

BELLSOUTH TELECOMMUNICATIONS, INC. (BellSouth)
2011 ANNUAL FILING – PART I
DESCRIPTION AND JUSTIFICATION
May 17, 2011

SECTION

1. Introduction
2. Exogenous Cost Development (ΔZ)
 - A. Telecommunications Relay Service (TRS) Fund
 - B. Regulatory Fee Payments
 - C. Summary of Exogenous Cost and Distributions
3. Other Price Cap Index Factors/Variables Development (June Filing)
4. Development of 2010 Base Period Demand (June Filing)
5. Common Line Basket Rate Development (June Filing)
6. Traffic Sensitive Basket PCI, API, SBI and Rate Development (June Filing)
7. Interexchange Basket PCI, API and Rate Development (June Filing)
8. Trunking Basket PCI, API, SBI and Rate Development (June Filing)
9. Special Access Basket PCI, API, SBI and Rate Development (June Filing)
10. Part 69 Waivers
11. New Services Included in the Price Cap Indices (June Filing)
12. Services Excluded from Price Caps (June Filing)
13. IND-1 Reference (June Filing)
14. Average Traffic Sensitive (ATS) Rate (June Filing)
15. Rate Comparison (June Filing)
16. Exhibits

1. INTRODUCTION

This filing is being made in compliance with the following:

- ❑ In the Matter of Material to be Filed in Support of 2011 Annual Access Tariff Filings, DA 11-570 (*Tariff Review Plans*), released March 29, 2011;
- ❑ In the Matter of July 2011 Annual Access Charge Tariff Filings, DA 11-569 (*2011 TRP Order*), released March 29, 2011;
- ❑ In the Matter of Assessment and Collection of Regulatory Fees for the Fiscal Year 2011, MD Docket No. 11-76 (FCC 11-68), released May 3, 2011;
- ❑ Sixth Report and Order in CC Docket Nos. 96-262 and 94-1, Report and Order in CC Docket No. 99-249 and Eleventh Report and Order in CC Docket No. 96-45, (CALLS Order), In the Matter of Access Charge Reform, Price Cap Performance Review for Local Exchange Carriers, Low-Volume Long Distance Users and Federal-State Joint Board on Universal Service, released May 31, 2000;
- ❑ In the Matter of Cost Review Proceeding for Residential and Single-Line Business Subscriber Line Charge (SLC) Caps, Access Charge Reform, Price Cap Performance Review for Local Exchange Carriers, Order in CC Docket Nos. 96-262 and 94-1, FCC 02-161, released June 5, 2002 (“SLC Cost Study Review Order”).

The *LEC Price Cap Order* requires an annual access tariff filing in which BellSouth Telecommunications, Inc. (BellSouth) is required to adjust the price cap indices (PCIs) for each basket of services, based on the change in the Gross Domestic Product Price Index (GDP-PI), a transitional mechanism (x-factor) and exogenous cost changes. BellSouth has incorporated the demand and revenue/cost of those new services introduced during the 2010 base period, and has calculated the PCI for each affected basket and service category, including the new services, in accordance with the Commission's Rules and the *LEC Price Cap Order*.

2. EXOGENOUS COST DEVELOPMENT (ΔZ)

Part 61.45(a) requires that local exchange carriers (LECs) adjust their PCIs to reflect the dollar effect of the exogenous cost changes (ΔZ). According to Part 61.45(b), this dollar effect must be measured at the base period level of operations.

In the 2011 Annual Filing, BellSouth will make the following exogenous adjustments, which are allowable in accordance with the *Code of Federal Regulations* (CFR) or were designated in Commission Orders:

- Regulatory Fee Payment Exogenous
- Telecommunications Relay Service (TRS)

Part 61.45(d) (3) requires that exogenous cost changes be apportioned between price cap services and excluded services. BellSouth adjusted the exogenous cost changes to remove impacts associated with services that are excluded from price cap regulation, to the extent that revenues for these services existed and were identifiable. The costs associated with non-price cap services, included in Parts 36 and 69 costs, are not identifiable. Consequently, BellSouth assumes that the costs for these services are equivalent to the revenue from these services.

BellSouth excluded a percentage of exogenous costs equivalent to the percentage of total identifiable interstate access, including revenue associated with approved pricing flexibility petitions, and Interexchange services revenue that represents non-price cap service revenue. In accordance with Part 61.45(d) (3), no exogenous adjustment will be allocated to Average Traffic Sensitive (ATS) revenue.

2.A TELECOMMUNICATIONS RELAY SERVICES (TRS) FUND

The Commission has also ruled Telecommunications Relay Service (TRS) fund payments¹ may be treated as exogenous. On May 4, 2011, the Commission released FCC 11-826 (CG Docket 03-123), proposing a revised TRS factor from .00585 to .01056. Therefore, Bellsouth is estimating the total TRS contribution amount for the ensuing tariff period based on the revised factor and revenue. The development of the TRS exogenous cost for this filing is provided on *Exhibit 2.6A*, and will be updated in the June 2011 tariff filing if, in the interim, the Commission modifies the factor.

