

## 2003 ANNUAL ACCESS CHARGE TARIFF FILING

### DESCRIPTION AND JUSTIFICATION

#### Transmittal No. 724

#### 1. Introduction

This filing is being made in accordance with Sections 61.43, 61.49, 61.58 and 69.3(h) of the Commission's Rules and in compliance with the *CALLS Order* released on May 31, 2000,<sup>1</sup> the *SLC Cost Study Review Order* released on June 5, 2002,<sup>2</sup> the *July 1, 2003 Annual Access Charge Tariff Filings Order* released on April 18, 2003,<sup>3</sup> and the *Tariff Review Plan Instructions*, also released on April 18, 2003.<sup>4</sup> With this filing, BellSouth is adjusting certain rates contained in its Access Services Tariff, F.C.C. No. 1. This filing is scheduled to become effective on July 1, 2003.

#### 2. CALLS Order Revisions

On May 31, 2000, the Commission adopted an integrated interstate access reform and universal service proposal put forth by members of the Coalition for Affordable Local

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<sup>1</sup> 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, Sixth Report and Order in CC Docket Nos. 96-262 and 94-1, Report and Order in CC Docket No. 99-249, Eleventh Report and Order in CC Docket No. 96-45, FCC 00-193, released May 31, 2000 ("*CALLS Order*").

<sup>2</sup> 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*").

<sup>3</sup> In the Matter of July 1, 2003 Annual Access Charge Tariff Filings, Order in WCB/Pricing 03-15, DA 03-1175, released April 18, 2003 ("*July 1, 2003 Annual Access Charge Tariff Filings Order*").

<sup>4</sup> In the Matter of Material to be Filed in Support of 2003 Annual Access Tariff Filings, Tariff Review Plans, DA 03-1176, released April 18, 2003 ("*Tariff Review Plan Instructions*").

and Long Distance Service (CALLS). The rate changes reflected in this filing associated with the rules adopted in the *CALLS Order* include the following:

2.1 CMT Basket Revisions. On June 5, 2002 the Commission released the *SLC Cost Study Review Order*, which allows the primary residential and single line business Subscriber Line Charge (SLC) caps to increase in accordance with the *CALLS Order* from \$6.00 to \$6.50 on July 1, 2003. Accordingly, BellSouth's End User Common Line Charge (EUCL) cap and the associated rate will increase from \$6.00 to \$6.50 in this filing. The non-primary residential and Basic Rate ISDN EUCL cap and the associated rates remain unchanged at \$7.00. The multi-line business EUCL cap remains unchanged at \$9.20. However, BellSouth's rate will decrease from \$7.84 to \$7.13. As specified in the *CALLS Order*, the multi-line business PICC cap remains unchanged at \$4.31. BellSouth's rate will decrease from \$0.75 to \$0.00 in this filing. The Centrex PICC will decrease from \$0.08 to \$0.00 and the PRI ISDN PICC will decrease from \$3.75 to \$0.00.

2.2 Switched Access Revisions. As part of the *CALLS* proposal, price cap LECs reduced interstate switched access usage charges by \$2.1 billion on July 1, 2000. This was accomplished by targeting the interstate productivity factor (X-factor) of 6.5% to switched access and switched transport services until an Average Traffic Sensitive (ATS) per minute of use rate of \$0.0055 was reached (for both the originating and terminating ends). Once the ATS target rate is reached, the X-factor equals inflation (GDP-PI) in the price cap formula and no further reductions are made to these rates. Since BellSouth reached the ATS target rate of

\$0.0055 in its Revised 2000 Annual Access Charge Tariff Filing (Transmittal No. 558), no switched access ATS rate changes are made in this filing. BellSouth will, however, reduce its non-ATS Traffic Sensitive price cap basket rate elements due to exogenous cost changes made in this filing.

2.3 Special Access Revisions. In accordance with the *CALLS Order*, the X-factor applicable to special access services is 6.5% for purposes of this filing.

2.4 Access Universal Service Receipts. The *CALLS Order* identified \$650 million annually in access charges as implicit support for universal service and established an explicit interstate access universal service support mechanism to replace this implicit support.<sup>5</sup> BellSouth used the receipts from the access universal service fund amounting to \$94,807,720 to reduce its multi-line business PICC and SLC rates, as specified in the *CALLS Order*.

### **3. Request to Include Certain Transport Services in Section 23**

Pursuant to Section 69.729 of the Commission's Rules, BellSouth requests that the following new services be granted pricing flexibility in the same Metropolitan Statistical Areas (MSA) that BellSouth has received pricing flexibility for its transport services.

