

modified to be consistent with the applicable rule change. Workpapers showing the development of separations budget data and documenting SWBT's Part 36 and 69 cost allocation processes for SWBT's five study areas are provided in Attachments 5.1 through 5.5. A total company summary is provided on Attachment 5.6. It is important to note that the total BFP revenue requirement represents the amount shown in the "Total Common Line" column. SWBT's ICAS system was not reprogrammed to assign Pay Telephone Loop investments and associated costs to the BFP element. Therefore, it is necessary to include the amount shown in the "Pay" column with the "BFP" column, which is what "Total Common Line" represents. SWBT has also provided electronic versions of its ICAS system. SWBT has used this same methodology to derive BFP revenue requirements for all tariff data that the Commission is reviewing in this investigation (1991 through 1997).

Consistency With Historical Patterns

A simple average of SWBT's adjusted historical BFP growth rates shown on Worksheet 4 would yield an average growth rate of 6.2%. If the two outliers are removed, the 1994 (3.5%) and 1995 (9.6%), the average growth rate would be approximately 6%. Table 3 summarizes the development of a 1997-1998 tariff period BFP revenue requirement assuming the use of a historical trending method.

**Table 3 -Forecast of 1997-1998 BFP Revenue Requirement
Historical Trending Method**

	Source	Amount
1. 1996 Normalized Rev. Req.	Worksheet 4	\$1,077.0M
2. Average Growth Factor (1.5 yrs)	See Above	1.09
3. Initial Estimate	L1*L2	\$1,175.3M
4. One Time Adjustments		
A. OPEB 4310	Worksheet 6	(\$17.0M)
B. OB&C Rule	Attachment 6	\$1.2M
C. Payphone Deregulation	Worksheet 8	\$18.3M
5. 1997-1998 Forecast	L3+L4A..L4C	\$1,177.8M
6. 1997-1998 Forecast Filed	Attachments 5.6	\$1,094.5M
7. Difference	L5 - L6	\$83.3M

As shown in table 3 above, use of a historical trend will result in a higher forecast of SWBT's 1997-1998 BFP revenue requirement. The historical trending approach yields an amount that is approximately \$83.3million or 7.6% higher than SWBT's submitted forecast. While SWBT's BFP forecast is not completely consistent with the historical approach, it is not surprising that the historical approach yields a higher revenue requirement. As shown by the historical data above, SWBT has consistently underestimated the BFP forecast amount. The reason for the inconsistency is very likely due to the same reasons as those related to the historical data. Mainly, SWBT will introduce new separations studies that will shift costs to the loop category. In particular, loop COE circuit equipment is growing substantially due to the increasing deployment of subscriber carrier systems. This growth will likely continue to be reflected in future separations studies. Additionally, SWBT continues to be conservative in its estimates of costs for budgets.

Pacific Bell Response

Pacific submits PTCA Attachments BFP - 11, BFP - 12, BFP - 13 and BFP - 14 to document the calculation of the 1997-98 BFP revenue requirement projection.

PTCA Attachment BFP - 11 calculates the 1996 Common Line revenue requirement for both Pay Telephone and Base Factor Portion using ARMIS 43-04 data. It further subdivides Pay Telephone Payphone Set and Payphone Line. Payphone C&WF and COE Transmission equipment were direct assigned to Payphone Line while Payphone Information Origination/Termination equipment was directly assigned to Payphone Set. Part 69 rules were used to develop allocators to allocate the rest of the Pay Telephone costs between Set and Line. Payphone Line and BFP costs are summed in the last column of BFP - 11.

PTCA Attachment BFP - 12 calculates the 1997-98 BFP including the BFP-11 adjustment for Payphone Line. Pages 1 to 3 develop the BFP factors to be applied against 1997-98 budget amounts. Page 1 contains the 1996 Subject to Separations data. Page 2 contains the 1996 BFP data adjusted for Payphone Line. Page 3 calculates the factors by dividing amounts on page 2 by amounts on page 1. The assumption is that the most recent calendar year relationship of BFP to subject to separations is a good predictor of the tariff projected period because it is the closest in time to the tariff period. Page 4 of BFP - 12 displays the 1996 values for selected FCC Part 65 adjustments that are not budgeted. Those adjustments are carried forward to the 1997-98 revenue requirement projection. Again, the assumption is that those adjustments remain relatively stable and that the most recent year is a good indication of the future for the tariff period.

Page 5 of BFP - 12 displays the 1997 and 1998 subject to separations budget amounts. The data is built up from projections by business units after planning for the future years, adjusted for any corporate imposed constraints. Assumed here is that it is possible to reasonably predict what will be spent and to anticipate any extraordinary issues.

Page 6 of BFP - 12 applies the factors from page 3 to the budget amounts on page 5 and adds the selected Part 65 adjustments from page 4 to arrive at the BFP revenue requirement. This revenue requirement takes into account the Payphone Order. It also takes into account the treatment of Account 4310 by including all of Account 4310 in the Subject to Separations budget isolated impact of the Account 4310 rule change is shown on PTCA Attachment BFP - 13.

