LECs of a much smaller portion of local switching investment for NTS than the 50% which had been cited by the Commission.[64]

The existence of variations from LEC to LEC, however, does not necessitate an investigation. There are numerous reasons why cost amounts removed could vary from company to company, such as variations from LEC to LEC in the mix and type of switches and variations in usage volumes from LEC to LEC. Indeed, the Commission, in the Access Reform Order recognized that there would be variations from LEC to LEC. As it stated,

> We do not establish a fixed percentage of local switching costs that incumbent LECs must reassign ... as NTS costs. In light of the widely varying estimates in the record, we conclude that the NTS portion of local switching costs likely varies among LEC switches.[65]

Moreover, the 50% estimation of the NTS amount cited by AT&T and MCI is based upon an estimate from NYNEX data. As the Commission stated,

> Independent estimates from Cable & Wireless and USTA, both using NYNEX data, indicated that as much as, or even more than half of local switching costs <u>may</u> be NTS.[66]

The data upon which this analysis was based was summarized by USTA, in the filing to which the Commission referred, as follows:

> Recent studies performed within NYNEX using switch vendor-provided information and considering other usage and size parameters provided by NYNEX traffic engineers, reflect that the average percentage NTS costs <u>range</u> from <u>6 percent for</u> <u>analog electronic switching systems</u> to an average of <u>51 percent</u> for <u>the most modern</u> digital systems.[67]

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basket revenues: 21.2% on p. 10 and 15.6% on p. 11. The former percentage, 21.2% is the correct percentage. The latter percentage is an apparent typographical error on the part of AT&T as it cannot be obtained from any data in BellSouth's filing.

64 AT&T at 10; MCI Comments at 3; MCI Petition at 2.

65 Access Reform Order, ¶128.

66 *Id.*, ¶ 131 [emphasis supplied].

67 USTA Comments, Attachment 2, filed January 29, 1997, Access Charge Reform, CC Docket No. 96-262.

Thus, 50% of local switching costs was not represented to be the average for all switches, but merely the average "for the most modern" digital systems. AT&T and MCI are simply misreading the Commission's reference to a 50% factor.

Moreover, although BellSouth had estimated a $ .58 line port cost in an *ex parte* contact, this was just that: an estimate. No detailed cost study had been performed at that time. BellSouth has now performed the actual analysis, and the resulting line port cost of $ .42 is based upon that analysis. The fact that an earlier higher estimate was made cannot discredit the result of this more recent, detailed analysis.[68]

C. Application of Line Port/Local Switching Investment Ratio to Revenue Requirement

As was explained in BellSouth's filing, in order to determine the amount to be removed from the Local Switching price cap basket as an exogenous cost change for line port costs, BellSouth determined an interstate revenue requirement amount.[69] This revenue requirement was based upon the ratio of NTS line port investment to total switch investment, determined as explained in Section IV.A. above. AT&T and MCI both contend that LECs should have applied this NTS ratio to local switching revenues to compute a higher exogenous cost amount which

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[68] MCI, at p. 5 of its Comments, contends that line port costs should be even higher now that the Commission has assigned more COE expense to local switching, suggesting that LECs may not have included the effect of the COE expense change. BellSouth did include this change in its analysis, as Appendix B to its D&J showed. As Exhibit 6, p. 7 of that Appendix shows, BellSouth made the adjustments for COE prior to determining the exogenous adjustment for line ports.

[69] *See* Transmittal No. 434, Appendix B, Section 2.1.

would move amounts associated with local switching revenues over and above revenue requirement amounts.[70]

In using a revenue requirement approach to determining the dollar amount of the exogenous change, BellSouth was merely following the requirements of the Access Reform Order and the rules adopted thereunder. For instance, Section 69.306(d) of the Commission's rules specifically refers to the reassignment of line port costs from local switching to common line, not to the removal of line port to local switching proportional revenues from local switching revenues. That rule states as follows:

> COE Category 3 (Local Switching Equipment) shall be assigned to the Local Switching element except as provided in paragraph (a) of this section; and that, for telephone companies subject to price cap regulation..., line-side port costs shall be assigned to the Common Line rate element.[71]

Indeed, throughout the Commission's discussion of the removal of line port costs (and trunk port costs) from local switching, the Commission consistently refers to the identification and removal of costs.[72]

Moreover, the use of a revenue requirement approach to determining exogenous cost amounts is consistent with existing precedent. In numerous filings in the past where exogenous cost changes have been made, the dollar amount of the change was based upon a revenue requirement, not a revenue, analysis.[73] For instance, in the Commission's recent GSF order which

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[70] AT&T at 11-12; MCI Comments at 4; MCI Petition at 3-4.

[71] Section 69.306(d). A similar cost-based rule was established for the removal of trunk port costs from local switching. Section 69.106(f)(1) provides for the removal from local switching revenues port "costs" not port revenues.

[72] Access Reform Order, ¶¶ 125-135.

