OFFICE OF THE ATTORNEY GENERAL

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THE CAPITOL

TALLAHASSEE, FLORIDA 32399-1050

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Reply to:

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September 24, 1998

Ms. Blanca S. Bayo, Director
Division of Records and Reporting
Florida Public Service Commission
2540 Shumard Oak Blvd.
Tallahassee, Florida 32399-0850

Re: Special Project No. 980000A-SP

Dear Ms. Bayo:

Please find enclosed the initial comments of William Dunkel and Associates on behalf of Attorney General Robert A. Butterworth in connection with the workshop scheduled for October 1 and 2, 1998 and October 8 and 9, 1998 in this special project.

Thank you for your courtesies.

Sincerely,

Michael A. Gross
Assistant Attorney General
Office of the Attorney General
PL-01 The Capitol
Tallahassee, Florida 32399-1050
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Enclosure

cc: Anne E. Marsh
Economic Analyst
Florida Public Service Commission

All parties of record

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Florida Workshop I
October 1-2, 1998

<u>Outline</u>

Name of Speakers: William Dunkel and Tom Regan
Party: Office of Attorney General

Major Issues: Loop cost recovery, tests for subsidy, relationship among rates, "double standard" contribution analysis

THE BASIC COST RECOVERY PRINCIPLES:

•The majority of the LEC costs are common/joint/shared costs (common costs).[1]

•The loop is the largest joint/shared cost. The loop investment is over 55% of BellSouth's total investment.[2]

•Almost all industries have to deal with joint/shared costs, such as a restaurant's or store's rent.

•There are widely accepted principles for properly recovering the cost. There are three different costs which have very different meanings:

- •The "floor" is the incremental cost;
- •The "ceiling" is the stand alone cost;
- •The allocated cost is used to determine a reasonable price which is between the floor and ceiling.

•As the FCC stated,

> "Economists would say that in order to give incumbent local exchange carriers the proper incentives to build multi-service facilities, where such facilities are economically rational, cost allocated to each individual service or subset of services should be less than the stand-alone cost but greater than the incremental cost. ... These are the upper and lower bounds within which costs allocated to regulated and nonregulated services should fall."[3]

•The Florida PSC has also adopted this widely accepted principle.

> "We also reject ATT-C's argument that toll service subsidizes local rates. Public Counsel's witness Kahn conducted a stand-alone cost analysis of both local and

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[1]US West Communications, Inc Docket No. 95-049-05, Utah Public Service Commission Report and Order, page 81, Issued November 6, 1995.

[2]BellSouth 1997 ARMIS Report 43-04, ($1,445,996,000 (Line 1275) + $4,828,591,000 (Line 1455))/$10,847,728,000 (Line 2194) = 57.84%).

[3]¶20, FCC 's Notice of Proposed Rulemaking, CC Docket No. 96-112, adopted and released May 10, 1996.

toll services. Dr. Kahn testified that the results of his analysis showed that the existing rate structure is subsidy-free, and that revenues from local and toll services are above their respective incremental costs and below their respective stand-alone costs. Accordingly, both services benefit from the provision of the other, as neither is provider of nor the recipient of cross-subsidies. U.S. Sprint's witness Cornell stated she "...happen(s) to agree with witness Kahn that anything between incremental and stand-alone is neither subsidizing nor subsidized. We agree."[4]

•The properly calculated "incremental" cost includes none of the joint/shared/common costs. Since this is the minimum possible shared/joint cost recovery, this is the minimum or "floor."

•The "stand alone" cost includes 100% of all costs needed to provide the service, even if those facilities are actually shared with other services. Since this is the maximum possible shared/joint cost recovery, this is the maximum or "ceiling."

•The reasonable or fair price for a service is between these two extremes. The reasonable price is above the "floor," but below the "ceiling." The reasonable price for a service includes recovery of a portion of the costs of the facilities it shares with other services.

•The law we are addressing in this proceeding requires that a share of the joint and common costs be included in the cost.

"...and the cost of providing residential basic local telecommunication services in this state, including the proportionate share of joint and common costs." (HB4785, Section 2 of 364.025(2)(a))

APPLICATION OF THESE PRINCIPLES TO TELEPHONE SERVICES

•See Attachment A

•The residential basic exchange service rate is subsidy free–the rate is above its TSLRIC floor, but below its stand alone ceiling. It is neither paying nor receiving a subsidy.

•The intrastate toll and switched access rates are subsidy free–their prices are above their TSLRIC floor, but below their stand alone ceiling. They are neither paying nor receiving a subsidy.

