total Revenue this Amount Represents

PRTC has been able to identify that the revenue involved in the number of disputes reflected in Response (2) above was \$20,702,942. This is approximately 2.3 percent of PRTC's billed revenue for 1994.

(6) Documentation and Explanation of the 143-day Expense Lag for PILOT

The expense lag for PILOT was calculated based upon the interstate settlement schedule from NECA and the number of days that a portion of settlement dollars remained in a reserve fund for payment in lieu of taxes to the Puerto Rico government. PRTC is exempt from federal and local income tax obligations, and instead is required to provide payment to the local government (i.e., PILOT).

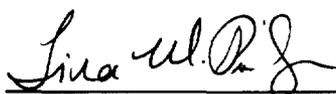
The total PILOT lag days are determined based upon the total number of days the PILOT funds remain idle for each month of the year. For example, January interstate settlement revenues were disbursed to PRTC on February 27. The amount of this disbursement accounted for as PILOT liability in January sat idle for 307 days of the year, calculated as follows:

1.	Total Days in the Year	365
2.	Settlement Month	January
3.	Days in Settlement Month	31
4.	Date Settlement Month Funds Disbursed	February 27
5.	Days Remaining in Year	307
	(Ln 1 - Ln 3 - Ln 4)	

This calculation was performed for each month of the year to determine the total number of lag days that the funds remain as a liability for the year. The average lag days for PILOT are calculated by dividing the total number of lag days by 12 (months in the year), which produces an average expense lag day for PILOT of 142 days. This calculation is set forth in Exhibit 2, which reflects a correction in PRTC's previous calculation resulting in a de minimis change in the PILOT expense lag days of one day.

Based on the foregoing, PRTC has demonstrated and documented that its net lag time of approximately 70 days is justified under its lead-lag study. PRTC notes that the dispute resolution process and PILOT are only two components of its full lead-lag study, which explains the development and justification of PRTC's net lag. PRTC has fully responded to the Bureau's request, and therefore, urges the Commission to uphold its cash working capital component in its entirety based on its full lead-lag study.

Respectfully submitted,



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Attorneys for
PUERTO RICO TELEPHONE COMPANY

Dated: September 2, 1997

CERTIFICATE OF SERVICE

I, Michaele A. Roberts, do hereby certify that a copy of the foregoing Direct Case of Puerto Rico Telephone Company was sent by hand-delivery this 2nd day of September, 1997, to the following:

William F. Caton*
Secretary
Federal Communications
Commission
1919 M Street, NW, Room 222
Washington, DC 20554

Competitive Pricing Division
Common Carrier Bureau
Federal Communications
Commission
1919 M Street, N.W., Rm. 51844
Washington, D.C. 20554

ITS
1231 20th Street, NW
Room 102
Washington, DC 20037

AT&T Corp.
Mark C. Rosenblum
Peter H. Jacoby
Judy Sello
295 N. Maple Ave., Rm. 3245G1
Basking Ridge, NJ 07920



Michaele A. Roberts

EXHIBIT 1

PRTC Lead-Lag Study

CC Docket No. 97-149

September 2, 1997

PRTC Lead-Lag Study

SCHEDULES

No. 1 through No. 7

1994
PUERTO RICO TELEPHONE COMPANY
Calculation of Total Company
Cash Working Capital Allowance
for Regulated Activities
(**\$000'S OMITTED**)