[73] *See, e.g.*, BellSouth Transmittal No. 121, filed June 17, 1993; BellSouth Transmittal No. 105, filed April 2, 1993; BellSouth Transmittal No. 42, filed June 29, 1992; BellSouth

required LECs to make an exogenous cost change to reallocate GSF amounts, the Commission stated,

> This exogenous cost change must reflect each LEC's new revenue requirement, include all effects arising from this increased allocation to the nonregulated billing and collection category, and must be based on an 11.25% return on capital investment.[74]

It is clear from this precedent, as well as the applicable rules discussed above, that BellSouth has used the correct approach. There is simply no lawful basis for the alternative approach advocated by AT&T and MCI.

V. CONCLUSION

As is demonstrated in this Reply, commenters have provided no basis for a suspension and investigation of BellSouth's Transmittal No. 434. BellSouth has responded to the various matters raised, has provided a full explanation of its filing, and has shown that it has implemented the Access Reform Order in accordance with the Commission's rules. Although BellSouth has independently identified errors in its filing, as discussed herein, it is making the necessary revisions in Transmittal No. 435 being made this same date. Accordingly, the Commission should reject commenters' requests for a suspension and investigation and should permit BellSouth's tariff, as revised, to take effect on January 1, 1998, as scheduled.

Transmittal No. 380, filed April 2, 1991; BellSouth Transmittal No. 363, filed December 28, 1990.

74 Access Charge Reform, Transport Rate Structure and Pricing, CC Docket Nos. 96-262 and 91-213, Third Report and Order (FCC 97-401), released November 26, 1997, ¶ 49.

Respectfully submitted,

BELLSOUTH TELECOMMUNICATIONS, INC.

By: Rebecca M. Lough

M. Robert Sutherland
Richard M. Sbaratta
Rebecca M. Lough

Its Attorneys

Suite 1700
1155 Peachtree Street, N. E.
Atlanta, Georgia 30309-3610
(404) 249-3390
Fax: (404) 249-2118

Date: December 17, 1997

EXHIBIT A

LEC REALLOCATION OF 1/3 TANDEM SWITCH REVENUE REQUIREMENT FROM TIC

CORRECTED VERSION OF AT&T EXHIBIT D

	LTR Filing Transmittal No.	20% of Tandem Switch Rev Req Included in Rates (A)	Total Original Tandem Switch Rev Req (B)=(A*5)	80% of Tandem Switch Rev Req Included in Original TIC (C)=(B*80%)	Original TIC (1993) (D)	Ratio (E)=(C/D)	June 30, 1997 TIC Rev Req (F)	Extant Portion of TIC Subject to Reallocation (G)=(E*F)	As Filed Extant Portion of TIC Subject to Reallocation (H)	Difference From Filing (I)=(G-H)
BellSouth: Per AT&T's Exhibit D	#165	11,015,591	55,077,955	44,062,364	254,392,026	17.32%	300,108,192	51,980,703	48,775,237	3,205,466
BellSouth: As Corrected	#178	N/A	54,995,000 **(1)**	43,996,000	270,702,120 **(2)**	16.25%	300,108,192	48,775,237	48,775,237	(0)

(1) There is no need to multiply the 20% of tandem switch revenue requirement by 5 to calculate the original tandem switch revenue requirement when the total original tandem switch revenue requirement was filed in the supporting workpapers of the Transmittal #178 filing. The original tandem switch revenue requirement can be find on workpaper LTR-H, Page 1 of 1, Line 27.

(2) Not only did AT&T pull the original TIC revenue from the wrong filing, but AT&T also failed to include the DA interconnection impact. The original TIC should be determined by adding the interconnection charge requirement in Transmittal #178, workpaper LTR-K, Page 1 of 1, Line 7 to the DA interconnection revenue recast found on workpaper LTR-I, Page 1 of 1, Line 35.

CERTIFICATE OF SERVICE

I hereby certify that I have this 17th day of December, 1997 served the following parties to this action with a copy of the foregoing **REPLY OF BELLSOUTH TELECOMMUNICATIONS, INC.** by facsimile and by placing a true and correct copy of the same in the United States Mail, postage prepaid, addressed to the parties at the addresses and facsimile numbers listed below.

Alan Buzacott
Regulatory Analyst
MCI Telecommunications Corporation
1801 Pennsylvania Avenue, NW
Washington, D. C. 20006
Phone: (202) 887-3204
Fax: (202) 887-2204

Mark C. Rosenblum
Peter H. Jacoby
Judy Sello
AT&T Corp.
Room 324511
295 North Maple Avenue
Baking Ridge, New Jersey 07920
Phone: (908) 221-8984
Fax: (908) 953-8360

Richard Juhnke
Norina T. Moy
Sprint Communications Company, L. P.
1850 M Street, N. W., Suite 1110
Washington, D. C. 20036
Phone: (202) 857-1030
Fax: (202) 857-1792

S. C. Shackelford