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March 29, 2005

Ms. Marlene Dortch  
Secretary  
Federal Communications Commission  
445 12<sup>th</sup> Street, SW, TW-A325  
Washington, DC 20554

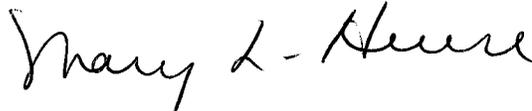
***RE: CC Docket 93-193, 1993 Annual Access Tariff Filing and CC  
Docket 94-65, 1994 Annual Access Tariff Filing***

Dear Ms. Dortch,

Attached please find BellSouth's initial response to the Commission's March 17, 2005 Order regarding the 1993 and 1994 Access Tariff Filings. In that Order, the Commission requested that BellSouth meet with staff by April 18, 2005 to respond to issues raised about its access tariff refund plan. BellSouth is providing this initial response in writing to allow Commission staff ample time to review it prior to that meeting.

If you have any questions please do not hesitate to contact me at (202) 463-4109.

Sincerely,



Mary L. Henze

Attachment

cc: T. Preiss  
J. Nitsche

In its March 17, 2005 Order addressing the refund plans of LECs in connection with the 1993 and 1994 Access Tariff filings, the Wireline Competition Bureau (“WCB”) stated that it appeared that BellSouth had incorrectly calculated its sharing obligations. (¶ 11) For both filings, BellSouth calculated its sharing obligation as 50 percent of the earnings in excess of 12.75 percent. The WCB noted that under the price cap rules in effect at the time, LECs who selected a 3.3 percent productivity factor were required to share 50 percent of the earnings between 12.25 percent and 16.25 percent and those who selected a 4.3 percent productivity factor were required to share 50 percent of the earnings between 13.25 percent and 17.25 percent. In directing BellSouth to recalculate its sharing obligation, the WCB presumed that any given access filing could only reflect a sharing obligation associated with one productivity offset, 3.3 percent or 4.3 percent. That presumption is incorrect.

The Order overlooks the fact that the earnings period from which sharing amounts were determined were based on calendar year earnings. Productivity factors (which determine sharing amounts) were selected with each annual access filing. The annual access period was July 1 of the filing year until June 30 of the following year. Thus, for example, the 1993 annual access period was between July 1, 1993 and June 30, 1994. The 1993 Annual Access Filing reflected the selection of a 3.3 percent productivity factor for the 1993 annual access tariff period. In addition, the 1993 filing reflected BellSouth’s sharing obligation based on 1992 calendar year earnings (without add-back). The amount of BellSouth’s sharing obligation is based on the productivity offset BellSouth selected in prior annual access filings. In the 1991 Annual Access Filing (covering the period July 1991 to June 1992), BellSouth selected a 3.3 percent productivity factor. In the 1992 Annual Access Filing (covering the period July 1992 to June 1993), BellSouth selected a 4.3 percent productivity factor.

Thus, in order to determine the amount of calendar year 1992 earnings that must be shared, the calculation must take into account the fact that half of the calendar year period is governed by a 3.3 percent productivity offset (associated with the 1991 Annual Access Filing) and the other half of the year is governed by a 4.3 percent productivity offset (associated with the 1992 Annual Access Filing). To properly calculate the sharing amount associated with 1992 calendar year earnings under these circumstances, a blended earnings threshold of 12.75 percent is used. The 12.75 percent threshold reflects the fact that for half of the year, BellSouth has a sharing obligation with respect to earnings that exceed 12.25 percent, and a sharing obligation for the other half of the year with respect to earnings that exceed 13.25 percent.

In the 1994 Annual Access Filing, BellSouth again used the 12.75 percent threshold because the sharing of calendar year 1993 earnings reflected two different productivity offsets. The first half of calendar year 1993 was governed by the 4.3 percent productivity factor selected in the 1992 Annual Access Filing and second half of the calendar year was governed by the 3.3 percent productivity factor selected in the 1993 Annual Access Filing.

BellSouth used the blended 12.75 percent threshold to calculate its sharing obligation in the 1993 and 1994 Annual Access Filings. (See Exhibit A-11 from the 1993 Annual Access Filing and Exhibit A-10 from the 1994 Annual Access Filing). The use of this method to calculate sharing obligations in the original filings was accepted and not part of the Sharing Add-Back Investigation. In concluding its Add-Back investigation last year, BellSouth was directed to calculate the additional sharing associated with add-back. Add-back raises the total earnings dollars in a given calendar year. It does not affect the productivity factor selections that govern the calculation of the sharing amount or the methodology to reflect sharing for a calendar year with two different productivity factor levels.