THE LEC "DOUBLE STANDARD" GAME–MANY SERVICES ARE PRICED "BELOW COST" BUT THAT IS BELOW THE "STAND ALONE COST"

•Some parties claim residential basic service is "below cost". However, by the same standard, toll and switched access services are also priced "below cost." All of these services are priced below their stand alone costs.

•There is nothing wrong with being priced below the stand alone cost. The stand alone cost is the "ceiling." The proper price for a service is below the stand alone cost "ceiling".

•In their basic exchange service "contribution analysis", Sprint, GTE and BellSouth

[4] 87 FPSC 12:447 - 12:448, Florida Docket No. 860984-TP, Order No. 18598, Issued December 24, 1987.

included 100% of the loop costs.[5] A 100% allocation is the maximum allocation. This therefore establishes the ceiling or "stand alone" cost. That is the upper limit. The proper rate should be below that ceiling.

- If 100% of the loop costs are included in the "cost," then residential basic exchange, toll and switched access services are all priced below their "cost."
- However, the same LECs included zero percent of the loop cost in their "contribution analysis" for toll and switched access services. This is a double standard since it is different from the standard the LECs used in their basic exchange service "contribution analysis."
- See Attachment B to illustrate the LEC double standard.
- If the loop costs are excluded from the costs, then residential basic exchange, intrastate toll and switched access services are all priced above "cost."
- To disguise the fact that they are applying different cost standards to basic exchange service than they are applying to toll and switched access services, the LECs generally mislabel the basic exchange service "stand alone" costs as "TSLRIC" in their basic exchange "contribution analysis."[6] However, those basic exchange "TSLRICs" are not calculated following the definition of TSLRIC. Instead, they are calculated including 100% of the loop costs, which is inconsistent with the definition of TSLRIC. Instead, this is a form of stand alone cost.
- Unless the joint/shared/common facility costs are treated consistently across all services that share those facilities, the result is a misleading and distorted contribution analysis.
- To avoid being misled by mislabeling of costs, we have included a card you should carry with you throughout this proceeding. One side of that card shows how to properly determine whether a cost is a "floor" or "ceiling" cost.

TEST FOR WHETHER A COST IS A "FLOOR" OR "CEILING" COST

- If the cost of a service that shares the loop facility includes all of the loop facility cost, that is the maximum allocation. Therefore that is a "ceiling" cost–regardless of the label provided. The reasonable price should be below that cost.
- If the cost of a service that shares the loop facility includes no portion of the loop facility cost, that is the minimum allocation. Therefore that is a "floor" cost. The reasonable price should be above that cost.

THE LOOP COST DOES NOT FALL WITHIN THE DEFINITION OF COST PROPERLY INCLUDED IN TSLRIC

- The Commission has properly defined TSLRIC as follows:

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[5]Sprint Florida, Incorporated "Contribution Analysis and Total Service Long Run Incremental Cost Study", Residential, page 8 of 8. GTE cost analysis, "Binder 1", Tab 2, page 1. BellSouth cost study analysis, Section 1, page 5, "Cost Summary".

[6]For example, GTE Attachment 1, page 38188, Response to the Division of Communications' First Set of Data Requests.

"We find TSLRIC should be defined as the costs to the firm, both volume sensitive and volume insensitive, that will be avoided by discontinuing, or ncurred by offering, an entire product or service, holding all other products or services offered by the firm constant."[7]

•Other TSLRIC definitions are similar.[8]

•If an LEC discontinued basic exchange service, while continuing to provide toll and all other services, they would not avoid the cost of the loop. They would still need a facility to connect toll and other traffic to and from the premises (a loop).

•BellSouth admits that the vast majority of toll and switched access traffic is carried on the switched loops.[9]

•If LECs ceased providing basic exchange service, while continuing to provide all other services, they would only avoid the cost of local usage, and some other miscellaneous small costs. As the Washington Utilities and Transportation Commission found:

"If USWC were to exit the local residential exchange market, its revenues would decrease by about $14.00 per customer, and its costs would decrease by about $4.42 per customer."[10]

•If the LECs cease providing basic exchange service, their rates for toll and switched access would have to be much higher than they are today. Toll and switched access services receive a great benefit from basic exchange services.

THE FEDERAL TELECOMMUNICATIONS ACT (TA96) AND THE U.S. SUPREME COURT REQUIREMENTS

•We previously discussed that the generally accepted "ceiling" is the stand alone cost. However, TA96 established an even lower "ceiling" for basic exchange and other universal services.