PTCA Attachment BFP - 14 calculates the adjustment for the Other Billing & Collection (OB&C) rule change and the total 1997-98 projected BFP revenue requirement. The OB&C change is based on the "what-if" run in Pacific's Part 36 and 69 allocation system, ISAACS. Data from 1995 was used as a base and the results are displayed in Column (a). The documentation for the 1995 calculation is shown in PTCA Attachment OBC - 8. Also in OBC - 8 is a summary of the OB&C impact on 1996 Common Line revenue requirements from the OB&C change. That amount is used to adjust the numbers from 1995 to a 1996 basis in Column (b). Column (c) displays growth factors for the 1997-98 tariff period versus 1996 based on the calculation contained on Workpaper IVC-1 in Transmittal No. 1925. Column (d) multiplies the growth factors by the OB&C 1996 adjustment amounts in Column (b). Column (d) is then added to Column (e) which contains the BFP revenue requirement from 1997-98 calculated on BFP - 12 to arrive at the forecast in Column (f).

Again, the key assumptions in this process are (1) that the most recent calendar year data is a reasonable predictor for the BFP to Subject to Separations relationship and (2) that the budget process can reasonably predict the future levels of Subject to Separations costs.

Nevada Bell Response

Nevada Bell's tariff year BFP revenue requirement process begins with a total company budget from its finance department. Because it is a split year, Nevada Bell uses the average expense for the two years and the plant and reserve balances as of the end of the first year which is a mid-point. This information is analyzed and adjusted, if necessary, to reflect historical trends in expense. The analysis of the budget is provided as Exhibit NV-BFP-C. It is included in the spreadsheet file named NV-BFP-A.wk4. The total operations is then adjusted to develop Subject to Separations amounts. The 97/98 Subject to Separations workpaper is provided as Exhibit NV-BFP-A along with the spreadsheet file named NV-BFP-A.wk4. This is the dollar input into Nevada Bell's Part 36/69 separations model which is called Telebase. The Telebase run uses current separation factors adjusted for tariff year rule changes. The separation study included the new treatment of OPEB as well as the new OB&C allocator. The 97/98 Telebase is provided with a request for confidential treatment as Exhibit NV-BFP-B along with the spreadsheet file named NV-BFP-B.WK4. The Telebase run was complete except for the Payphone Line adjustment. Exhibit NV-BFP-D finalized the BFP revenue requirement by adding this additional revenue requirement. This exhibit is also included in the file named NV-BFP-D.xls. The Designation Order describes the pay adjustment with 1996 results. Nevada Bell's 1997 tariff filing utilized 1995 data. Both calculations are included in Exhibit NV-BFP-D. Historically Nevada Bell has underestimated the tariff year revenue requirement. However, this year Nevada Bell is in trend as shown on Exhibit NV-BFP-4, line 12.

Paragraph 27

Additionally, for the 1997-1998 tariff year, each price cap LEC shall show separately the adjustments for the recent OB&C Order⁴ and the Payphone Reconsideration Order,⁵ that were reflected in its recent BFP revenue requirement projections. This showing must include a complete explanation and full documentation of the data, assumptions, and methodology used to derive these adjustments. Finally, each price cap LEC shall indicate whether it has followed the same methodology to derive its BFP revenue requirement for each year between 1991 and 1997, and, if not, must (1) explain why it changed methodologies in each case; (2) provide complete explanations of the ways in which any previous methodologies differ from the methodology used in preparing the BFP revenue requirement projection for the 1997 annual access tariff filing; and (3) explain the effect these changes had on their projections for the 1997-98 tariff year.

Southwestern Bell Response

Adjustments for OB&C Order and Payphone Reconsideration Order

To account for the impact of the OB&C Order, SWBT modified the separations factor for other Billing and Collection expense to reflect a 33% allocation to interstate services. To accomplish this, SWBT adjusted line 7251 of the ICAS worksheet included in Attachments 5.1 through 5.5. SWBT's part 36 and 69 study was processed with this revised factor. While SWBT has not isolated the impact of OB&C for the 1997-1998 forecast, the exogenous cost change submitted by SWBT identifies the impact of OB&C on 1996 base year data. This reasonably approximates the OB&C impact for the tariff period. Attachment 6 contains worksheets which summarize the impact.

Adjustments made to account for the impacts of the Payphone Order are shown in Attachment 7. This attachment shows SWBT's estimates of the payphone costs that were deregulated pursuant to the Commission's Payphone Order. SWBT estimated the current amount of book costs associated

⁴ Amendment of Part 36 of the Commission's Rules and Establishment of a Joint Board, Report and Order, 12 FCC Rcd 2679 (OB&C Order).

⁵ 11 FCC Rcd at 2733.

with pay telephone sets. SWBT did not have Part 64, Cost Allocation Manual, data available at the time of its filing. To estimate the deregulated costs, SWBT directly identified investment, maintenance, depreciation, reserves, and pay telephone administrative expenses. Other expenses or indirect expenses were allocated to pay telephone using the Commission's Part 69 Rules. The costs identified are summarized on Attachment 7. SWBT adjusted subject to separations amounts to remove the payphone related costs. The modified data was processed through SWBT's Part 36 and 69 allocation process. To estimate the impact on BFP, SWBT processed a "what-if" using the payphone data. The BFP revenue requirement impact related to payphone is summarized in Worksheet 8.

