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June 15, 2001

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Ms. Blanca Bayó, Director  
Division of Records and Reporting  
Room 110, Easley Building  
Florida Public Service Commission  
2540 Shumard Oak Blvd.  
Tallahassee, Florida 32399-0850

Re: Docket No. ~~992037-TI~~ <sup>010858-TI</sup> AT&T Communications of the Southern States, Inc.'s Claim  
for Confidential Treatment

Dear Ms. Bayo:

AT&T Communications of the Southern States, Inc. ("AT&T"), hereby claims pursuant to Section 364.183(1), Florida Statutes, that certain information contained in AT&T's Letter of June 15, 2001, in the above referenced docket, contains proprietary confidential business information that should be held exempt from public disclosure. Pursuant to Rule 25-22.0006(5), Florida Administrative Code, in the attached envelope identified as Exhibit "A" is one paper copy of AT&T's letter with the confidential information highlighted. Attached as Exhibit "B" are two paper copies of AT&T's letter with the confidential information redacted.

Please acknowledge receipt of this letter by stamping the extra copy of this letter "filed" and returning the same to me.

Thank you for your assistance with this filing.

RECEIVED & FILED

*Mac*  
FPSC-BUREAU OF RECORDS

Sincerely,

*Floyd R. Self*  
Floyd R. Self

FRS/amb  
Enclosures

cc: Mr. Ray Kennedy  
Mr. Jeffrey Small  
Ms. Rhonda Merritt

This claim of confidentiality was filed by or on behalf of a "telco" for Confidential DN 07492-01. The document is in locked storage pending advice on handling. To access the material, your name must be on the CASR. If undocketed, your division director must obtain written EXD/Tech permission before you can access it.

DOCUMENT NUMBER-DATE

07491 JUN 15

FPSC-RECORDS/REPORTING

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June 15, 2001

**CONFIDENTIAL & PROPRIETARY**

Mr. Ray Kennedy  
Florida Public Service Commission  
2540 Shumard Oak Boulevard  
Tallahassee, Florida 32399-0850

RE: Docket No. 992037-TI, Investigation of Operator Service Provider Surcharges;  
AT&T Proposed Resolution of Payphone Surcharge from Non-payphones

Dear Mr. Kennedy:

The purpose of this letter is to review the background regarding AT&T's application of the payphone surcharge to calls that apparently were not made from payphones, and to present AT&T's proposed resolution of this matter.

As you know, beginning in February 2000, the FPSC received several complaints from customers that were being charged by AT&T the payphone surcharge for calls that were not made from payphones. The payphone surcharge is used to compensate private payphone service providers for calls originating on their payphones that do not produce any revenue to the payphone service provider since they are "dialed around" the carrier presubscribed by the payphone service provider. Pursuant to the FCC's orders on payphone service provider compensation, AT&T was first authorized to begin assessing the payphone surcharge in October 1997. However, not all ILECs were able to immediately begin billing the payphone surcharge. For example, some ILECs have had problems with the Flex ANI being implemented or being implemented consistently, which means that the payphone surcharge would not have been assessed. AT&T is aware of Flex ANI implementation issues as recently as the Spring of 1999, meaning that at least through that time, the payphone surcharge has not been applied to all of the calls to which it could have been applied.

AT&T's initial review of the complaint forwarded by the Commission did not indicate a clear pattern or cause. Accordingly, AT&T made some test calls from various state office buildings in an attempt to replicate the billing. Of the original seven test calls, two calls were incorrectly assessed

the payphone surcharge. In further examining this billing we have learned that the application of the payphone surcharge is dependent upon certain line or screening information that is passed from the originating LEC to AT&T. As I described in my letter of December 29, 2000, to you, the LEC will usually transmit as a part of each call the appropriate OLI (originating line information) digits. If the OLI digits are present, the AT&T switch makes no further inquiries and processes the call on the basis of the OLI digits. If these OLI digits indicated that a non-coin sent paid call is originating on a payphone line, AT&T accepts that indicator and treats the call as a payphone call and adds the appropriate payphone surcharge. If the OLI digits are not present, then the switch looks at the screen code information that is also passed from the LEC. If the screen code is set within the AT&T databases to indicate that the code being received is a non-coin set paid payphone call, then AT&T bills the call as a payphone call and adds the appropriate payphone surcharge. If both the OLI digits and the screen code are present, AT&T processes the call on the basis of the OLI digits, even if there is a difference between the OLI digits and the screen code.