"SEC. 254(k) SUBSIDY OF COMPETITIVE SERVICES PROHIBITED –A telecommunications carrier may not use services that are not competitive to subsidize services that are subject to competition. The Commission, with respect to interstate services, and the States, with respect to intrastate services, shall establish any necessary cost allocation rules, accounting safeguards, and guidelines to ensure that services included in the definition of universal service

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[7]Page 25, Order No. PSC-96-1579-FOF-TP.

[8]Sprint's response to Attorney General Butterworth's Interrogatory 43. BellSouth's response to Attorney General Butterworth's Interrogatory 44. GTE's response to Attorney General Butterworth's Interrogatory 43.

[9]BellSouth response to Attorney General Interrogatory 27.

[10]Page 90, Fifteenth Supplemental Order, Docket No. UT-950200 before the Washington Utilities and Transportation Commission, Commission Decision and Order Rejecting Tariff Revisions; Requiring Refiling, dated April 11, 1996.

bear no more than a reasonable share of the joint and common costs of facilities used to provide those services."

•Decades ago the U.S. Supreme Court ruled that a reasonable share of what we now call the "lo- -" costs cannot be all of those costs:

In Smith v. Illinois Bell Telephone, 282 U.S. 131 (1930), the U.S. Supreme Court reviewed a telephone company allocation of all of the loop costs to the intrastate exchange service. The Supreme Court found:

> "The appellants insist that this method is erroneous, and they point to the indisputable fact that the subscriber's station, and the other facilities of the Illinois Company which are used in connecting with the long distance toll board, are employed in the interstate transmission and reception of messages. While the difficulty in making an exact apportionment of the property is apparent, and extreme nicety is not required, only reasonable measures being essential (citations omitted) it is quite another matter to ignore altogether the actual uses to which the property is put. It is obvious that, unless an apportionment is made, the intrastate service to which the exchange property is allocated will bear an undue burden--to what extent is a matter of controversy. We think this subject requires further consideration, to the end that by some practical method the different uses of the property may be recognized and the return properly attributable to the intrastate service may be ascertained accordingly."[11]

This decision is good law and is regularly referred to in present day telecommunications proceedings.[12]

•Based upon Smith v. IBT, jurisdictional separations procedures have been established which do separate the telephone company costs between the jurisdictions. Part 36.154(c) of the FCC Rules separate 25% of the loop cost to the interstate jurisdiction. However, GTE, Sprint, and BellSouth included 100% of the loop cost in their basic exchange service contribution analysis. Therefore, they have included the interstate costs as costs to be recovered from the intrastate basic exchange rates. Interstate costs cannot be properly considered when setting intrastate rates. The FCC has already set interstate rates that recover the 25% of the loop costs which are interstate costs.

•The FPSC previously addressed the loop cost recovery issue and properly found,

> "As we stated in Order No. 12265 in response to previous attempts to persuade us to accept the 'no NTS' position, 'The notion that an IXC should pay nothing for the subscriber loop because its use does not impose additional costs on the LEC is

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[11]Smith v. Ill. Bell Tel. Co., 282 U.S. 131, 150-151 (1930).

[12]The FCC, in its recent Access Charge Reform Order dated May 8, 1997, referred to this case in Footnote 23.

ill founded and contrary to common business practice, which is to charge customers for use of fixed cost facilities in the price for goods and services.' It is appropriate that each service provide some contribution toward the fixed costs common to those services."[13]

THE TEST FOR COST CAUSATION

• Some parties try to claim that loop costs are "caused" just by basic exchange service. This is incorrect. The loop costs are "caused" by the whole family of services they are installed for, not just by basic exchange service.

•The other side of the wallet card shows the accepted test for cost causation:

If the company does not avoid certain costs in the long run when a service in question is eliminated (or not offered), while holding constant the production of all other services produced by the company, those costs are not "caused" by the provision of the service in question.[14]

•If the LECs did not provide basic exchange service, while continuing to provide toll, switched access, and other services, the LECs would still need a facility to connect traffic to and from the premises (a loop).

•Since the loop would still be needed even if the companies did not provide basic exchange service, the loop cost obviously is not caused by basic exchange service. Basic exchange, toll, switched access, and many other services are part of the family of services that causes the loop cost, but no one of those services, by itself, causes the loop cost.

•A loop is built to collect revenues from all of the services that will be provided over that loop, not just to collect the revenues from one of the services that will be provided over that facility.