Pacific Bell Response

The methodology and calculations of the adjustments for the OB&C Order and the Payphone Reconsideration Order reflected in the BFP revenue requirement calculations are discussed in the response to Paragraph 26 above.

Pacific data has followed the same methodology of deriving BFP factors from the most recent calendar year, adjusted that data for any anticipated rule changes, and multiplied those factors by budgeted amounts for each of its annual price cap filings.

Nevada Bell Response

Nevada Bell's Exhibit NV-BFP-9 details the effects of the OB&C Order and the Payphone Reconsideration Order.

The tariff period BFP revenue requirement projection for Nevada Bell has been made in the same manner since the 1991/1992 tariff filing. The process is explained in response to Paragraph 26.

Paragraph 30

LECs that have adjusted their methodology over time must provide the same information regarding their projection methodology for 1995-96 and 1996-97 tariff years that we require for their most recent BFP revenue requirement projections. In order to understand current projections and to compare them to previous projections, we find it necessary to be able to replicate at least two previous BFP revenue requirement projections.

SBC Companies' Response

The SBC Companies did not change their methodology for forecasting BFP revenue requirement.

Therefore, no data is attached.

Paragraph 31

All price cap LECs must provide the past actual average number of total billable access lines, multi-line business lines, residential and single-line business lines, for the past six tariff years (beginning with the 1991-1992 tariff years), using ARMIS data, if available, and the projections of these lines filed for each of these tariff years. If ARMIS data are not available for a particular LEC, the LEC must use company records to provide this information.⁶ For periods where the difference between the actual number of lines and the projected number of lines is significant, we require LECs to explain in detail the difference between their projection and the actual number of lines. As in the case of BFP revenue requirements, we define a difference to be "significant" for this purpose if the projected percentage change is greater than 10 percent of the actual percentage change.

Southwestern Bell Response

In nearly every instance, the ARMIS data show that the projected line growth deviated "significantly" from the actual average line growth. Exhibit 1SW, compares the actuals and forecasts which were nearly always too low. These forecasts were developed using information supplied from field (state

⁶ LECs must calculate the "average" number of lines for any given tariff year by dividing by five the sum of the line counts from the last day of each quarter of that tariff year (September 30, December 31, March 31, and June 30) and the line count from the last date of the previous tariff year (June 30 of the previous tariff year). In addition to average line counts calculated using this quarterly method, LECs may also supply average line counts calculated by dividing by 13 the sum of their line counts for the last day of every month of the tariff year and the line count for the last day of the last month of the previous tariff year.

or market area) personnel concerning market growth expectations. This information was modified based on observed trends in the historical data, but in the final analysis the forecasts were founded on judgment.

History and forecasts of total billable lines, total residence lines, business single line and business multi-line for the tariff periods from 1991-1992 through 1996-1997 are compared in Exhibit 1SW. The resulting forecast miss ranges from 4,254 to 244,819 in absolute value, while the range of absolute percentage errors varies between 0.16% and 2.88%, as a percent of lines in-service. Twenty of the twenty-four forecasts proved to be low, including all of the total billable line forecasts, while only four forecasts were high. While the forecast errors are well within normal tolerance ranges, they fall outside the prescribed 10% of actual percentage growth criterion, except in two cases. Of the remaining twenty-two cases, ten occurred in periods when actual growth was less than 3.0%, which translates into a tolerance of plus or minus 0.3% of lines in-service, a level at which significant deviations would likely be the norm rather than the exception for all but the most stable series.

These forecasts were developed using information supplied from field operations organizations concerning market growth expectations. This information is then modified to account for differences from observed trends and trend shifts in the historical data. The filed forecasts, therefore, are a product of analyst judgment informed by the best opinion from field operations. The consistent underforecasting is indicative of a period of accelerating trends, when historical data have yet to evidence the full measure of the acceleration.

Pacific Bell Response

In each of the 1991 through 1996 tariff years, the end-user demand counts forecasted by Pacific Bell differed from the actual observed growth by relative amounts that could, if considered in the narrow context of the above question, be construed as “significant”. While the true statistical significance of the 10% variance allowance lies open to challenge, the fact remains that the company’s forecasting of end-user demand has been problematic. The reason for this rests primarily with the uncertainty surrounding the convergence in the past several years of market changes that are both secular and cyclical in nature. These changes have compelled the company to revise traditional forecasting assumptions continuously, and this process of revision is ongoing.

Since 1992 Pacific Bell has consistently underestimated its growth in end user demand. In the 1991-1992 tariff year the degree of variance between actuals and forecast was relatively small. (In fact, the variance would not have been considered “significant” at all even under the Bureau’s definition set forth, if growth were then at 1995-1996 levels.) In 1992-93 the company underestimated the rate at which the California economy would emerge from recession. In more recent years the company has struggled to correctly anticipate the effects of changes that are more secular than cyclical.