¹ In the Matter of Telecommunications Relay Service, and the Americans with Disabilities Act of 1990, CC Docket No. 90-571, Second Order on Reconsideration and Fourth Report and Order, released September 29, 1993, paragraph 18.

2.B REGULATORY FEE PAYMENTS EXOGENOUS ADJUSTMENTS

The filing for exogenous treatment of Regulatory Fees is consistent with Parts 61.45(a) and 61.45(d)(1)(vi) of the Commission's Rules and Regulations and the Common Carrier Bureau's October 7, 1994 Order.² On May 3, 2011, the Commission released its Order, In the Matter of Assessment and Collection of Regulatory Fees for Fiscal Year 2011, MD Docket No. 11-76 (FCC 11-68), detailing the proposed factor for the Fiscal Year 2011, which is being employed as the basis of this exogenous change as no revised factor has yet been released. BellSouth is estimating regulatory fee payments and the corresponding exogenous adjustment based on the proposed factor and the preliminary change in revenue. The exogenous adjustment is detail in *Exhibit 2.6B*.

2.C SUMMARY OF EXOGENOUS COSTS & DISTRIBUTION

Part 61.45(d)(4) of the Rules requires that exogenous cost changes be apportioned between price cap services and excluded services. The combined exogenous cost changes have been adjusted to remove impacts associated with services that are excluded from price cap regulation, to the extent that revenues for these services existed and were identifiable.

² Price Cap Treatment of Regulatory Fees Imposed by Section 9 of the Communications Act Order, (DA 94-1119) (Common Carrier Bureau, released October 7, 1994), (Erratum released November 2, 1994) paragraph 6, granting a waiver to permit exogenous cost treatment of regulatory fees.

The costs associated with non-price cap services, included in Parts 36 and 69 costs, are not identifiable. It is assumed that the costs for these services are equivalent to the revenue from these services. A percentage of exogenous costs are equivalent to the percentage of total identifiable interstate access and Interexchange services revenue that represents non-price cap service revenue. Totals of all exogenous costs applied in this filing are summarized on ***Exhibit 2.9.***

10. PART 69 WAIVERS

The following is a list of Part 69 waivers involving Ameritech Operating Companies (Ameritech), Southwestern Bell Telephone Company (SWBT), Pacific Bell Telephone Company (PBTC), Nevada Bell Telephone Company (NBTC), The Southern New England Telephone Company (SNET), and BellSouth Telecommunications, Inc (BellSouth), collectively the AT&T Companies, including a citation to the Order granting the waiver and the basket and service category, if applicable, and the treatment of rate elements created by the waiver:

There are no Part 69 waivers

16. EXHIBITS

This section provides the Exhibits referenced in prior sections of the D&J.

- Exhibit 2.6A – Telecommunications Relay Service
- Exhibit 2.6B – Regulatory Fee Exogenous
- Exhibit 2.9 – Summary of Exogenous Costs & Distribution
- Exhibit 7 – Interexchange Price Cap Model (not included in Short Form filing)
- Tariff Review Plan (TRP)

BELLSOUTH TELECOMMUNICATIONS, INC.
TELECOMMUNICATION RELAY SERVICE
EXOGENOUS COST DEVELOPMENT

	<u>FCC 499</u> (A)	DA 09-39 6/30/2009 <u>TRS</u> (B)	DA 10-115 6/28/2010 <u>TRS</u> (C)	Gross up amount For recovery over 9 mos (D)=(C-B)*(12/9)
2009 End User Revenues	\$ 1,388,828,739	\$ 15,790,983	\$ 8,124,648	\$ (10,221,780)
Excluded Revenue	\$ 260,567,342	0.01137	0.00585	
Price Cap Revenue Percentage	81.24%			
FCC 2009 Price Cap Interstate End User Revenue	\$ 1,128,261,397			
			Reversal of TRS Annualization (E)=D-(C-B)	
			\$ (2,555,445)	

	<u>FCC 499</u>	DA 11-826 5/4/2011 <u>TRS</u>
2010 End User Revenues	\$ 1,362,263,246	\$ 14,385,500
Excluded Revenue	\$ 302,346,163	0.01056
Price Cap Revenue Percentage	77.81%	
FCC 2010 Price Cap Interstate End User Revenue	\$ 1,059,917,084	

Telecom Relay Support

	<u>7/10-6/11</u>	<u>7/11-6/12</u>
DA 10-115 .00585 restatement 2009/2010	\$ 8,124,648	\$ -
Reversal of TRS Annualization	\$ (2,555,445)	
DA 11-826 .01056	\$ 5,569,203	\$ 14,385,500
		\$ 14,385,500
		\$ 8,816,297
% Price Cap Allocation	81.24%	77.81%
Price Cap Only	\$ 4,524,328	\$ 11,192,724
FCC 2009 Price Cap Interstate End User Revenue	\$ 1,128,261,397	\$ 6,668,396
FCC 2010 Price Cap Interstate End User Revenue	\$ 1,059,917,084	
Revenue Change (R)	-6.1%	
Price Cap Only with R Adj	\$ 4,250,268	\$ 11,192,724
		\$ 6,942,457