The new services include Frame Relay Subrate T3 Service; Asynchronous Transfer Mode (ATM) Subrate T3 Service; Network Visibility Service; BellSouth Enterprise DSL Service; BellSouth Native Mode LAN Interconnection (NMLI) Service; Fast Packet Back-Up Port; BellSouth Wavelength Service; New Optical Service Arrangements for

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<sup>5</sup> CALLS Order, ¶¶ 185-186.

BellSouth SPA Managed Shared Network Service; and Multicast PVC for Managed Shared Fast Packet Access Services.

The above new services were introduced subsequent to the FCC granting BellSouth Phase I and Phase II pricing flexibility for its transport services.

On August 24, 2000, BellSouth filed a petition for Phase I and Phase II pricing flexibility for special access and dedicated transport services. In the *2000 Special Access Pricing Flexibility Order*,<sup>6</sup> the Commission granted BellSouth's Petition and specifically granted BellSouth Phase I pricing flexibility for special access and dedicated transport services in 39 MSAs and Phase II pricing flexibility in 38 MSAs. For special access channel terminations to end users, BellSouth received Phase I relief in 37 MSAs and Phase II relief in 26 MSAs.

Subsequently, on August 2, 2002, BellSouth filed a second petition for Phase I and Phase II pricing flexibility for special access and dedicated transport services. In the *2002 Special Access Pricing Flexibility Order*,<sup>7</sup> BellSouth was granted Phase I pricing flexibility for special access and dedicated transport services in 7 additional MSAs and Phase II relief in 4 additional MSAs. For special access channel terminations to end

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<sup>6</sup> In the Matter of BellSouth Petition for Pricing Flexibility for Special Access and Dedicated Transport Services, CCB/CPD No. 00-20, Memorandum Opinion and Order, DA 00-2793, released December 15, 2000 ("*2000 Special Access Pricing Flexibility Order*").

<sup>7</sup> In the Matter of BellSouth Petition for Pricing Flexibility for Special Access and Dedicated Transport Services, Memorandum Opinion and Order WCB/Pricing No. 02-24, DA 02-3228, released November 22, 2002 ("*2002 Special Access Pricing Flexibility Order*").

users, BellSouth received Phase I relief in 4 additional MSAs and Phase II relief in 4 additional MSAs.

The Commission determined that of the two methods a local exchange carrier (“LEC”) could use to satisfy the pricing flexibility test, BellSouth met the requirements of the second alternative. BellSouth demonstrated that for special access and dedicated transport services, its competitors had made irreversible, sunk investments in facilities in each of the qualifying MSAs. BellSouth also demonstrated that for Phase I relief, competitors had collocated in wire centers that accounted for 30 percent of BellSouth’s revenue within each MSA and for Phase II relief that competitors had collocated in wire centers accounting for 65 percent of BellSouth’s revenue within each MSA. For special access channel terminations, BellSouth demonstrated that for Phase I relief, competitors had collocated in wire centers that accounted for 65 percent of BellSouth’s revenue within each MSA and for Phase II relief that competitors had collocated in wire centers accounting for 85 percent of BellSouth’s revenue within each MSA.

Among the services that were included in BellSouth’s 2000 Petition were BellSouth ADSL Service, BellSouth SPA Managed Shared Network Service and BellSouth Fast Packet Access Services. These services, which are in the Special Access and Trunking baskets, were provided prior to the filing of Transmittal Nos. 662, 670, 675, 680, 685, 689, 698, 712, and 720. These transmittals provide enhancements to the above services included in BellSouth’s 2000 Petition.

On August 31, 2002, and October 11, 2002, BellSouth Transmittal Nos. 662 and 670, respectively, became effective. These Transmittals introduced a new Frame Relay Subrate T3 service and an ATM Subrate T3 service for BellSouth Managed Shared Fast Packet Services and BellSouth Exchange Access Fast Packet Services. The Frame Relay Subrate T3 service and ATM Subrate T3 service provide data customers a path to migrate from DS1 to DS3 services, which enables customers to order Frame Relay and ATM connections at the speeds they actually need.

On November 22, 2002, BellSouth Transmittal No. 675 became effective. This Transmittal introduced BellSouth Network Visibility Service (NVS). BellSouth NVS is a customer network management tool that provides customers a view into their BellSouth Fast Packet network for monitoring and trouble shooting purposes.

On December 31, 2002, Transmittal 689 became effective. This Transmittal introduced a Back-Up Port for Fast Packet Access Services. The Back-Up Port capability is an optional service that provides the ability to have a secondary logical port configured to a subscriber's service needs and held in "standby" status in the event that the customer's primary connection is disabled.