Local competition has quickly taken root in California. Recognizing this trend, Pacific projected a greater market share loss than was realized. This was partially in response to the very aggressive claims that competitive carriers were making at the time. More importantly, however, Pacific did not predict that the effects of these losses in existing market share would be more than offset by a growth in the market as a whole. This growth was being driven by the other relevant major secular change that was, and still is, transforming the technology sector, i.e., the internet. The popularity of the internet, especially in California, fueled by “one price fits all” pricing, caused end-user demand to

jump dramatically in the last two years. The true social impact as reflected, for example, by the burgeoning interest in telecommuting and on-line commerce, was not successfully predicted in either the 1995 or 1996 forecasts, a fact that is unsurprising given the secular nature of the market shift.

Nevada Bell Response

Exhibit NV-BFP-10 shows quarterly historical ARMIS report data for the period December 1990 through June 1997. Exhibit NV-BFP-11 shows the computed five-quarter average of the historical data from Exhibit NV-BFP-10. It also shows the calculation of the percentage change of the actual percentage change, as required. The designation "N/A" is used where no historical forecast was issued. Significant formulas have been footnoted.

Paragraph 32

We require each LEC that had a significant difference between its projection of lines and the actual number of lines in any tariff year (1991-1996) to identify separately for those years the variables used to forecast end-user demand, and the weight given to each variable. Additionally, each such LEC must provide information concerning, at least, the two most significant individual variables that did not change as expected and thus resulted in an inaccurate projection of end-user demand. We also require these LECs to explain whether, and why, they expect such unexpected changes to be evidence of a change in the underlying trend of end-user demand, or a one-time event that does not affect the overall trend of end-user demand. A separate explanation must be provided for each individual class of lines (*i.e.* multi-line business, single-line business, and residential) and for total lines.

Southwestern Bell Response

Since the forecasts are rooted in judgmental rather than quantitative methods, no precise quantification of the impact of particular independent (explanatory) variables is possible. However, the national economic expansion, increased sales of Additional Residence Lines and businesses' increased reliance on telecommunications have played a leading role in the growth of lines outpacing our forecasts in recent years.

Pacific Bell Response

For the reasons cited in response to Paragraph 31, there is no absolute weighting assigned to the variables involved in Pacific Bell's demand forecasts. When attempting to quantify a set of conditions that is historically without precedent (such as the emergence of local competition), the company makes determinations that do not necessarily consider traditional weightings. Also, Pacific Bell cannot provide a disaggregated forecast of line demand by individual line classification. Forecasts are based on total line count or Customer Premises Terminations (CPTs) and cannot be analyzed to isolate the forecasting accuracy of the individual line-type components.

Nevada Bell Response

Nevada Bell uses its monthly forecast of network access-line growth to forecast end-user demand. From this forecast, Nevada Bell calculates the monthly percentage of projected-total access-line growth. This percentage is applied to actual end-user demand for the prior year. The resulting forecast of total end-user demand is then separated into its components (i.e. multi-line business single line business and residential) based on the prior year's actual component-percentage of the total. (See Exhibit NV-BFP-12.)

The primary reason Nevada Bell's forecasts for the components of end-user demand vary so much from actual component-demand is because the model does not apply individual-component growth rates to historical data. It applies the total projected growth rate to historical data.

Nevada's Bell's forecasts for Total Billable Access Lines were primarily based on input from Engineering, Sales and various field personnel tempered with the results of trend analysis. These estimates have been consistently low because too much emphasis has been placed on trending. Trend analysis does not capture the magnitude of growth that Nevada Bell has experienced over the last

several years. For example, Exhibit NV-BFP-13 was prepared in the same manner as Exhibit NV-BFP-11 except that the Excel growth function was used to calculate the forecast for the periods 94-95 through 96-97. Using this trend analysis, the resulting forecasts prove to be only slightly better than those in Exhibit NV-BFP-11. However, none of the actual percentages of change in Exhibit NV-BFP-13 are within the “acceptable” range.

Paragraph 33

We also require that each LEC either: (1) demonstrate that the projection for the 1997-1998 tariff year is consistent with the value predicted by the historical trend of end-user demand; or (2) state specifically the underlying factor or factors that they expect will change, and the projected effect(s) of the expected change(s), expressed in a numerical prediction. For example, if the LEC cites an expected increase in the demand for second lines, it must provide an analysis that justifies this expected demand increase. To demonstrate whether projections are consistent with historical trend, LECs must provide trend analyses using the actual number of lines and the natural logarithm of the number of lines, as reported in ARMIS, if available. These trends must be estimated separately for total billable lines, residential lines, multi-line business lines, and single-line business lines, using calendar year data from 1991-1996. We also require LECs to explain any significant differences between the projection filed in their 1997-98 Annual Access Tariffs, and the forecasts derived from the trend analysis we are requiring.⁷ Those price cap LECs that are unable to demonstrate that their projections for tariff year 1997-1998 are consistent with the historical trend must also explain and document the data and methodology used to derive their EUCL demand projections filed in their 1997-1998 TRP. All worksheets used to derive these projections must be filed both electronically, in a format compatible with EXCEL 4.0, and in hard copy. As in the case of BFP revenue requirement projections, carriers are required to provide the requested information on a company-wide basis, but may, in addition, provide this on a study-area, or smaller, basis if they desire. LECs should also explicitly show the number of public payphone lines they are projecting for tariff year 1997-98. In addition, each LEC must indicate the number of semi-public payphones that, prior to the Payphone Reconsideration Order,⁸ it charged single-line business EUCL charges, but will now charge multi-line business EUCL charges. These projections must be compared with historical counts of public

