

DESCRIPTION AND JUSTIFICATION

1.0 Introduction and Description of Filing

In this tariff filing, scheduled to become effective June 15, 2002, the Bell Operating Companies (BOCs) propose changes to Tariff F.C.C. No. 1, 800 Service Management System (SMS/800) Functions (SMS/800 Tariff) to modify rates and charges based on current cost and demand data.

1.0 Modify Rates and Charges

This tariff filing is being made by the BOCs to increase certain rates and charges in the SMS/800 Tariff. The proposed increases, reflecting the BOCs' most current estimates of demand and cost for services provided under the tariff, would increase revenue over the prospective one-year period of June 15, 2002 through June 14, 2003 by \$3.86 million.

The most significant increase, in terms of revenue impact, is the proposed increase in the Customer Record Administration (CRA) charge from \$0.2106 to \$0.2219. Other rates and charges are increased or unchanged. A comparison of current and proposed rates, as well as the revenue impact of the rate increases, is displayed in Table 1, (after section 4.6).

The rates covered by this transmittal will expire on June 14, 2003 unless extended or revised by a tariff filing prior to the expiration date.

2.0 Revenue Requirement Development

The prospective revenue requirement for SMS/800 consists of expenditures for ongoing operations from June 15, 2002 through June 14, 2003. Virtually all of the costs are expense items. Specific budget items for SMS/800 ongoing operations are:

1. *SMS/800 Operation and Administration* which consists of: (a) Help Desk operational support to SMS/800 users including telephone assistance related to interfacing with SMS/800 and preparation/maintenance of toll-free number records, and processing of requests for changes in Responsible Organization for toll-free numbers; (b) day-to-day management, planning and administrative oversight provided by the SMT Business Manager (DSMI), external operational support services such as billing and collections, accounting, cost analysis and website support, and other costs such as bad debt (services provided to bankrupt Responsible Organizations), and general administrative and human resources expenses related to SMS/800; and (c) the indirect cost of significant internal resources that the Bell companies expend to support management, operation and administration of the SMS/800. These resources include employees in the

companies' tariff, regulatory, legal, technical, financial, taxation, procurement, accounting, network operations, systems provisioning, and operations support organizations.

The estimated revenue requirement of this budget item for the one-year period of June 15, 2002 through June 14, 2003 is \$8,110,800 distributed as follows: item (a) \$1,970,000; item (b) \$5,540,800; and item (c) \$600,000.

2. *SMS/800 Data Center Operation* reflects the cost of the production and test/disaster recovery SMS/800 data centers; upgrading of the data centers to increase processing capacity supporting the WEB-based Reporting System (WRS); and operation of a Service Center (Help Desk) facility to handle security and access problems. The estimated revenue requirement for data center operation is \$46,946,800.

3. *SMS/800 Software Support* includes the provision of software maintenance, computer site and application support, and software development for new features. The estimated revenue requirement for software support is \$21,470,800.

A comparison of projected past year and actual past year costs, and projected future year costs are shown in Table 2.

2.1 Revenue Requirement Distributions

The projected revenue requirement for budget (cost) items was distributed to all rate elements by applying distribution factors based on cost-causation analyses. The methodology used is consistent with the methodology used for all previous SMS/800 tariff filings. The distribution factors actually applied are shown in Table 5. Resulting revenue requirement distributions are shown in Table 4 and include distribution to all SMS/800 services (including those provided to Service Control Point [SCP] Owner/Operators which are offered via contract). Cost-causation analyses were performed and applied to budget elements as follows:

- A Task Oriented Costing (TOC) study was used to distribute SMS/800 Help Desk costs to rate elements. Each person providing Help Desk support was interviewed individually to identify the primary tasks performed, how often the tasks are performed, and the time (minimum, maximum, most likely) spent performing them. Each task was then analyzed and associated with the particular rate element it supports. The resulting distribution factors are shown in Table 5, column (a). All other (indirect) operations and administration costs were distributed to all rate elements proportionally on the basis of the relationship of the magnitude of each element to the total. The calculation method and allocation factors developed are shown in Table 4, columns (f) and (g).
- Data center costs consist primarily of: (a) network equipment and facilities needed to provide communications access for customers' links; (b) storage hardware (tape and disk drives) for toll-free number record data; and (c) central processor used to respond to and execute customer requests for SMS/800 services. *Network costs* are attributable almost entirely to rate elements required to access SMS/800. A unit cost analysis of each type of connection to SMS/800 was used to determine its cost and distribute the network revenue requirement on the basis of the relative, weighted (by demand) cost of each type of access.

Storage costs are related almost exclusively to number records and were therefore assigned to the Customer Record Administration rate element. *Central Processor costs* are attributable to most rate elements. A two-step analysis was used to determine a reasonable distribution of costs. First, the quantity of lines of computer code used by each SMS/800 software application and platform function were determined and distributed to each rate element supported. Then, usage data reflecting a typical month's internal computer transactions for each software application and platform function was recorded and used to identify the relative usage of processing capacity. Since the relationship between rate elements and software applications/platforms had been established and quantified with the lines of code study, the relationship was extended to processor transactions so that they could be assigned to rate elements. The factors developed with the lines of code and transactions analyses are shown in Table 5, columns (b) and (c), respectively. The composite factors actually used to distribute total data center costs are shown in column (d).