On May 15, 2003, Transmittal 720 became effective. This Transmittal introduced a new capability, MultiCast PVC (permanent virtual circuit), for customers subscribing to Managed Shared Frame Relay service and Exchange Access Frame Relay Service. MultiCast PVC provides the ability to establish a one-to-many (uni-directional)

broadcasting PVC that distributes data simultaneously from a host site to a group of predetermined remote sites.

The enhancements in Transmittal Nos. 662, 670, 675, 689 and 720 increase the options to Fast Packet customers.

On December 10, 2002, BellSouth Transmittal 680 became effective. This Transmittal introduced BellSouth Enterprise DSL Service. BellSouth Enterprise DSL Service provides a virtual circuit high-speed connectivity between an end-user premises and a Network Service Provider location utilizing an overlay of BellSouth Enterprise DSL service, BellSouth Exchange Access ATM Service, or BellSouth Managed Shared ATM Service.

On December 19, 2002, Transmittal No. 685 became effective. This Transmittal introduced BellSouth Native Mode LAN Interconnection (NMLI) Service. BellSouth NMLI Service is a high-speed fiber optic transport service for the interconnection of a customer's LANS and/or other high-speed devices.

On February 21, 2003, Transmittal 698 became effective. This Transmittal introduced BellSouth Wavelength service. BellSouth Wavelength service provides high volume optical transport in a point-to-point configuration and provides two maximum transmission speeds of 100 Mbps to 1.25 Gbps and 52 Mbps to 2.5 Gbps.

On April 30, 2003, Transmittal 712 became effective. This Transmittal introduced new Optical Service Arrangements for BellSouth SPA Managed Shared Network Service, which includes STS-1, OC-3, OC-12, and OC-48 optical arrangements.

Because Transmittal Nos. 662, 670, 675, 680, 685, 689, 698, 712, and 720 increased the number of customer options, these filings constituted new services. Further, because the new services were introduced after BellSouth filed its 2000 petition for pricing flexibility, the Commission's rules require that BellSouth show that the new services would be incorporated into a price cap basket and service band for which pricing flexibility is sought. The new Frame Relay Subrate T3 service, ATM Subrate T3 service, BellSouth Network Visibility Service, MultiCast PVC and Back-Up Port capability all provide additional options for BellSouth Fast Packet Access Services, which are in the Trunking basket. The new BellSouth Enterprise DSL Service increases the DSL options to customers and should be included in the same basket as BellSouth ADSL Service, the Special Access basket. The addition of BellSouth NMLI Service, BellSouth Wavelength Service and the new Optical Service Arrangements for BellSouth SPA Managed Shared Network Service expand the number of high capacity transport options to customers and should be included in the Special Access basket.

Had the above enhancements been in effect and under price cap regulation at the time BellSouth's 2000 Pricing Flexibility Petition was filed, the demonstration BellSouth made for each of the MSAs included in the Petition would have also applied to these new services. When the Commission granted pricing flexibility to BellSouth for all of the



services listed in its 2000 Petition, the above enhancements would, thus, have been included.

Accordingly, the demonstration made in BellSouth's 2000 Petition, which the Commission determined was adequate for BellSouth to receive the pricing flexibility it originally requested in August 2000 and subsequently in 2002, is sufficient for BellSouth to be afforded pricing flexibility for the new enhancements discussed above. Therefore, the Commission should extend to these new services the same pricing flexibility it granted BellSouth in the *2000 Special Access Pricing Flexibility Order* and *2002 Special Access Pricing Flexibility Order*.

#### **4. Third Quarter 2003 Universal Service Contribution Factor**

On June 6, 2003, the FCC released a Public Notice that provided the proposed Universal Service Contribution Factor for the Third Quarter 2003.<sup>8</sup> Beginning with the Second Quarter 2003, the Commission calculates the quarterly contribution factor based on the ratio of total projected quarterly costs of the universal service support mechanisms to contributors' total projected collected end-user interstate and international telecommunications revenues, net of projected contributions. The proposed contribution factor for the Third Quarter 2003 is 0.095.

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<sup>8</sup> In the Matter of Federal-State Joint Board on Universal Service, CC Docket No. 96-45, Public Notice, DA 03-1909, released June 6, 2003.

BellSouth recovers its federal universal service contributions through per-line item monthly charges that are assessed to all end user customers, with the exception of End User Special Access customers. Contributions for End User Special Access customers are recovered by applying a surcharge equal to the Third Quarter 2003 Universal Service Contribution Factor of 0.095 to the end user customer's monthly, billing account level, Special Access service charges. The surcharge is described in BellSouth's Access Services Tariff, F.C.C. No.1, Section 4.6(P).