⁷ We use the same definition for significant as defined in the case of BFP revenue requirements and comparison of past actual and projected end-user demand. See, supra ¶ 17.

⁸ 11 FCC Rcd at 21323-21324.

and semi-public payphone lines. Additionally, LECs must explicitly show how they are treating ISDN lines in their 1997-98 projections.

Southwestern Bell Response

Exhibit 2SW displays the comparison of the linear and log linear projections to the forecasts filed. The forecasts call for more robust growth than the trend models. This is primarily due to the accelerating growth profile that was evident in the actual growth rates presented in Exhibit 1SW. To illustrate the point, the log linear model was fit to the 1994-1996 historical period and the resulting growth projections are shown in Forecast Table III. on page 3 of Exhibit 2SW. While this produced a more robust growth profile that is closer to the Tariff filing forecast, the differences are still outside the given tolerance level of 10% of the trend growth rate.

Closer examination of the historical data does allow us to find justification for the judgmental forecasts. For example, the growth in total billable lines was 5.47% from 3Q95 to 3Q96. This rate would indicate not only that the forecasted growth is within the 10% range, but also provides part of the basis (along with other year over year growth measures) for judging that total billable line growth will accelerate in the near term.

Exhibit 2SW displays the linear and two log-linear projections to the forecasts filed. The 1997-1998 tariff filing forecasts call for more robust growth than any of the trend models, including the log-linear models. This is primarily due to the accelerating growth profile that is evident in the historical growth rates as presented in Exhibit 1SW. To illustrate the point, a log linear model was fit to the 1994-1996 historical period and the resulting growth projections are shown in Forecast Table III on page 4 of Exhibit 2SW. While this model produced the most robust growth profile of the three

models, the estimates still lag reported growth in the later quarters of 1996 as portrayed on page 2 of Exhibit 2SW.

While none of the models close the gap of 10% of percentage growth between the tariff filing forecasts and the model forecasts for every series, the historical base data and growth rates substantiate the tariff filing forecasts and the use of judgmental methods. For example, the annual growth in total billable lines was around 5.4% toward the end of 1996, having climbed from growth of 4.5% in the later quarters of 1995. If this acceleration continues, growth will reach 6.3% by the end of 1997. In that event, the apparently aggressive 5.98% growth forecast for 1997-1998 will be overrun much as were the total billable line forecasts from 1991-1992 through 1996-1997. The limits inherent in trend models make the judgmental forecasts preferable, particularly in periods of accelerating growth when calibration of increasing trends by regression analysis must await the passage of time, the only independent variable in trend models.

To illustrate the point further, a log-linear model was estimated based on the preceding three years of history in order to forecast the 1994-95, 1995-96 and 1996-97 periods. The results, displayed in Exhibit 3SW Tables I, II and III, indicate that the filed forecasts were superior in two cases, and of six forecasts only the filed forecast for 94-95 met the prescribed 10% criterion level.

Pacific Bell Response

While Pacific Bell's 1997-98 tariff year forecast appears to overstate demand when using a 6-year historical trend line as a basis for projection, the forecast is entirely consistent with historical demand data trended over 4 to 5 years (see Exhibit 3). Moreover, the 4 to 5 year trend has the benefit of being post-recessionary and better reflective of the recent acceleration in end-user demand.

Discrepancies with the 6-year trend line are caused by the inclusion of historical data that Pacific Bell believes is less relevant to, and predictive of, current market and competitive conditions.

Both ISDN lines and payphone lines are included in the aggregated forecast of total lines. The historical projections reflect historical payphone counts, and have been adjusted to reflect ISDN counts in accordance with recent access reform guidelines (See Exhibit 3: Notes).

Nevada Bell Response

Nevada Bell's projections for 1997-1998 vary from the Commission's required trend analysis. (See Columns (G) and (N) of Exhibit NV-BFP-11.) Nevada Bell believes that this trend analysis produces a growth rate that is too low. (See lines 6 and 11 of Exhibit NV-BFP-11.) Nevada Bell's estimates are based on annual growth rates of 5.71% and 4.62% for 1997 and 1998 as calculated in Exhibit NV-BFP-12. These growth rate estimates are based on input from engineering, sales and field personnel tempered with the results of trend analysis. Nevada Bell has also considered state demographic statistics which project a slight decline in growth from 1996. Nevada Bell believes that its end-user demand forecast for 1997-1998 for Total Billable Access Lines will be more accurate than the trend analysis because the current growth in the area has been included.