OTHER EXCUSES YOU MAY HEAR

•There is no valid reason one service which shares the loop facility should support the full cost of that facility, while the other services "ride free." However, parties have created numerous excuses to try to justify this. Some are discussed below:

•In many cases, these other parties' arguments are equally true if the word "toll" is replaced with the word "local," or vice versa. For example, it can be argued that if a loop facility is constructed for other purposes, then it costs no more to also place toll calls over that loop. However, it is equally true that if a loop facility is constructed for other purposes, then it costs no more to also place local calls over that loop.

•Some parties assume a difference other than the difference caused by providing either local or toll services. For example, I have heard arguments that if a company provided only toll service and did not provide local service, they would not need to send bills to the customers, because they would charge for toll services through credit cards. However, if that is more efficient, then they could also charge for local service through credit cards,

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[13]87 FPSC 12:447, Docket No. 860984-TP, Order No. 18598, Issued December 24, 1987.

[14]Agreed to by BellSouth, GTE and Sprint in response to AG's Interrogatory 45b.

and not send the customer a bill for local service.

•Some parties may claim that the joint and common costs cannot be recovered from toll and access services because those services are "competitive." This is an incorrect argum... t. Joint and common costs can be and are recovered in the pricing of competitive services. If joint and common costs could only be recovered in the pricing of monopoly services, then those companies that do not provide any monopoly services would all be bankrupt. i.e. A fast food restaurant recovers its "rent" through the prices of its competitive products.

•The telephone loop cost can be thought of as being similar to a magazine or newspaper. The end users generally support part of the cost, but the advertisers (similar to the IXCs), who also want to use those facilities, also are required to support part of the costs. Newspapers and magazines are a competitive market, so this is a clear example that even in competitive markets, those who wish to make use of facilities have to support a portion of the cost of those facilities.

•In some cases, parties have claimed that the offering of an "unbundled" loop means that there can no longer be any loop allocation when establishing residential basic service prices. This is false. The unbundled loop is subscribed to by CLECs The unbundled loop price to the CLEC should recover the full cost of the loop. However, the CLECs then use the unbundled loop to provide the family of services to the end users and IXCs. The CLECs will spread the recovery of the unbundled loop costs over that family of services.

> •A CLEC could not recover all of its unbundled loop costs in its residential basic rate, if the LEC was not doing so, because that would make the CLEC's residential basic rate uncompetitive with the LECs' rates.

•Some parties may claim all loop costs must be recovered from local service because all customers do not subscribe to Caller ID, do not all place toll calls, etc. This is a false argument. Everyone who comes into a fast food restaurant does not order a soft drink, but that does not mean the soft drinks cannot be priced to support a portion of the rent. In addition, almost everyone <u>receives</u> toll calls which is using the loop for toll service.

•Some may claim that they could use cellular service to connect toll calls to a premise. However, they could also use cellular service to connect basic exchange service calls. Either way, this is still not cost free, and is simply a "radio" loop, the cost of which would have to be shared among the services which were sharing that "radio" loop.

•Some parties may claim that for toll service they would "rent" loop facilities from a CLEC instead of building their own. This does not eliminate the loop cost. The cost of "owning" is simply replaced by the cost of "renting." They could also "rent" a loop for local service as well.

•There are numerous other specious arguments some LECs or IXCs may make. However, the simple fact is that the loop facility is shared by several services. The proper cost recovery is to spread the loop cost over the services which share that facility.

THE LECS' CONTRIBUTION ANALYSES VIOLATE TA96, THE REQUIREMENTS OF THE FLORIDA STATUTES, AND THE U.S. SUPREME COURT RULING

•As previously discussed, Section 254(k) of TA96 requires that "services included in the definition of universal service bear no more than a reasonable share of the joint and common costs of facilities used to provide those services." (Emphasis added)
•HB4785, Section 2 of 364.025(2)(a) requires that in setting the residential basic rates, one factor to be considered is "...the cost of providing residential basic local telecommunication services in this state, including the proportionate share of joint and common costs." (Emphasis added
•In spite of these two requirements, GTE's, BellSouth's and Sprint's basic exchange "contribution analyses" included 100% of the loop costs.
•As previously discussed, the U.S. Supreme Court has ruled that including all of the loop costs is unacceptable and place an "undue burden" on that service.