As directed by the Commission in the *USF Interim Methodology Order*<sup>9</sup>, BellSouth's Monthly Federal Universal Service Charges for Primary Residence, Single Line Business, Additional Residence Line, and Basic Rate ISDN are calculated by applying the Third Quarter 2003 Contribution Factor of 0.095 to the sum of the charges representing the interstate portion of the customer's bill. These charges include the applicable End User Common Line (EUCL) Charge, Excess Line Port Charge and Local Number Portability (LNP) Charge. The calculations are shown on Appendix D, Exhibit 1, Page 1 of 2.

On March 14, 2003, the Commission released its *USF Waiver Order* granting an interim waiver to enable ILECs to recover their universal service contributions from Centrex customers using an "equivalency ratio" as provided in Sections 69.131, 69.153(e) and 69.158 of the Commission's Rules.<sup>10</sup> Based on the interim waiver, BellSouth's Monthly

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<sup>9</sup> In the Matter of Federal-State Joint Board on Universal Service, CC Docket No. 96-45, Report and Order and Second Further Notice of Proposed Rulemaking, FCC 02-329, released December 13, 2002 (*USF Interim Methodology Order*).

<sup>10</sup> In the Matter of Federal-State Joint Board on Universal Service, CC Docket No. 96-45, Order and Second Order on Reconsideration, FCC 03-58, released March 14, 2003 (*USF Waiver Order*).

Federal Universal Service Charges for Centrex, Multi-Line Business, and Primary Rate ISDN are initially calculated by applying the Third Quarter 2003 Contribution Factor of 0.095 to the sum of the charges representing the interstate portion of the customer's bill in the same manner described above. For Multi-line Business and Primary Rate ISDN, the Monthly Federal Universal Service Charges are calculated first by determining the difference, on a per-line basis, between assessing Centrex lines based on the equivalency ratio permitted under Sections 69.158 and 69.153(e) of the Commission's Rules and applying the remaining USF recovery across Multi-line Business and PRI ISDN lines on an averaged basis. Once the difference is determined, a one-ninth portion is allocated back to Centrex and the remainder, which is the portion allocated to Mutli-line Business and PRI ISDN, is then added to the initial Multi-line Business Monthly Federal Universal Service Charge to calculate that charge. The Primary Rate ISDN Monthly Federal Universal Service Charge is calculated by multiplying the portion allocated to Mutli-line Business and PRI ISDN by 5 and then adding that amount to the initial Primary Rate ISDN Monthly Federal Universal Service Charge. For Centrex, the Monthly Federal Universal Service Charge is calculated by applying the one-ninth equivalency ratio and then adding the portion allocated back to Centrex described above. These calculations are shown on Appendix D, Exhibit 1, Page 2 of 2.

## **5. Annual Filing Price Cap Index (PCI) Adjustments**

The Commission's Rules<sup>11</sup> require that certain price cap local exchange carriers (LECs) file as part of their Annual Access Charge Tariff filings adjustments to their existing PCI values for each designated price cap service basket. To calculate these adjustments,

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<sup>11</sup> Section 61.45, Title 47 Code of Federal Regulations.

BellSouth used an inflation factor of 1.3661% based on the GDP-PI (the chain-weighted measure of the index), and a price cap local exchange carrier prescribed X-factor of 6.5% for the Special Access basket, and a 3.0% X-factor for the Interexchange basket.

BellSouth reached the Average Traffic Sensitive Target Rate of \$0.0055 specified in the *CALLS Order* in Transmittal No. 558, which became effective on August 11, 2000.

Therefore, the X-factor is set equal to the GDP-PI for the Traffic Sensitive and Trunking baskets in this filing. Final PCI adjustments are shown in Appendix B Workpaper PCI-1 as well as in the Tariff Review Plan (TRP).

## **6. Exogenous Cost Changes**

The net adjustments to the PCI values as prescribed by Section 61.45(d) of the Commission's Rules are Exogenous Cost Changes. The Exogenous Cost Changes included in this filing are as follows:

Investment Tax Credit (ITC) Amortization

Reallocation of Investment from Regulated to Non-Regulated Activity

2003 Telecommunications Relay Services (TRS) Fees Adjustment

Total Exogenous Cost changes for the BellSouth Region as a whole are \$(658,884).

BellSouth's 2003 Annual Access Tariff Filing Exogenous Cost Changes are explained in Appendix A following.