Historical data for Public and Semi-public payphone lines is included in both Exhibits NV-BFP-10 and NV-BFP-14. Exhibit 5 also show that Primary ISDN and Public Coin were included in our total 1997-1998 EUCL access line forecast.

The calculations for 1997-98 end user demand are shown in Exhibit NV-BFP-13 and are provided on diskette under the file name CPT98.XLS.

Paragraph 34

Finally, price cap LECs must file their actual and projected BFP revenue requirements on a per-line basis for each tariff year between 1991 and 1996. These revenue requirements must be calculated by dividing the actual BFP revenue requirement by total billable lines. The price cap LECs must then explain any differences between these actual per-line BFP revenue requirements and their per-line BFP revenue requirements projected in their Annual Access Tariff filing for each year.

Southwestern Bell Response

The actual and projected BFP revenue requirements on a per-line basis for each tariff year, as requested in Paragraph 34, are shown on Exhibit UNITRR. The differences between the actuals and forecasts are explained in the sections discussing the differences between the components (actual and forecasted BFP revenue requirement and demand). The difference between the forecasted and actual BFP per line did not result in a proportional undervaluation of the EUCL rates because the actual BFP per line always exceeded the \$3.50 single-line cap and sometimes exceeded the \$6.00 multi-line cap. For instance, in the 1996-97 tariff year both the forecasted and actual BFP per line exceeded these caps thus resulting in no rate or revenue difference.

Pacific Bell Response

Differences in forecast vs. actual per line BFP revenue requirements closely parallel the differences cited in the discussion of BFP forecast vs. actuals, although there is a slight mediating effect due to the divergence of forecasted demand and actual demand. Importantly, in each year the difference between forecasted and actual per line BFP revenue requirement is less than the Bureau's 10% benchmark. (See Exhibit 6, Col. I.)

Nevada Bell Response

Nevada Bell's Exhibit NV-BFP-3 contains the actual and projected per-line BFP revenue requirement on lines 7 and 8. Nevada Bell has consistently underestimated the per-line BFP revenue requirement, due mainly to the fact that actual costs have been consistently higher than budget.

II. THE SBC COMPANIES' REMOVAL OF EQUAL ACCESS EXOGENOUS COST CHANGES WAS CORRECT.

The 1997 Annual Access Order⁹ questions whether LECs have fully removed equal access expenses from their rates, pursuant to as required by the Access Charge Reform Order.¹⁰ The Bureau tentatively concludes that a revenue adjustment to the amortized non-capitalized equal access expenses, as opposed to a PCI adjustment, is a reasonable method of fully removing the amortized equal access costs from current rates.

Paragraph 42

We seek comment on the "R" adjustment used by Aliant and proposed by AT&T, particularly their use of growth rates in LECs' local switching revenue growth rates to calculate the exogenous cost adjustment. We also seek comment on whether an "R" adjustment related to the reversal of the equal access expense is or is not similar to reversal of sharing obligations. In addition, we invite parties to submit alternative proposals for measuring the downward exogenous cost true-up adjustment that LECs are required to make to account for the completion of the amortization of equal access non-capitalized expenses. Commenters must fully justify their proposals. Commenters may also address whether the Commission should prescribe the particular methodology for removing these costs or whether the Commission should

⁹ 1997 Annual Access Tariff Filings, National Exchange Carrier Association Universal Service Fund and Lifeline Assistance Rates, Transmittal No. 759, CC Docket No. 97-149, Memorandum Opinion and Order, DA 97-1350 (Com. Car. Bur., rel. June 27, 1997) (1997 Annual Access Order).

¹⁰ Access Charge Reform, CC Docket No. 96-262, First Report and Order, FCC 97-158 at ¶¶ 94-104 (rel. May 16, 1997) (Access Charge Reform Order) at para. 314.

allow LECs to use any reasonable method that completely removes the amortized equal access expenses from their rates.

SBC Companies' Response

The "R" adjustment proposed by AT&T is the same argument that was made and rejected by the Bureau for the removal of OPEB costs in the 1995 annual filings. In 1995, the Bureau rejected a revenue growth adjustment ("R") to the exogenous cost removal of OPEB costs stating, "since the Commission did not specifically require the LECs to follow the approach advocated by AT&T and MCI, we will not require the LECs to 'true-up' the reversal of OPEB amounts."¹¹ There is no basis in the record or any precedent to justify using a different methodology for the removal of equal access costs than that used for the removal of OPEB costs.