QUESTION AND ANSWER PERIOD

Florida Workshop II
October 8-9, 1998

Outline

Name of Speakers: William Dunkel and Tom Regan
Party: Office of Attorney General

Major Issues: Motivation; Business vs. Residential Rates; Interdependence of telephone service; Affordability

MOTIVATION: THE LECS AND IXCS ARE TOLL CARRIERS

•In other cases, the LECs and IXCs may have opposing interests, but in this proceeding, we must remember that they are all toll carriers. The LECs are the major intraLATA toll carriers. In addition, many of the LECs are also interLATA toll carriers as well (or have affiliates who are, or plan to be soon).

•Shifting cost recovery from toll or access charges onto end users benefits the toll carriers (the IXCs and the LECs), while disadvantaging the end users.

•In addition, recovering a disproportionate share of the joint and common costs from monopoly services is to the LECs' advantage, but not in the public interest.

•Preventing a disproportionate cost recovery from monopoly services is one of the reasons utilities are regulated. In the old days, before railroads were regulated:

> "Customers shipping goods from Chicago to New York always pick the route that offers even a few pennies saving. Thus, each of the three or four trunk lines would intermittently undercut the existing rate schedules, until finally a disastrously low level of rates was reached. At the same time, for short hauls where shippers had no alternative, the railroads would jack up the rates, thus creating an anomalous, discriminatory pattern of charges. We have seen that the Interstate Commerce Commission was established in 1887 to regulate railroad rates and earnings and prevent such unstable price conditions."[15]

•To allow a disproportionate recovery of joint and common costs from monopoly services (and a low recovery from competitive services) impedes competition by giving the LECs an improper competitive advantage, and also abuses monopoly power. It is not in the public interest.

•Recovering a disproportionately small share of the joint and common costs from competitive services is a process that has already commenced in Florida.

> •Specifically, the FCC has grouped the telecommunications services that are most competitive into a category that it calls "deregulated." This includes inside wiring maintenance and certain other services provided by the LECs.
>
> •The LECs' prices on these competitive services frequently produce a negative

[15]Page 499, Economics, An Introductory Analysis by Paul A. Samuelson

return. For example, BellSouth's annual revenues for deregulated services are $169 million, but their expenses for these services are $187 million. BellSouth's deregulated revenues are $19 million per year below these services' expenses. That expense does not even including any return on their $66 million of net investment in deregulated services.[16]

• Charging higher prices for monopoly services and lower prices for competitive services gives the LECs an unfair advantage in the competitive markets, and also forces the monopoly ratepayers to support an excessive share of the joint and common costs.

AFFORDABILITY

• In 1997, BellSouth disconnected a staggering 236,000 residential customers for non-payment of their telephone bills.[17] At present rates, BellSouth disconnected over 7% of their residential customers in 1997 for non-payment.

• Basic exchange rates play a key part in this, since low income customers make fewer toll calls than do the average customer.

• At present rates, the Florida penetration rate is already over one full percentage point below the nationwide average. In 1997, the annual average residential percent penetration was 93.9% nationwide, but only 92.8% in Florida.[18]

• In the Commission survey in this proceeding, 7% of the respondents said they would discontinue basic residential service if the local portion of their monthly bill increased by $2.00.

• In addition, another 25% would experience a hardship if their local rates were increased by $2.00 per month, because they would "pay their increase and reduce spending in other areas."

• It should be noted that the customers who have already been priced off the network or disconnected for non-payment were not included in this survey, since it was a telephone survey. Those who do not have telephone service were excluded from the survey.

• An earlier study has shown that the two most important factors in a customer's decision to subscribe to telephone service are the non-recurring charge and the charge for basic exchange service.[19]

• An earlier survey has shown that 80% of the customers who do not have telephone

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[16]BellSouth 1997 ARMIS Report 43-03, (Deregulated Revenue from Line 530 Column J; Deregulated Total Expense from Line 750 Column J; Deregulated Net Investment = Line 2001 Column J - Line 495 Column J).

[17]BellSouth response to AG Interrogatory 18.

[18]Table 3, Telephone Subscribership in the United States, Industry Analysis Division, Common Carrier Bureau of the Federal Communications Commission, released July, 1998.

[19]AT&T/Consumer Federation of America/AARP, Joint Telecommunications Project.

service desire telephone service, but cannot afford it.[20]

•It is a widely accepted principle that you will sell fewer items at a higher price than you would sell at a lower price. Any increase in residential basic exchange rates will price thousands of residential customers off of the network in Florida.