- The cost of software support includes software maintenance, site support and software development for new features. The software maintenance and site support dollars were distributed on the basis of the lines of code analysis described previously since there is a reasonable relationship between the magnitude of software code and the amount of support effort required to maintain it. The cost of new features was distributed by associating each new feature with the rate element it supports. The factors used to distribute software costs are shown in Table 5, column (e).

3.0 Basis of Ratemaking

The rate structure for SMS/800 consists of service elements that are used by Resp Orgs. The proposed rate for each element is based on its projected revenue requirement and demand. This information is shown in Table 6.

4.0 Demand Forecast

The demand forecast for the prospective year is displayed in Table 3. Information and/or data considered in developing the forecast are discussed in the following sections.

4.1 Customer Record Administration (CRA)

This rate element represents the quantity of toll-free numbers for which customer records exist in the SMS/800 and is charged on a recurring (monthly) basis for each number record administered. Demand forecasts for May through December 2002, and calendar year 2003 were developed with a modeling approach based on time series analysis of the most recent 36 months of historical monthly demand data using Excel's TREND linear regression function.

Monthly demand growth for the CRA rate element has varied significantly since the inception of national SMS/800 service in May 1993. Variations reflect the heavy demand experienced in the early years of service and the subsequent distortions caused by rationing and/or allocation of toll-free numbers as available numbers were exhausted and demand surged temporarily as new codes were opened. When the 866 code was opened in July 2000, average monthly demand surged for a few months but then stabilized. Monthly growth for the year 2000 averaged 302,470 per month, but decreased to 25,645 in 2001 and has averaged 38,978 during the first four months of 2002. The significant reduction in demand during 2001 and the first four months of 2002 is probably attributable to the impact of the economic recession. The TREND forecast for 2002 and 2003, based on 36 months of historical demand data, reflects an average monthly growth of 191,647. However, a monthly reduction of 200,000 units was applied to the forecast for the period of May through August 2002 to compensate for excess toll-free numbers in “Transitional” status that are expected to revert to “Spare” during the four-month period. Normally there are about 300,000 numbers in “Transitional” status, currently there are about 1,100,000.

Total CRA demand estimated for the prospective one-year period of June 15, 2002 through June 14, 2003 is shown in Table 3. CRA historical data for May 1993 through April 2002, and TREND projections for May 2002 through December 2003 are displayed in Table 3A.

4.2 Change of Responsible Organization for Toll-Free Number

This element provides for changing the Responsible Organization for a toll-free number and is charged on a non-recurring (per request) basis. Actual demand since 1999 has averaged about 100,000 requests per year and is estimated at 105,00 for 2002 and 115,000 for 2003.

4.3 SMS/800 Access

This service element provides for the connection of dedicated and dial-up communications links to the SMS/800 and is charged on a recurring (monthly) basis. Demand for dedicated access has been somewhat stable since 2000 and is likely to remain stable in 2002 and 2003. Demand for MGI dedicated access is projected at 35 units per month, and demand for non-MGI access is projected at 64 units per month. Demand for dial-up access grew at a rate of about 15 units per month from 1997 through 2000, but did not grow in 2001. No growth is anticipated in 2002, but growth of 15 units per month is likely to resume in 2003 if the national economy improves. That rate of growth is reflected in the demand projected for 2003.

4.4 Service Establishment

This service element provides for various aspects of establishing service, i.e., first log-on ID, and subsequent (additional) log-on IDs. Charges for these services are applied on a non-recurring (one time) basis. Demand for first log-on IDs has averaged about 2.5 requests per month since 1997 and is forecast at about that level for 2002 and 2003. Demand for subsequent IDs averaged about

150 requests per month with a growth rate of about 10 requests per month from 1996 to 2000, but fell by nearly 20% in 2001. No growth is anticipated in 2002. Growth of about 10 requests per month is anticipated in 2003.

4.5 Reports

This service element covers the provision of special reports ordered by users from the SMS/800 Help Desk and is charged on a non-recurring (per report) basis. Annual demand since 1999 has averaged about 900 reports per year. However, the imminent introduction of the Web-based Reporting System (WRS) feature is expected to eventually reduce demand for special reports ordered from the Help Desk to less than 200 reports per year by 2004. A gradual reduction in demand to 15 reports per month by December 2003 is reflected in the forecast for 2002 and 2003.

4.6 MGI Development and Testing

This service element covers the establishment of a mechanized interface to the SMS/800 for a Resp Org's operation system and is charged on a non-recurring (per request) basis. No requests for additional MGI interfaces are anticipated for 2002 and 2003.