## **7. Rate Revisions**

In this filing, BellSouth is proposing rate revisions to End User Common Line charges (EUCLs), Presubscribed Interexchange Carrier Charges (PICCs), certain charges in the Traffic Sensitive and Special Access price cap baskets and Federal Universal Service Charges.

EUCL and PICC charges are calculated in Appendix B of this filing on Workpapers CAP-1 through CAP-5.

EUCLs have been revised according to the rules specified in the *CALLS Order* and the *SLC Cost Study Review Order*. The primary residence/single line business EUCL charge increases from \$6.00 to \$6.50 with this filing. The nonprimary residence/Basic Rate ISDN (BRI) EUCL charges remains unchanged at \$7.00. The multi-line business/Centrex EUCL charge decreases from \$7.84 to \$7.13. The PRI ISDN EUCL charge is calculated at 5 times the multi-line business charge, or \$35.65

PICC charges have also been revised. BellSouth's multi-line business PICC will decrease from \$0.75 to \$0.00. The Centrex PICC decreases from \$0.08 to \$0.00. The PRI ISDN PICC decreases from \$3.75 to \$0.00.

BellSouth's Billing Name Address (BNA) ANI rate and Local Number Portability (LNP) Call Routing Service rate in the Traffic Sensitive basket are being reduced.

Also, certain rates in the Special Access basket are revised. The proposed rate revisions in this filing result in decreases in the Special Access basket of 5.14%, as shown on Workpaper SP1.

In addition, BellSouth is revising its Monthly Federal Universal Service Charges as follows:

The Primary Residence/Single Line Business rates increase from \$0.58 to \$0.65.

The Additional Residence rate increases from \$0.67 to \$0.70.

The Basic Rate ISDN rate increases from \$0.67 to \$0.93.

The Centrex rate remains unchanged at \$0.10.

The Multi-line Business rate decreases from \$0.93 to \$0.88.

The Primary Rate ISDN rate increases from \$4.65 to \$5.73.

The Federal Universal Service Surcharge factor applied to End User Special Access interstate billing increases from 0.091 to 0.095.

## **8. Actual Price Index (API) Adjustment**

Based on the proposed rates and in accordance with Section 61.46 of the Commission's Rules, new APIs have been calculated using this filing's proposed rates for the Traffic Sensitive, Trunking, Special Access and Interexchange Baskets. As shown on Workpaper SUM-A in Appendix B and the TRP, all proposed APIs fall below their allowable upper limits (i.e., proposed PCIs).

## **9. Service Band Index (SBI) Adjustments**

The Traffic Sensitive Basket is subdivided into six service bands: (1) Switching; (2) Information; (3) Database Access; (4) Billing Name and Address; (5) Local Switching Trunk Ports; and (6) STP Port Terminations. In addition, the Database Access Band contains one sub-index: 800 Database Vertical Services. The Trunking Basket is subdivided into five service bands: (1) Interconnection; (2) Tandem Switched Transport; (3) Voice Grade, WATS, Metallic, Telegraph; (4) Digital Data and Hicap; and (5) Signaling Interconnection.<sup>12</sup> The Hicap Service Band contains two Sub-Indices: DS1 and DS3. In addition, the Tandem Switched Transport DS1 and DS3 sub-categories each contain 3 density zone indices. The Special Access Basket is subdivided into four service bands: (1) Voice Grade, WATS, Metallic, Telegraph; (2) Audio/Video; (3) Digital Data and Hicap; and (4) Wideband.<sup>13</sup> The Hicap Service Band contains two Sub-Indices: DS1 and DS3. In addition, the DS1 and DS3 sub-categories each contain 3 density zone indices.

New SBIs and Sub-Indices have been calculated for this filing based upon the proposed rates and in accordance with Section 61.47 of the Commission's Rules. As shown on Workpaper SUM-A in Appendix B, all SBIs fall within their calculated limits.

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<sup>12</sup> Signaling Interconnection is not applicable to BellSouth because BellSouth does not have any tariffed rates.

<sup>13</sup> Wideband is not applicable to BellSouth because BellSouth does not have any tariffed rates.

## **10. Additional Supporting Documentation**

BellSouth has included as part of its supporting documentation its 2001 and 2002 FCC Form 492A Reports. These reports are found in Appendix A.

Also, as required, all currently applicable Part 69 waivers that result in rate elements different than those specified in Part 69 of the Commission's Rules as well as a list of new services introduced in 2002 may be found in Appendix C. Additionally, a list of services not in price caps is contained in Appendix C. A list of Indices sources follows Appendix D, as well as the Tariff Review Plan and the Rate Detail for the 2003 Annual Access Charge Tariff Filing. Certification for this filing follows the Rate Detail.