•As the FCC found,

> "We agree with the Joint Board that there is a correlation between subscribership and affordability..."[21] (Emphasis added)

and;

> "We recognize that affordable rates are essential to inducing consumers to subscribe to telephone service, and also that increasing the number of people connected to the network increases the value of the telecommunications network."[22] (Emphasis added)

•Shifting cost recovery from toll to basic exchange service harms older and low income customers. Both groups have long distance bills which average 25% less than the average consumer.[23] Therefore, they would receive less benefit from a reduction in long distance rates, but would be harmed by the increase in basic exchange rates.

•Pricing thousands of residential customers off of the network harms the public interest. Households without telephone service cannot phone from their home for help in an emergency.

•It is more difficult for potential employers to contact potential employees if those potential employees do not have telephone service.

•Pricing customers off of the telephone network decreases the value of the network for everyone.

> •Telephone service is different from any other utility because it is a communications medium. If you were the only one in the country with electric service, you would receive full benefit from that electric service. However, if you were the only one in the country with telephone service, that service would be worthless.
>
> •A business cannot call an employee or potential customers, if that employee or potential customer does not have telephone service.

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[20]Page 22, Joint Telecommunications Project jointly sponsored by AT&T, the Consumer Federation of America and the American Association of Retired Persons (AARP). The relevant pages are attached hereto as Schedule CCS2.6.

[21]¶23, FCC's Report and Order FCC 97-157, in CC Docket No. 96-45, Federal-State Joint Board on Universal Service, adopted May 7, 1997, hereinafter referred to as *Universal Service Order*.

[22]Ibid, ¶112.

[23]Page 17, Joint Telecommunications Project, Consumer Federation of America, American Association of Retired Persons and AT&T, February 12, 1987.

BUSINESS SERVICE DOES NOT "SUBSIDIZE" RESIDENTIAL SERVICE

- BellSouth claims that business basic exchange service rates "subsidize" residential basic exchange service rates.[24] This claim is false for the reasons listed below:
    - Residential basic is not subsidized by any service. Residential basic service is well above its incremental cost. If BellSouth stopped providing residential basic service, they would lose far more dollars of revenues than they would avoid in costs, even in the long run. BellSouth is better off with residential basic exchange service than without it.
    - Large business customers pay rates which are low by subscribing to Centrex-type services (ESSX, Multiserv, CentraNet).
    - The business basic exchange flat rates (1FB) are higher than the residential basic exchange flat rates (1FR) for valid reasons, including:
        - The 1FB rate includes a valuable yellow page directory listing that is worth up to $23.75 per month.[25] The 1FR rate does not include a yellow page directory listing.
        - A higher percentage of business calls are placed during the peak period than is true for residential calls. Costs are higher during the peak periods than during the off-peak periods.[26]
        - On the average, business services place more local calls per line per month than do residential services.
        - Business services receive faster repair times than do residential services. BellSouth repairs business customers an average of five hours faster than they do residential customers. Sprint repairs business customers an average of 2.7 hours faster than they do residential customers.[27] Being provided faster repair time is a "value of service" consideration that should be properly reflected in the difference in price.
        - Business basic exchange service rates are generally income tax deductible to the customer, whereas residential basic exchange service rates generally are not.
    - The relationship of 1FB to 1FR rates in Florida is similar to the nationwide average. Nationwide, the 1FB rate is 2.4 times the 1FR rate, according to FCC data,[28] which is very similar to the relationship that exists in Florida.

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[24]*The Palm Beach Post*, Saturday, August 22, 1998.