The methodology BellSouth used in its refund plan to calculate its sharing obligation is exactly the same as that used in the 1993 and 1994 filings. It properly reflects the multiple productivity offsets that were applicable to 1992 and 1993 earnings. Accordingly, the pre-interest sharing obligation calculation by BellSouth is correct in its refund plan.

As an additional point of clarification, BellSouth's refund plan did take into account headroom for each price cap basket for each tariff period at issue here. Line 100 of Exhibit 6 of BellSouth's refund plan shows the proposed revenue by basket for both the 1993 and 1994 Annual Access Filings. This line reflects the revenues generated by the rates that were established in each of these filings and, therefore reflects the actual API for each of these tariff periods for each of the baskets. To the extent that these APIs were less than the PCI for the basket, they reflect headroom by basket. Line 140 shows the sharing adjustments associated with add-back (*i.e.*, sharing amounts not included in the original filings). Line 150 shows the maximum allowable revenue by basket after adjusting for sharing including add-back. The amount to be refunded by basket is determined by subtracting Line 150 from Line 100 and is shown on Line 180. To the extent that Line 180 is less than Line 140, it reflects the fact that rates reflected in the Actual API were below the PCI (prior to the add-back adjustment).

THE BELLSOUTH TELECOMMUNICATIONS, INC.

TRANSMITTAL NO. 105

1993 Annual Price Cap Tariff Filing

April 2, 1993

1992 SHARING CALCULATION WORKPAPER

EXHIBIT A-11  
PAGE 1 OF 1

Productivity Factor Selection and Sharing Threshold Rates of Return:

1/92-6/92 (1991 Annual Filing) = 3.3%; 12.25% Sharing Threshold ROR  
7/92-12/92 (1992 Annual Filing) = 4.3%; 13.25% Sharing Threshold ROR

<u>COMPONENT</u>	<u>FORMULA</u>	<u>RESULT</u>
1. Rate Base	From Initial 1992 FCC 492 Report	4,640,487,796
2. Realized ROR	From Initial 1992 FCC 492 Report	13.03%
3. ROR Over Threshold ROR	13.03% - 12.75%	0.28%
4. Return	From Initial 1992 FCC 492 Report	604,565,292
5. 50% Shared Earnings	$[\text{Rate Base} \times (\text{Realized ROR} - \text{Threshold})] / 2$	6,496,683
6. FIT Gross-Up Factor (FIT Rate = 34%)	$\text{FIT Rate} / (1 - \text{FIT Rate})$	0.5152
7. FIT Gross-Up Amount	$[\text{FIT Rate} / (1 - \text{FIT Rate})] \times$ Shared Earnings	3,347,091
8. SIT Gross-Up Factor	Composite SIT Rate / 1-Composite SIT Rate (Composite SIT Rate for BellSouth = 6.36%)	0.0598
9. SIT Gross-Up Amount	$[(\text{Shared Earnings} + (\text{Shared}$ $\text{Earnings} \times .5152)) \times (\text{Composite}$ $\text{SIT Rate} / 1 - \text{Composite SIT Rate})]$	588,658
10. 50% Sharing Amount without Interest	Shared Earnings + FIT Gross-Up Amount + SIT Gross-Up Amount	10,432,432
11. 50% Sharing Amount with Interest @ 11.25%	$(\text{Shared Earnings} + \text{FIT Gross-Up}$ $\text{Amount} + \text{SIT Gross-Up Amount})$ $\times 1.1125$	11,606,080

BELLSOUTH TELECOMMUNICATIONS, INC.  
1994 ANNUAL ACCESS CHARGE TARIFF FILING  
TRANSMITTAL NO. 197  
APRIL 1, 1994

1993 SHARING CALCULATION WORKPAPER

Productivity Factor Selection and Sharing Threshold Rates of Return:

1/93 - 6/93 (1992 Annual Filing) = 4.3%; 13.25% Sharing Threshold ROR  
7/93 - 12/93 (1993 Annual Filing) = 3.3%; 12.25% Sharing Threshold ROR