<u>Description</u>	<u>Total Company Amount</u>	<u>Total PRTC Amount</u>	<u>Total PRCC Amount</u>
1. Operating Expenses & Taxes			
a. Total Expenses & Taxes 1/	\$673,818	\$568,380	\$105,438
b. Depreciation & Amortization 1/	<u>169,586</u>	<u>145,891</u>	<u>23,695</u>
c. Cash Operating Expenses (L 1a - L 1b)	\$504,232	\$422,489	\$81,743
2. Interest Expense 2/	<u>995</u>	<u>857</u>	<u>138</u>
3. Cash Operating Expense Plus Interest (L 1c + L2)	\$505,227	\$423,346	\$81,881
4. Percentage of Year Represented by Weighted Net Lag Days 3/	19.7%	19.7%	19.7%
5. Cash Working Capital Allowance (L 3 x L 4)	\$99,530	\$83,399	\$16,131
6. Add Cash and Working Funds 4/	<u>7,875</u>	<u>7,071</u>	<u>804</u>
Total Cash Working Capital Allowance	<u>\$107,405</u>	<u>\$90,470</u>	<u>\$16,935</u>
Total Cash Working Capital Interstate Allowance	\$3,021	\$2,544	\$476

Sources:

1/ Workpaper 4

2/ Schedule 7

3/ Schedule 2

4/ Average balance of accounts 1130 and 1150 for study year

1994

PUERTO RICO TELEPHONE COMPANY

Calculation of Total Company

Cash Working Capital Allowance

for Regulated Activities

(\$000 Omitted)

Description -----	Total Company Amount -----
1. Operating Expense & Taxes	
a. Total Expenses & Taxes 1/	\$673,818
b. Depreciation & Amortization 1/	169,586
c. Cash Operating Expenses (L.1a - L.1b)	----- \$504,232
2. Interest Expense 2/	995
3. Cash Operating Expense plus Interest (L.1c + L.2)	----- \$505,227
4. Percentage of Year Represented by Weighted Net Lag Days 3/	19.7 %
5. Cash Working Capital Allowance (L.3 x L.4)	----- \$99,453
6. Add Cash and Working Funds 4/	7,875
Total Cash Working Capital Allowance	----- \$107,328
Total Cash Working Capital Interstate Allowance	=====
	\$3,019

Sources:

1/ Workpaper 4

2/ Schedule 7

3/ Schedule 2

4/ Average balance of accounts 1130 and 1150 for study year

1994

PUERTO RICO TELEPHONE COMPANY
CASH WORKING CAPITAL ALLOWANCE
Percentage of Year Represented
by Weighted Net Lag Days

Description

1.	Weighted Net Lag Days 1/	71.8
2.	Days in Year	365

3.	Percentage of Year Represented By Weighted Net Lag Days (L.1/L.2)	19.7 % =====

Sources:

1/ Schedule 3

Schedule 3
Page 1 of 1

1994
PUERTO RICO TELEPHONE COMPANY
CASH WORKING CAPITAL ALLOWANCE
Weighted Net Lag Days

Description -----	Total Company -----
1. Weighted Average Revenue Lag Days 1/	102.3
2. Weighted Average Expense Lag Days 2/	30.5

3. Weighted Net Lag Days (L.1 - L.2)	71.8
	=====

Sources:

- 1/ Schedule 4
- 2/ Schedule 7

1994
PUERTO RICO TELEPHONE COMPANY
CASH WORKING CAPITAL ALLOWANCE
 Weighted Average Revenue Lag Days

Description -----	Total Company -----
A. In Arrears -----	
1. Average Revenue Lag Days for Revenue Billed in Arrears 1/	113.4
2. Percentage of Revenues Billed in Arrears 2/	63%
3. Total Billed in Arrears (L.A.1 x L.A.2)	----- 72.0 =====
B. In Advance -----	
1. Average Revenue Lag Days for Revenues Billed in Advance 1/	83.0
2. Percentage of Revenue Billed in Advance 2/	37%
3. Total Billed in Advance (L.B.1 x L.B.2)	----- 30.3 -----
C. Weighted Average Revenue Lag Days (L.A.3 + L.B.3)	----- 102.3 =====

Sources:

- 1/ Schedule 5
- 2/ Workpaper No. 2

1994
PUERTO RICO TELEPHONE COMPANY
CASH WORKING CAPITAL ALLOWANCE
Average Revenue Lag Days

Description -----	Billed in Arrears -----	Billed in Advance -----
1. Average Accounts Receivable 1/	\$199,751	\$199,751
2. Average Net Revenues Billed Per Day 2/	2,113	2,113
3. Days of Lag or Average Collection Period	94.51	94.51
4. Days Lag to Measure Usage 3/	15.2	-15.2
5. Days Lag to Measure Bill Date 4/	3.7	3.7
6. Composite Days Lag (L.3+L.4+L.5)	113.4	83.0
	=====	=====

1/ Workpaper 1

2/ 1. Net regulated revenues in study year
2. Number of days in annual billing period

3. Average net revenues billed per day (L.1/L.2)

3/ 1. Service days per month (365/12)
2. Days from midpoint of service period (Line 1 / 2)

4/ Billing Process Days per Cycle (See Note)

1. Calculated assuming 50% prime and 50% catch - up billing as follows:
a. 50% within 1 day Prime Billing Process Days (1.0 x 50)
b. 50% within 4 days Catch-up Billing Process Days (4.0 x 50%)

c. Billing Cycle Process Days

2. Monthly cycle days to monthly calendar days conversion:
a. 30.4/ Calendar days per month (Footnote 3, Line 1)
b. Annual working days
c. Annual working days per month (Line 2.b / 12)
d. Billing cycle calendar days to work days conversion
(Line 2.a / Line 2.c)

e. Billing Process Calendar Days

1994
PUERTO RICO TELEPHONE COMPANY
CASH WORKING CAPITAL ALLOWANCE
 Weighted Average Expense Lag Days

Description

	Total Company
-----	-----
A. In Arrears	

1. Average Lag Days for Expense (cash operating expenses plus interest paid in arrears.) 1/	30.5
2. Percentage of Expenses Paid in Arrears	100%

3. Total Paid in Arrears (L.A.1 x L.A.2)	30.5
B. In Advance 2/	

1. Average Lag Days for Expense Paid in Advance	N/A

2. Percentage of Expense Paid in Advance	N/A

3. Total Paid in Advance (L.B.1 x L.B.2)	N/A

C. Weighted Average Expense Lag Days (L.A.3 + L.B.3)	30.5

Sources:

1/ Schedule 7

2/ The percentage of non-payroll expenses paid in advance is normally less than 2% of total non-payroll expenses. The sampling process used to analyze expense lag days addresses all transactions, including expenses paid in advance and in arrears. Those advance payments found in the sample analysis are assigned negative lag days. Thus the impact of prepaid expenses already is incorporated in the results of the sample analysis of non-payroll expense disbursements.

1994

PUERTO RICO TELEPHONE COMPANY
CASH WORKING CAPITAL ALLOWANCE
Average Lag Days for Cash
Operating Expenses, Taxes, & Interest

Category	1994 Total Company Regulated	Lag Days	Total Company Dollar Days (Col.2 x Col.3)
(1)	(2)	(3)	(4)
1. Salaries & Wages 1/	\$178,979	10.19 2/	1,823,845
2. Interest 1/	995	45.00 3/	44,775
3. In LIEU of Tax /	59,561	143.00 /	8,517,223
4. Federal Income Tax 1/	62,953	15.00 3/	944,295
5. Other Operating Expenses 1/			
a. Plant Specific	97,645	20.09 /4	1,962,049
b. Plant Non-Specific (excl.Depr.)	31,765	20.09	638,276
c. Customer Operations	39,847	20.09	800,673
d. Corporate Operations	33,482	20.09	672,777
e. Subtotal Other			
Operating Expenses	\$202,739		4,073,776
 Total (Lines 1 thru 5)	 \$505,227	 30.49	 15,403,914

Sources:

- 1/ Workpaper No. 4
- 2/ Workpaper No. 5
- 3/ Workpaper No. 6
- 4/ Workpaper No. 3

PRTC Lead-Lag Study

WORKPAPERS

No. 1 through No. 6

Determination of Average
Accounts Receivable Balances
1994
(000's Omitted)