	Common Line End User 499	Special End User 499	Price Cap End User 499
2010 End User Revenues	931,934,805	127,982,279	1,059,917,084
Allocation Basis	87.93%	12.07%	100.00%
TRS	\$ 6,104,173	\$ 838,284	\$ 6,942,457

BELLSOUTH TELECOMMUNICATIONS, INC.
TELECOMMUNICATION RELAY SERVICE
EXOGENOUS COST DEVELOPMENT

	<u>FCC 499</u> (A)	<u>FCC 10-51</u> <u>6/30/2009</u> <u>Reg Fee</u> (B)	<u>FCC 10-123</u> <u>7/9/2010</u> <u>Reg Fee</u> (C)	<u>Gross up amount</u> <u>For recovery over 9 mos</u> (D)=(C-B)*(12/9)
2009 End User Revenues	\$ 1,388,828,739	\$ 0.00351	\$ 4,847,012	\$ (37,035)
Excluded Revenue	\$ 260,567,342			
Price Cap Revenue Percentage	81.24%			
FCC 2009 Price Cap Interstate End User Revenue	\$ 1,128,261,397			
			Reversal of TRS Annualization (E)=D-(C-B)	\$ (9,259)
	<u>FCC 499</u>	<u>FCC 11-68</u> <u>5/3/2011</u> <u>Reg Fee</u>		
2010 End User Revenues	\$ 1,362,263,246	\$ 0.00361		
Excluded Revenue	\$ 302,346,163	\$ 4,917,770		
Price Cap Revenue Percentage	77.81%			
FCC 2010 Price Cap Interstate End User Revenue	\$ 1,059,917,084			
<u>Telecom Relay Support</u>				
	<u>7/10-6/11</u>	<u>7/11-6/12</u>		
FCC 10-123 .00349 restatement 2009/2010	\$ 4,847,012	\$ -		
Reversal of Reg Fee Annualization	\$ (9,259)			
FCC 11-68 .00361		\$ 4,917,770		
	\$ 4,837,753	\$ 4,917,770	\$ 80,017	
% Price Cap Allocation	81.24%	77.81%		
Price Cap Only	\$ 3,930,111	\$ 3,826,301	\$ (103,810)	
FCC 2009 Price Cap Interstate End User Revenue	\$ 1,128,261,397			
FCC 2010 Price Cap Interstate End User Revenue	\$ 1,059,917,084			
Revenue Change (R)	-6.1%			
Price Cap Only with R Adj	\$ 3,692,045	\$ 3,826,301	\$ 134,256	
	<u>Common Line</u> <u>End User 499</u>	<u>Special</u> <u>End User 499</u>	<u>Price Cap</u> <u>End User 499</u>	
2010 End User Revenues	931,934,805	127,982,279	1,059,917,084	
Allocation Basis	87.93%	12.07%	100.00%	
TRS	\$ 118,045	\$ 16,211	\$ 134,256	

BELLSOUTH TELECOMMUNICATIONS, INC.
SUMMARY OF EXOGENOUS COSTS AND DISTRIBUTIONS
TO NON-ATS SERVICES

Exhibit 2.9

LINE	DESCRIPTION	'R' VALUE (A)	DISTRIBUTION (B) = (A/LINE 9A)	EDT EXOG (C)	ITC EXOG (D)	TRS EXOG (E)	REG FEE EXOG (F)	TOTAL
1	INTERSTATE EXOGENOUS COST TO BE DISTRIBUTED (Exhibit 2.5,b; 2.2 b)			-	-			
2	% OF EDT AND ITC EXOG COST W/EXCLUDED SERVICES EXHIBIT 2.3			0.00%	0.00%			
3	EXOGENOUS COSTS TO BE DISTRUBUTED (L1*(1-L2))			-	-	6,942,457	134,256	7,076,713
4	COMMON LINE EUCL AND PICC 'R' (Sum1 Column A, Row 100)	1,019,475,536	68.85%	-	-	6,104,173	118,045	6,222,218
5	DATABASE SERVICE CATEGORY 'R'	16,994,880	1.15%	-	-	-	-	-
6	BNA SERVICE CATEGORY 'R'	-	0.00%	-	-	-	-	-
7	INTEREXCHANGE BASKET 'R'	69,925	0.00%	-	-	-	-	-
8	SPECIAL ACCESS BASKET 'R'	444,162,133	30.00%	-	-	838,284	16,211	854,495
9	TOTAL (SUM L4 THRU L8)	1,480,702,474	100.00%	-	-	6,942,457	134,256	7,076,713

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**Effective 10/01/2003 TRS and Reg Fee Exogenous is only spread between the Common Line and Special Access Baskets