<u>COMPONENT</u>	<u>FORMULA</u>	<u>RESULT</u>
1. Rate Base	From Initial 1993 FCC 492A Report	4,625,661,807
2. Realized ROR	From Initial 1993 FCC 492A Report	13.72%
3. ROR Over Threshold ROR	13.72% - 12.75%	0.97%
4. Return	From Initial 1993 FCC 492A Report	634,779,037
5. 50% Shared Earnings	[Rate Base x (Realized ROR - Threshold)]/2	22,434,459
6. FIT Gross-Up Factor (FIT Rate = 35%)	FIT Rate / (1-FIT Rate)	0.5385
7. FIT Gross-Up Amount	[FIT Rate / (1-FIT Rate)] x Shared Earnings	12,080,956
8. SIT Gross-Up Factor	Composite SIT Rate / 1-Composite SIT Rate (Composite SIT Rate for BellSouth = 5.74%)	0.0609
9. SIT Gross-Up Amount	[(Shared Earnings + (Shared Earnings x .5385)) x (Composite SIT Rate / 1 - Composite SIT Rate)]	2,101,989
10. 50% Sharing Amount without Interest	Shared Earnings + FIT Gross-Up Amount + SIT Gross-Up Amount	36,617,404
11. 50% Sharing Amount with Interest @ 11.25%	(Shared Earnings + FIT Gross-Up Amount + SIT Gross-Up Amount) x 1.1125	40,736,862

**BellSouth**  
Rate Adjustment Summary

1993

	<u>Common</u> <u>Line</u>	<u>Traffic</u> <u>Sensitive</u>	<u>Special</u> <u>Access</u>	<u>Trunking</u>	<u>Interexchange</u>
100 1993 Filing Proposed Revenue	\$ 1,616,824,871	\$ 913,746,395	\$ 350,879,347		\$ 36,667,034
110 1993 Filing Proposed PCI	103.4731	84.8844	89.4646		98.2831
120 1993 Filing Adj w/ Addback Proposed PCI	103.2537	84.7006	89.2723		98.0745
130 1993 Filing Proposed API	N/A	84.8825	89.4455		96.4286
140 1993 Sharing Adjustments	\$ (3,106,625)	\$ (2,185,470)	\$ (845,707)		\$ (79,741)
150 1993 Adj w/ Addback Max Allowable Revenue	N/A	\$ 911,788,271	\$ 350,199,913		\$ 37,292,896
160 1993 Filed CCL Revenue (Dmd * Proposed Rate)	\$ 604,811,184	N/A	N/A		N/A
170 1993 Adj w/ Addback CCL Revenue	\$ 601,749,250	N/A	N/A		N/A
180 Refund	\$ 3,061,934	\$ 1,958,124	\$ 679,434		\$ (625,862)
<b>190 Total 1993 Refund Amount</b>	<b>\$ 5,699,492</b>				

(Common Line Refund + TS Refund + Special Refund)

1994

	<u>Common</u> <u>Line</u>	<u>Traffic</u> <u>Sensitive</u>	<u>Special</u> <u>Access</u>	<u>Trunking</u>	<u>Interexchange</u>
100 1994 Annual Filing Proposed Revenue	\$ 1,681,964,819	\$ 517,724,304		\$ 802,674,140	\$ 36,657,300
110 1994 Annual Filing Proposed PCI	101.8289	83.8963		88.7678	97.0886
120 1994 Annual Filing Adj w/ Addback Proposed PCI	101.5896	83.7009		88.5614	96.8616
130 1994 Annual Filing Proposed API	N/A	83.8959		88.7676	96.4286
140 1994 Sharing Adjustments	\$ (3,932,052)	\$ (1,215,262)		\$ (1,867,886)	\$ (87,059)
150 1994 Adj w/ Addback Max Allowable Revenue	N/A	\$ 516,520,953		\$ 800,809,592	\$ 36,821,892
160 1994 CCL Revenue (Dmd * Proposed Rate)	\$ 770,722,506	N/A		N/A	N/A
170 1994 Adj w/ Addback CCL Revenue	\$ 766,898,835	N/A		N/A	N/A
180 Refund	\$ 3,823,670	\$ 1,203,351		\$ 1,864,548	\$ (164,592)
<b>190 Total 1994 Refund Amount</b>	<b>\$ 6,891,569</b>				

(Common Line Refund + TS Refund + Trunking) Refund)

\*\*Common Line Refund = CCL Revenue - Adj w/ Addback CCL Revenue

\*\*Traffic Sensitive, Trunking, Special Access, and Interexchange Refund = Proposed Filing Revenue - Adj w/ Addback Max Allowable Revenue