Workpaper No. 1

<u>1994</u>	<u>Total Accounts Receivable 1/</u>
(a)	(b)
1. January	\$197,593
2. February	196,412
3. March	200,874
4. April	190,905
5. May	249,910
6. June	245,618
7. July	248,986
8. August	245,094
9. September	254,333
10. October	260,537
11. November	250,897
12. December	244,596

13. Total	\$2,785,755
14. Avg. Monthly Receivables (Line 13/12)	\$232,146
15. Percentage Regulated Revenues of Total Revenues	

a. Total Net Revenues in Study Year(Workpaper 1 Inputs)	\$896,534
b. Total Regulated Net Revenues in Study Year(Workpaper 1 In	771,425
c. Percentage Regulated Revenues of Total Revenues(L.15.b/L.	86.05%
16. Average Accounts Receivable - Regulated (L.14 * L.15.c)	\$199,751

1/ Source: PRTC - Monthly Analysis of Accounts Receivable -
Corporate Accounting Department

INPUT RANGE FOR REVENUE DATA

Workpaper No. 2

Enter Study Year -----> 1994

Enter Description of Source
for Total Revenues-----> FLASH REPORT

Enter Description of Source
for Advance and Arrears Billings
-----> BILLING DEPT.

Enter Uncollectibles
-----> \$35,509

Analysis of Billing Characteristics
Year 1994 Revenues
(\$000s Omitted)

Workpaper No. 2

Annual Revenues			
Service Category	Total Revenues 1/	Billed In Advance 2/	Billed In Arrears 2/
A. LOCAL NETWORK			
1. Business Lines Rental	\$60,133	\$58,621	\$1,512
2. Residential Lines Rental	135,377	135,377	0
3. Measured Service	80,069	0	80,069
4. PABX Rental	0	0	0
5. Lines & Other Inst. Char	16,720	0	16,720
6. Pay Station - Pub. Tel.	11,474	0	11,474
7. Cellular Radio Mobile	0	0	0
8. Local Private Lines	10,749	10,327	422
9. Other Local Revenue	16,423	11,919	4,504
10. Customer Calling Servic	8,501	8,501	0
	\$339,446	\$224,745	\$114,701
B. NETWORK ACCESS			
1. End Users & CCL	\$44,588	\$44,313	\$275
2. Switched Access	139,624	0	139,624
	\$184,212	\$44,313	\$139,899
C. LONG DISTANCE NETWORK			
1. Domestic Intra-Island	\$206,856	\$0	\$206,856
2. WATS - Domestic	5,345	695	4,650
3. Intertracking-ITTS	0	0	0
4. Toll Private Lines	13,389	12,931	458
5. Interexchange & Operato	0	0	0
6. Other LD Revenue	0	0	0
	\$225,590	\$13,626	\$211,964

D. MISCELLANEOUS

1.	Directory	\$28,834	\$0	\$28,834
2.	Listings	11,117	11,117	0
3.	Billing & Collecting	10,232	0	10,232
4.	Other	7,654	890	6,764
		-----	-----	-----
5.	Subt.- Miscellaneous	\$57,837	\$12,007	\$45,830

E. TOTAL

1.	Revenues - Gross	\$807,085	\$294,691	\$512,394
2.	% Distribution	100%	37%	63%

F. TOTAL

1.	Revenues - Net 3/	\$771,576	\$281,726	\$489,850
2.	% Distribution	100%	37%	63%

1/ Source: FLASH REPORT

2/ Source: BILLING DEPT.

3/ Revenue Figures Adjusted for the Provision of Uncollectible Accounts.

\$35,509 .