In pursuing our investigation, we learned that AT&T had incorrectly set one of its systems to translate the LEC transmitted screening information to a 503 screen code, which would indicate to the AT&T billing system a non-coin sent paid payphone-originated call. The result of this programming error was that calls that originated on lines that were not screened correctly, AT&T applied the 503 screen code. When that occurred, the AT&T system treated the call as a non-coin sent paid payphone call and the call was incorrectly assessed the appropriate payphone surcharge. This AT&T system error was identified and corrected in July 2000. Since this corrective action, customers have not been inappropriately charged the payphone surcharge due to internal AT&T screening information.

The second cause of calls being charged the payphone surcharge appears to arise from the passing of incorrect OLI digits or the LEC assignment of an incorrect screening code to the line. We believe the LEC OLI digits or screening code information can be wrong for several potential reasons. For example, at one time a line may have been assigned to a payphone, but the payphone service was disconnected and later the line was reassigned to a different line class, or customer, with the appropriate LEC databases never being updated. Another example may be that the information is simply incorrectly entered into the LEC system. AT&T does not have any information that would enable it to specifically identify the basis for the incorrect LEC OLI or screening code information nor can AT&T speak specifically regarding each individual LEC's procedures or processes for the initial line assignment or coding or any subsequent updating of LEC databases. However, whenever AT&T becomes aware of an error that results in a call being treated as payphone call when the call is not originating on payphone line, AT&T attempts to provide the originating LEC with that information so the relevant LEC databases can be corrected.

AT&T has attempted to identify and quantify the amount of the payphone surcharges associated with any of the calls that were incorrectly billed as payphone calls. For our initial effort,

only the PIPS (Public Information Processing System) data for the second quarter of 2000 was available. PIPS is the network information that is sent to and used by the payphone compensation clearinghouse. Using this data, we identified those ANIs with compensable payphone calls for which there was no claim by a payphone provider. In other words, these would be calls for which AT&T collected the payphone surcharge but no payphone provider sought compensation. With this data, we were able to compare the actual second quarter 2000 intrastate calls to the total compensable calls for that quarter. The resulting percentage was then applied to the total compensable calls for the other quarters to forecast the rest of 2000, with the same methodology applied to the available data for 1998 and 1999.

Once the number of non-compensable payphone calls were determined, we separated the total intrastate calls into business and consumer calls on the basis of a 70%/30% split, which approximates the division of calls between these two units. On the basis of the business and consumer split, the consumer calls were multiplied by \$0.30 and the business calls were multiplied by \$0.28 for 1998, \$0.28 for part of 1999 and \$0.26 for the balance of 1999, and \$0.26 for 2000. The different rates for business calls in 1998, 1999, and 2000 is due to the fact that in 1999 the rate changed from \$0.28 to \$0.26. AT&T has not included any potential surcharges for 1997 because the information available indicates that processes to actually bill and collect the revenue were not fully in place until 1998, and we have no information that any revenue was collected in 1997. On the basis of this analysis, AT&T has determined the following forecasted information for 1998, 1999, and 2000:

**Table 1: ORIGINAL FORECAST DATA FOR 1998, 1999, 2000**

	Total Calls	Business Calls	Consumer Calls	Total Surcharges	Business Surcharges	Consumer Surcharges
1998						
1999						
2000						

After we prepared this analysis, we were later able to obtain the rest of the actual data for each of the other quarters in calendar year 2000. On the basis of the complete year 2000 data, we analyzed the projected year 2000 data by quarter with the actual year 2000 data for each quarter. The following table summarizes the differences between the original forecasted data and the actual number of calls:

**Table 2: YEAR 2000 FORECAST VS. ACTUAL**

	Forecast	Actual
1Q		
2Q		
3Q		
4Q		
Totals		

The result of this analysis is that the original forecast for all of calendar year 2000 understates the actual year 2000 data by [REDACTED] calls or some [REDACTED]. In addition, it also is important to note that the number of calls should decrease in the third and fourth quarters of 2000, and this is what has occurred. This decrease reflects the correction to the AT&T system that was implemented in July 2000.

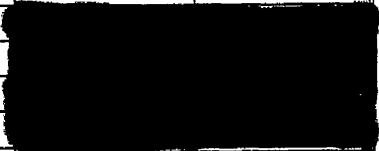
Assuming the forecast for 1998 and 1999 reflects the same [REDACTED] variance, the total calls for 1998 would be understated by approximately [REDACTED] calls and the total calls for 1999 would be understated by approximately [REDACTED] calls. This percentage variance is very small and certainly statistically small enough as to not undermine the overall validity of the forecast. However, to correct the forecast to incorporate these potentially understated calls, and applying the same methodology used to develop Table 1 to determine the amount of the surcharges, results in the following:

**Table 3: REVISED FORECAST DATA FOR 1998, 1999, AND 2000**

	Total Calls	Business Calls	Consumer	Total Surcharges	Business Surcharges	Consumer Surcharges
1998						
1999						
2000						

AT&T believes that the information contained in Table 3 provides an appropriate basis for calculating a settlement amount. Assuming that any disposition of the settlement amount would begin in July 2001, and utilizing a 6% interest rate for the 1998 data for three years, a 6% interest rate for the 1999 data for two years, and a 6% interest rate for the 2000 data for one year results in the following surcharges due plus interest:

**Table 4: SURCHARGES PLUS INTEREST**

	Total Surcharges Before Interest	Surcharges Plus Interest
1998		
1999		
2000		
Totals		

On the basis of this information, AT&T would propose to settle this matter for the sum of \$355,000. In order to conclude this matter, AT&T proposes to make a one time, lump sum payment to the State of Florida as directed by the Commission. In view of the particular facts associated with this matter, we believe no other fines or penalties are appropriate.

AT&T recognizes that the Commission's preferred method of returning revenues to customers is by a direct refund to the customers that are affected. In this particular situation, such a refund is impractical, excessively burdensome, and prohibitively expensive. The detailed call information back to 1998 is not available, so it is not possible to identify the customers that originated these calls. Moreover, assuming the specific customers could be identified, many of the customers would need to be refunded back through the applicable local exchange company that billed them in the first place. Such LEC billing would require special processes to identify and credit the customers; based on our prior experience such a refund could cost more than the amount to be returned. Moreover, given the fact that some of these calls were made as early as early 1998, the process of actually finding each person becomes more problematic. We know from prior direct refunds that upwards of 50% of the money would not be returnable to the affected customers because they have moved, changed their numbers, or are otherwise no longer reachable. Therefore, AT&T believes that the most appropriate means of resolving this matter quickly and without any further delay would be by the lump sum payment outlined above.

Likewise, under these circumstances a prospective rate reduction also is impractical and complicated to implement. Because of the changing nature of the payphone market, in this situation it is not possible to reliably predict future call volumes in a manner that could ensure the complete discharge of the settlement amount in the time predicted. Moreover, the data on compensable calls is always in arrears, and it would not be possible to reliably track call volumes and the discharge of the settlement amount. The result would most likely be an under-refund or an over-refund. The data presently available indicates that if AT&T eliminated the payphone surcharge that it would take

Mr. Ray Kennedy  
June 15, 2001  
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some 5 years to discharge the settlement amount, without factoring in any additional interest for such a lengthy refund period. These problems with a direct refund present an element of uncertainty that is or should be unacceptable to all involved.

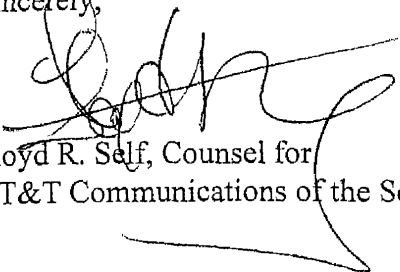
AT&T believes that this amount should more than account for any variance in the forecast data as well as the application of interest. AT&T recognizes that this settlement proposal does not address 2001 nor the apparent root cause of this issue. As we have identified above, this problem arises from the OLI digits and the screen code information in the ILEC databases. In view of the declining trend for the affected revenues, AT&T would propose that it meet with the Commission Staff in early 2002 to address any issues associated with potential 2001 revenues that may be subject to return. AT&T has also been in contact with some of the ILECs in an attempt to further identify the root causes of this situation and to develop a permanent solution. AT&T also pledges to cooperate with the Commission in any efforts it may undertake to address and resolve this problem.

AT&T makes this offer solely in connection with its effort to settle and resolve this investigation, and it may not be used for any other purpose. AT&T does not admit to any wrongdoing, and submission of this proposal and its acceptance by the Commission shall not be construed as any admission of liability on the part of AT&T or any of its agents, employees, officers, or affiliates. AT&T fully reserves all of its rights, positions, and arguments if this proposal is not accepted and approved by the Commission and incorporated into a final order in accordance with its terms.

This proposal shall be valid and binding upon AT&T only to the extent it is adopted in its entirety as presented to the Commission. If this proposal is accepted by the Commission, then AT&T shall not request reconsideration or appeal of the order of the Commission approving this proposal in accordance with its terms.

If you wish to further discuss this matter or require any additional information, please let me know.

Sincerely,



Floyd R. Self, Counsel for  
AT&T Communications of the Southern States, Inc.

Cc: Ms. Rhonda Merritt  
Division of Records and Reporting