The methodology used to remove payphone costs from Carrier Common Line rates also offers no precedent for making such a revenue based adjustment to the initial price cap equal access cost recovery amount. Unlike equal access costs for which a specific rate element existed at the inception of price cap regulation, thus allowing a calculation of the specific initial price cap recovery amount, no specific payphone cost recovery rate element existed. Therefore, a surrogate for the price cap payphone cost recovery amount was calculated based on the relationship of current Common Line revenue to current Common Line costs. This methodology in no way purported to equate to an identification of an initial price cap recovery amount adjusted for the change in revenue to the current period. Other ad hoc calculations of hypothetical price cap revenue amounts for the sole purpose of

¹¹ 1995 Annual Access Tariff filings at Price Cap Carriers, Memorandum Opinion and Order Suspending Rates, (11 FCC Rcd 5461 (1995)), at para. 15 (1995 Order).

calculating temporary exogenous cost adjustments also offer no precedent for the equal access cost recovery revenue adjustment currently proposed by AT&T.¹²

Further, the current Part 61 rules only permit such adjustment for removing sharing amounts. Therefore, a rule change is required for such an adjustment to be made in this case.¹³ Such a rule change cannot be made without an appropriate notice and comment proceeding.

In the 1995 Order, the Bureau noted that U S West's 1995 annual filing Reply Comments correctly pointed out that a sharing reversal exogenous cost is different from an exogenous cost associated with a prior cost recovery in that "sharing aligns prices so that the sharing obligation is settled in one year and prices can be returned to the previous level." The 1995 Order recognized U S West's statement that "sharing adjustments have a direct correlation to "R" as revenues, and are a component of earnings that are the basis of the sharing obligation."¹⁴

The regulatory objective of the sharing reversal is to return prices to the level prior to original sharing adjustment, all else equal. The regulatory objective of the removal of non-capitalized equal access costs is to remove from prices the level of costs reflected in prices. This second objective clearly is

¹² AT&T's claim that the LECs should not adjust the initial price cap equal access cost recovery amount by the change in the PCI since January 1, 1991 is directly contradictory to AT&T's own equal access cost recovery methodology presented in its Comments filed in CC Docket No. 96-262. (Comments of AT&T Corp., filed January 29, 1997 in CC Docket No. 96-262, at Appendix F.) There, in Appendix F, AT&T's methodology was described as including an adjustment for the "same percentage that its Traffic Sensitive basket PCI has been adjusted since the inception of price caps". This adjustment was shown on AT&T's Attachment EACR-2 and **included no adjustment for revenue growth**. AT&T offered no explanation as to why its previously proposed methodology should now be held unreasonable.

¹³Responsible Accounting Officer Letter 20, Uniform Accounting for Postretirement Benefits Other Than Pension in Part 32, AAD 92-65, Memorandum Opinion and Order and Notice of Proposed Rulemaking (FCC 96-63) (rel. March 7, 1996). The Commission reversed a Bureau decision that changed the manner in which price cap LECs accounted for OPEB costs. The Bureau had made the changes in a Responsible Accounting Officer Letter without a proper rulemaking.

¹⁴1995 Order at para. 14.

distinct from the first objective; therefore, the unique R-value adjustment applied to sharing reversals should be applied only in that instance.

Paragraph 43

We direct Ameritech, Bell Atlantic, BellSouth, Frontier, GTE, Aliant, Nevada Bell, NYNEX, Pacific Bell, Rochester, SNET, Southwestern Bell, and U S West to submit data on the local switching revenue of their traffic sensitive basket as reflected in their initial price cap filings.

SBC Companies' Response

As filed in their initial price cap transmittals, local switching revenue in the traffic sensitive basket is \$216,588,000 for SWBT; \$237,582,000 for Pacific Bell; and \$9,995,000 for Nevada Bell.¹⁵

III. **PACIFIC BELL'S OTHER BILLING AND COLLECTION EXOGENOUS COST INCREASES ARE CORRECT.**

In its 1995 Annual Access Order, the Bureau asked why Pacific's interstate billing revenues increased when interstate message counts declined.¹⁶ Suspension Order, para 53. It suspended the portion of Pacific Bell's tariff that proposed an exogenous cost adjustment and designated for investigation Pacific Bell's other billing and collection expenses. The Bureau directed specific questions to Pacific Bell in Paragraphs 50 through 59 of the Designation Order. Pacific Bell responds to those questions as follows:

Paragraph 50

We require [Pacific Bell] to explain and document the process by which [it] separate[s] OB&C expense between the intrastate and interstate jurisdictions. To

¹⁵ SWBT Transmittal No. 2058, filed December 28, 1990; Pacific Transmittal No. 1519, filed December 28, 1990; Nevada Bell, Transmittal No. 117, filed December 28, 1990.

¹⁶1995 Annual Access Order, para. 53.

facilitate our analysis of that process, we also require [Pacific Bell] to explain and document the process by which[it]separate[s]the corresponding revenues, Carrier Billing and Collection Revenues.

Pacific Bell Response

Pacific Bell provides detailed explanation on the process it uses to separate OB&C expense and corresponding revenues in its responses below.

Paragraph 51(a)

Provide the user counts that were used as a basis for allocating OB&C Expense among the service categories prescribed by Section 36.380(b) of the Commission's rules. Show these counts for the following service categories: message toll telephone, exchange including semi-public, directory advertising, and private line.

Pacific Bell Response

The user counts for message toll telephone, exchange including semi-public, directory advertising and private line service categories are shown on Attachment OBC-1. The counts shown on Attachment OBC- 1 represent the annual average of the actual monthly user counts.