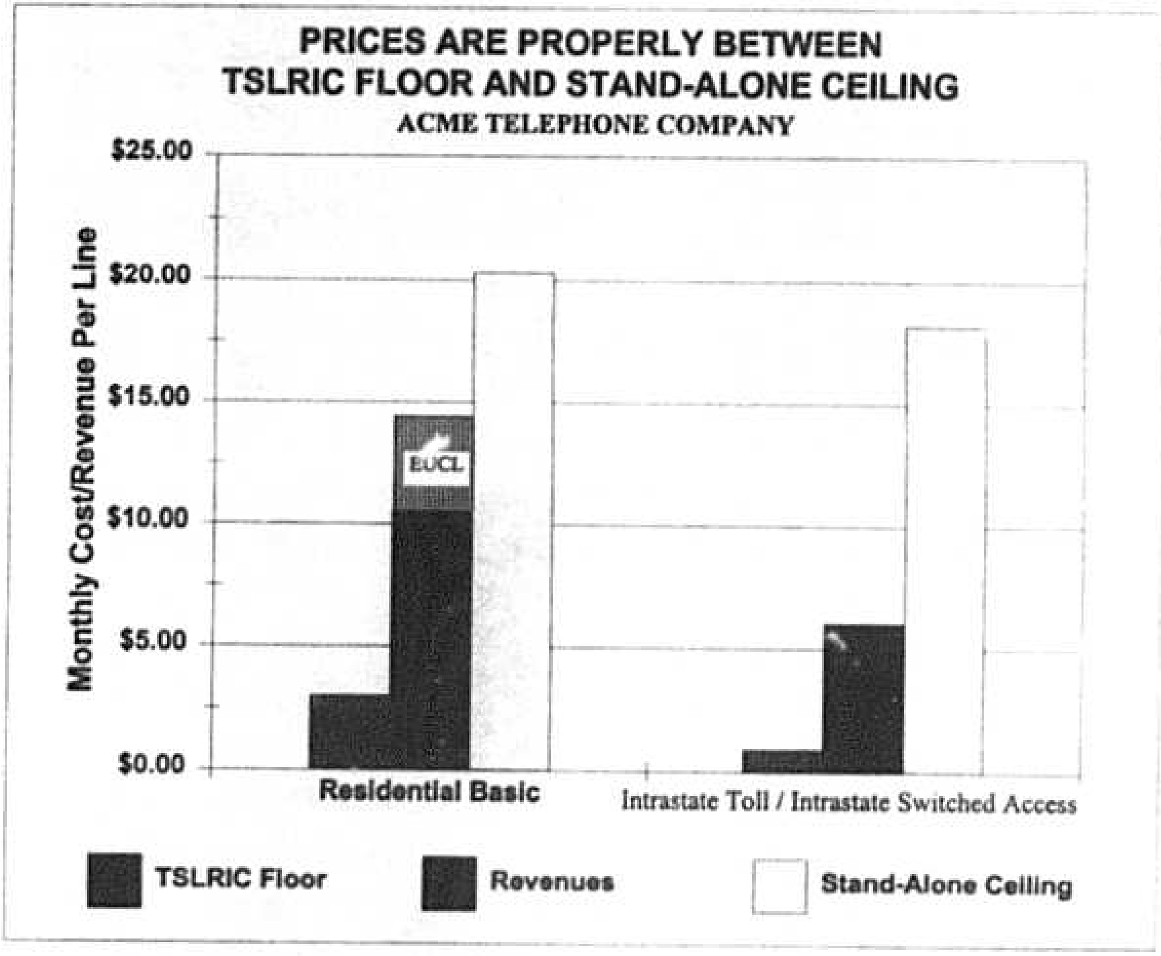
[25]BellSouth's response to Attorney General Butterworth's Interrogatory 14(b).

[26]See BellSouth and Sprint's responses to Attorney General Butterworth's Interrogatory 11. Sprint and GTE responses to Attorney General Butterworth's Interrogatory 13.

[27]BellSouth and Sprint's response to Attorney General Butterworth's Interrogatory 15.

[28]*Trends in Telephone Service*, Released July, 1998 by the FCC Industry Analysis Division, Common Carrier Bureau, Table 13.1 and Table 13.2.

QUESTION AND ANSWER PERIOD



HYPOTHETICAL FIGURES - FOR ILLUSTRATIVE PURPOSES ONLY

ACME TELEPHONE COMPANY

HYPOTHETICAL FIGURES - FOR ILLUSTRATIVE PURPOSES ONLY

STAND-ALONE CEILING

Residential Basic Local Exchange Service Stand-Alone Cost

Cost Components	Monthly Cost Per Line
Loop Facility	$15.00
NTS COE Facility	$2.00
Local Usage	$3.00
Joint/Shared/Common Billing Costs	$0.30
Incremental Billing Costs	$0.01
Total Stand-Alone	**$20.31**

IntraLATA Toll/Intrastate Sw. Access Stand-Alone Cost

Cost Components	Monthly Cost Per Line
Loop Facility	$15.00
NTS COE Facility	$2.00
Switching	$0.50
Transport	$0.15
Term. Access To Other LECs	$0.05
Joint/Shared/Common Billing Costs	$0.30
Incremental Billing Costs	$0.20
Total Stand-Alone	**$18.20**

TSLRIC FLOOR

Residential Basic Local Exchange Service TSLRIC

Cost Components	Monthly TSLRIC Per Line
Local Usage	$3.00
Incremental Billing Costs	$0.01
Total TSLRIC	**$3.01**

IntraLATA Toll/Intrastate Sw. Access TSLRIC

Cost Components	Monthly TSLRIC Per Line
Switching	$0.50
Transport	$0.15
Term. Access To Other LECs	$0.05
Incremental Billing Costs	$0.20
Total TSLRIC	**$0.90**