Source: FLASH REPORT

ANALYSIS OF NON-PAYROLL EXPENSE DISBURSEMENTS

Workpaper No. 3

INPUT RANGE FOR SAMPLE DATA

Enter the number of sample transactions
(up to 300) -----> 554

Enter Sampling Method Used
-----> random 15%

Enter Source Documents
-----> Check Summary Register
----->
----->
----->
----->

INPUT RANGE FOR NON-PAYROLL EXPENSE DISBURSEMENTS

Workpaper 3

Enter Data for Sample Transactions Below:

	Item No. (1)	Service Date (2)	Check Date (3)	Amount of Payment (4)
Input	1	03/30/94	10/05/94	\$325.00
Page No. 1	2	10/01/94	10/05/94	400.00
	3	10/01/94	10/05/94	250.00
	4	10/01/94	10/05/94	250.00
	5	10/01/94	10/05/94	250.00
	6	09/19/94	10/05/94	58.81
	7	07/12/94	10/05/94	57.44
	8	11/01/93	10/13/94	6.27
	9	08/02/94	10/05/94	14.66
	10	08/06/94	10/05/94	1.10
	11	08/20/94	10/05/94	0.90
	12	08/05/94	10/05/94	0.45
	13	08/28/94	10/05/94	1.10
	14	08/10/94	10/13/94	1.10
	15	08/23/94	10/13/94	1.00
	16	09/28/94	10/05/94	228.00
	17	10/04/94	10/13/94	97.50
	18	10/07/94	10/19/94	50.00
	19	10/07/94	10/19/94	50.00
	20	09/28/94	10/05/94	126.00
	21	10/03/94	10/13/94	236.00
	22	10/18/94	10/19/94	158.50
	23	09/30/94	10/05/94	3,647.40
	24	10/10/94	10/19/94	1,000.00

25	10/03/94	10/19/94	4,000.00
26	09/13/94	10/05/94	73.50
27	08/01/94	10/05/94	100.00
28	09/01/94	10/19/94	100.00
29	09/01/94	10/19/94	100.00
30	09/01/94	10/19/94	35.00
31	08/10/94	10/05/94	45.00
32	09/26/94	10/13/94	60.00
33	09/28/94	10/19/94	60.00
34	08/25/94	10/05/94	10.33
35	07/19/94	10/05/94	20.66
36	08/23/94	10/05/94	30.99
37	07/13/94	10/05/94	20.66
38	08/19/94	10/05/94	20.66
39	06/29/94	10/05/94	0.48
40	07/12/94	10/13/94	30.99
41	07/21/94	10/13/94	20.66
42	08/29/94	10/13/94	20.66
43	08/22/94	10/13/94	51.66
44	09/01/94	10/13/94	20.66
45	08/31/94	10/13/94	30.99
46	10/05/94	10/13/94	48.86
47	09/07/94	10/19/94	51.87
48	09/09/94	10/19/94	15.56
49	02/16/94	10/19/94	13.24
50	09/09/94	10/19/94	20.75
51	09/19/94	10/19/94	20.75
52	07/19/94	10/05/94	174.01
53	07/19/94	10/05/94	162.86
54	08/15/94	10/13/94	128.15
55	07/13/94	10/13/94	17.93
56	08/11/94	10/13/94	81.25
57	08/04/94	10/13/94	163.93
58	08/16/94	10/13/94	137.30
59	08/12/94	10/19/94	78.14
60	08/12/94	10/19/94	184.71
61	08/15/94	10/19/94	156.04
62	10/01/94	10/05/94	450.00
63	10/01/94	10/05/94	525.00
64	10/01/94	10/05/94	525.00
65	02/01/94	10/05/94	525.00
66	10/01/94	10/05/94	525.00
67	10/01/94	10/05/94	525.00
68	10/01/94	10/05/94	450.00
69	10/01/94	10/05/94	525.00
70	10/01/94	10/05/94	450.00
71	09/15/94	10/13/94	7,027.27
72	09/15/94	10/05/94	1,125.00
73	02/17/94	10/13/94	5,344.00
74	09/02/94	10/05/94	420.00
75	08/22/94	10/13/94	2,450.00