Paragraph 51(b)

Explain the process by which users were counted for jurisdictional separations purposes during this seven-year period. In particular, explain the assumptions (including the time period over which information was gathered) and methodologies that were used.

Pacific Bell Response

User counts are developed from reports from the Customer Record Information System (CRIS). Billing stream data is used for message, WATS and directory advertising (Enhanced White Page listings, e.g., name in bold type) user counts. Customer service record data is used to develop private line and exchange services user counts. If one or more classes of service are shown on a customer's bill, the customer is counted as a user for each class of service. For example, a customer who is billed

for flat rate residential service, toll calls within the LATA, toll calls to another LATA within the state, and interstate toll calls is counted once as a user for Local service and only once as a user for Toll service, despite having multiple jurisdictions of toll service on the bill. This is appropriate because, pursuant to the Commission's rules, toll is later allocated between jurisdictions based on message counts.¹⁷

Data was gathered monthly throughout the seven-year period from 1990 through 1996. The counts shown on Attachment OBC- 1 represent the annual average of the actual monthly user counts.

Paragraph 51(c)

Identify any discrepancies that exist between the user counts provided in response to (a) above and those that were reported in ARMIS Report 43-04. These LECs must explain why these discrepancies occurred. Similarly, they must identify and explain any discrepancies that exist between the 1990 user counts provided in response to (a) above and those that were used to calculate interstate costs when they converted from cost of service to price cap regulation.

Pacific Bell Response

There are no discrepancies between the user counts provided in response to Paragraph 51 above and the ARMIS Report 43-04 for these years. However, the 1990 user counts provided in response to Paragraph 51 above do not equal those used to calculate interstate costs in the 1990 Annual Access Tariff filing. Counts for calendar year 1990 were not available at the time of the Annual Access Tariff filing in April 1990. Consequently, counts used in the 1990 Annual Access Tariff filing were based on the historical period of April 1989 through October 1989 averaged, which provided a stable and representative basis to project future Separations data.

¹⁷ See Responses to Paragraphs 51(d) and (e).

A comparison of the 1990 actual user counts reported in the ARMIS Reports and the 1990 Annual Access Tariff Filing user counts is shown in Attachment OBC-2. The differences in the resulting percentage distributions to service categories between the two counts is less than 0.4% and is de minimus.

Paragraph 51(d)

Provide the message counts used in allocating the message toll portion of OB&C Expense between the intrastate and interstate jurisdictions.

Pacific Bell Response

The message counts used in allocating the toll message portion of the OB&C expense are provided in Attachment OBC-3. The counts displayed on Attachment OBC-3 are the annual message count totals for Pacific Bell's message-ready billing service.

Paragraph 51(e)

Explain the process by which messages were counted for jurisdictional separations purposes during this seven-year period. In particular, explain the assumptions (including the time period over which information was gathered) and methodologies that were used.

Pacific Bell Response

Message volume data is obtained from Pacific Bell's billing systems. The jurisdictional characteristic of the messages is identified by the carrier: Pacific Bell records jurisdictional data on the messages it carries; Interexchange carriers provide jurisdictional data on the records they send to Pacific Bell. Since the jurisdictional nature of the message itself is identified from the billing record, no assumptions as to the jurisdictional characteristic of the messages are necessary with regard to the message counts.

The message counts are obtained from numerous reports. Telegrams telephoned (shown as State-Other) are obtained from the SN669-PAC report prepared by Accounting. From 1992 through the present, Report CRIS 2L from Customer Record Information System (CRIS) provides Interstate IntraLATA and State IntraLATA message volumes. Prior to 1992, intraLATA volumes were obtained from the monthly MA9 report. That report was discontinued in 1992, leading to a change in the source of the data.

The message counts for messages Pacific Bell bills on behalf of interexchange carriers (State and Interstate InterLATA) are obtained from the Flexible Account Billing System (FABS) bills that Pacific Bell sends to those interexchange carriers for billing and collection services.

Paragraph 51(f)

In the event that the message counts provided in response to (d) exclude some toll messages that appear on customer bills, provide the counts for the excluded messages and explain why these message counts were not included in the allocation factor used for separating the message toll portion of OB&C Expense. Pacific Bell, for example, should provide message counts for the billed messages associated with its *invoice-ready* billing service and should explain why its allocation factor apparently includes only the billed messages associated with its *message-ready* billing service.

Pacific Bell Response

Billed messages associated with the invoice-ready billing service are provided by Attachment OBC-

4.¹⁸

¹⁸ Attachment OBC-4 revises data that Pacific Bell provided in response to questions by the Commission's staff (Letter from Jeannie Fry, SBC Communications, Inc. to William F. Caton, FCC, dated July 9, 1997). In order to meet its commitment to provide the jurisdictional detail of invoice-ready billed messages by that date, Pacific Bell estimated the jurisdictional split for 1994 and 1995 invoice-ready messages based on its invoice-ready intrastate and interstate message counts for 1996. With additional time since that response for further research, Pacific Bell has confirmed that there is no readily available actual detail on the number of invoice-ready messages identified by jurisdiction before 1996.