REVENUE

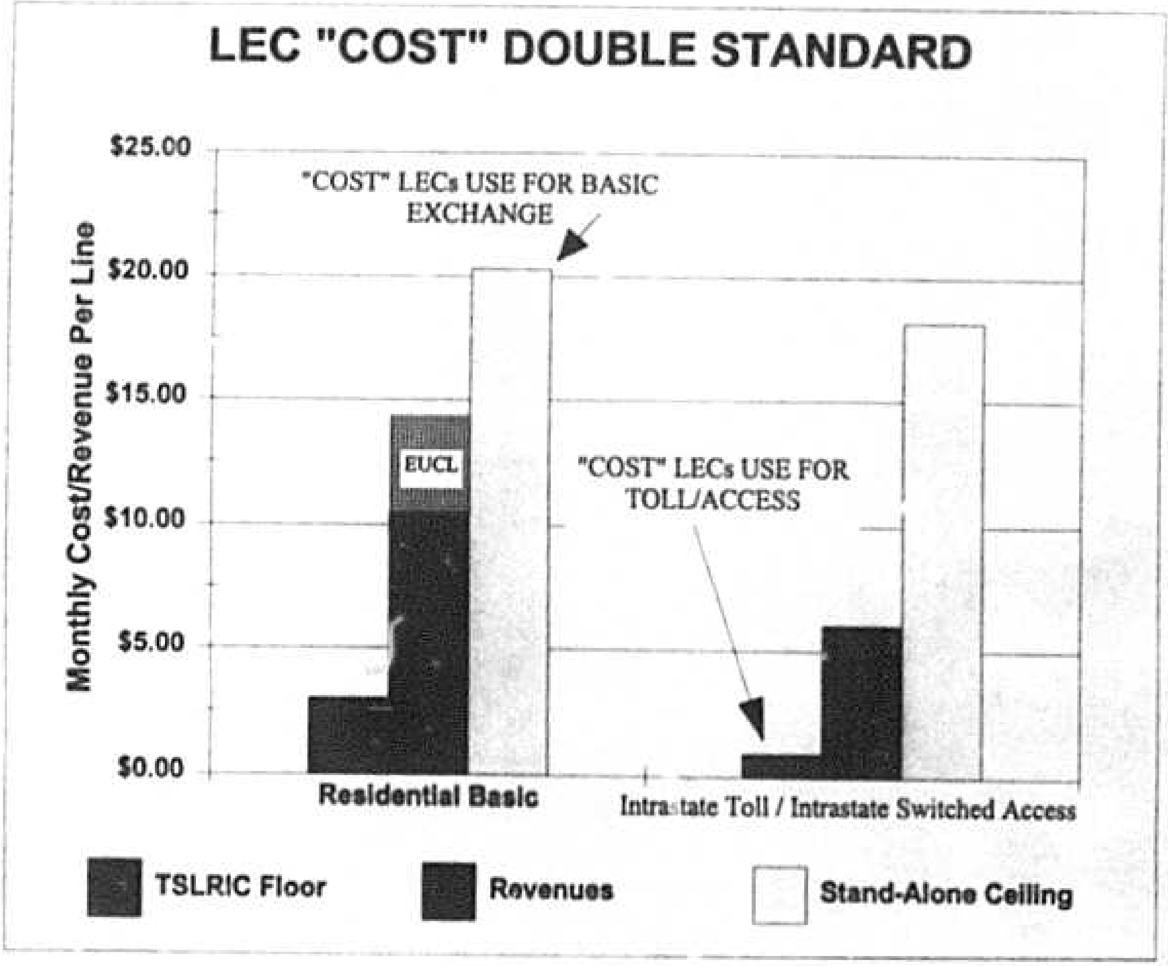
Residential Basic Local Exchange Service

Monthly Rate (Not Including $3.50 EUCL)	**$10.50 ***
Monthly Rate Including $3.50 EUCL	***$14.00 ****

Intrastate IntraLATA Toll/Intrastate Sw. Access

Avg. Revenue Per Line (Per Month)	**$6.00**

* In addition, there are significant vertical service revenues. The residential basic local exchange revenues shown do not include revenues from residential vertical services, residential non-published/non-listed services, or imputed directory advertising revenues.



HYPOTHETICAL FIGURES - FOR ILLUSTRATIVE PURPOSES ONLY

CERTIFICATE OF SERVICE

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