

**A Review
of
BellSouth-Kentucky's
Transition Regulatory Plan (TRP)
Case No. 2003-00304
for
Kentucky Public Service Commission
February 2004**

**Kentucky Public Service Commission
Review of BellSouth's TRP Plan**

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I. EXECUTIVE SUMMARY

A. PROJECT OBJECTIVES

The current TRP has been in effect since August of 2000 when the Commission permitted a three-year pilot period. BellSouth-Kentucky contends that the TRP has met or exceeded the objectives established and recommends that it be continued permanently.

The purpose of this audit is to determine if BellSouth-Kentucky's Transition Regulation Plan is the appropriate regulatory framework for BellSouth-Kentucky in today's competitive telecommunications market. This determination will be the product of a focused audit that will assess:

1. The Company's performance in meeting the plan's objectives over the initial three-year pilot period;
2. The appropriateness of the plan's structure for meeting the Commission's need to balance the interests of all entities affected by its regulation – including BellSouth-Kentucky's customers, competitors, and owners;
3. The appropriateness of the plan's structure for meeting BellSouth-Kentucky's need to effectively compete in the Kentucky telecommunications market; and
4. Generally the change in Kentucky's competitive telecommunications market since the TRP was implemented.

B. PROCESS

The Vantage evaluation of the current TRP was not as broad as the original 1999 review, instead it was governed by the over-riding goal of determining, retrospectively, whether the TRP had met its goals and whether it continued to be the appropriate structure on a going-forward basis. Our work plan was based on a letter from the Commission and details a series of evaluative criteria and work steps. It is provided in the Appendix of this report.

REPORT FORMAT

This report consists for four chapters and an appendix.

Chapter I - Executive Summary – Provides a summary of the process, overall conclusions, findings and recommendations.

Chapter II - Background and Status of Competitive Market – Provides details on competitive changes in the telecommunications industry. This includes the overall industry, BellSouth in total and BellSouth-Kentucky. It also includes excerpts from recent analysts reports that define where the industry is headed.

Chapter III - BellSouth-Kentucky Performance – This chapter addresses BellSouth-Kentucky’s performance during the last three years in meeting its customer service objectives.

Chapter IV - TRP Plan Structure – This last chapter addresses specific aspects of the TRP design.

INTERVIEWS AND DATA COLLECTION

Meetings and interviews were held with BellSouth personnel from Louisville and Atlanta. The titles of personnel interviewed included:

Title	Location	Comments
President – BellSouth-Kentucky	Louisville and Atlanta	In person interviews as well as conference calls
GM Network	Louisville	In person interview as well as conference call
Director Regulatory and External Affairs	Louisville	In person interview as well as conference call
VP Regulatory and External Affairs	Louisville and Atlanta	In person interviews as well as conference calls
Manager – Regulatory and External Affairs	Louisville	Numerous calls, e-mails and meetings in response to data requests
General Counsel	Louisville	Clarifications on confidential information
VP - Marketing	Louisville and Atlanta	Kick-off presentation and interview in Atlanta
VP Segment Marketing Small	Atlanta	Kick-off presentation
VP - Consumer	Atlanta	Kick-off presentation

In addition to the numerous interviews, 56 Data Requests were submitted to BellSouth-Kentucky resulting in thousands of pages of responses. A listing of these data requests are included in the Appendix. Both the FCC and Kentucky Public Service Commission web sites were also used extensively.

C. OVERALL CONCLUSION

In our opinion, the TRP has met or exceeded its goals of allowing competition to increase within the state and making broadband available to a greater number of customers while retaining or improving service levels. The analysis in this report will clearly show that all of the objectives established by the Commission have been met during the three year period the TRP has been in effect.

The impact of the TRP on competition and the level of competition existing in Kentucky was one of the more difficult issues in this evaluation. Keep in mind that the original intent of

the Vantage recommendations in the first study was to prevent the TRP from forming an impediment to competition. Essentially, we sought to encourage a regulatory framework that recognized the limitations of classic regulation. Classic telephone regulation had limited ability to encourage competition, but could in our opinion absolutely stifle it. Vantage has concluded the TRP did not impede competition. In fact, while there are arguments by some that competition does not exist in Kentucky, we would argue that it is increasing dramatically from both traditional and new directions.

One of the difficulties we faced in using independent data to measure competition is that much of the data is not accurate in Kentucky or timely given the quickly changing competitive environment. For example, the data in FCC reports is both self-reporting and excludes CLECs under 10,000, which BellSouth - Kentucky argues represents a significant number of lines in Kentucky. Further, the FCC data is statewide, masking the extent of competition within the state. To be fair in our analysis, we use the FCC data as a baseline and then use Bell South - Kentucky detailed analysis to further refine the analysis.

The TRP has also successfully driven prices of tariffed services closer to incremental costs. This is another important requirement for establishing competition. Finally, there are still a number of issues that need to be addressed that transcend the TRP. Modification of the Customer Service Agreement (CSA) program is underway in other proceedings. The question of "presumptive validity" was proposed four years ago by Vantage and is still an issue. The question of whether the TRP should become a permanent Price Regulation Plan (PRP) is also ripe. All these issues are addressed with recommendations by Vantage.

A summary of compliance with the TRP is provided below, along with the findings and recommendations.

Did the Company's performance meet the plans objectives over the initial three-year pilot period?

Yes. Our evaluation shows that each of the objectives in the TRP were met. The table below summarizes our conclusions.

Objective #	Requirement of TRP	Comments
Objective 1	Ensure basic service continues to be available at reasonable rates, and shield the basic ratepayer from significant price increases resulting from the changing marketplace.	There have not been significant increases in rates to customers.
Objective 2	Continue to provide high quality service.	By both objective and subjective measurements, BellSouth service quality has not declined. See Findings III- F1, F2 and F3

Objective 3	Permit the Commission and the Company to direct their energies to meet customers' needs and enhance efficiency in the provision of telecommunications services throughout Kentucky.	In general this objective has been met. BellSouth - Kentucky and the Commission have not been sidetracked by the TRP, except for the question of Presumptive Validity.
Objective 4	Provide enhanced incentives to invest in new technologies and services.	This objective was exceeded. BellSouth - Kentucky broadband deployment not only met the proposed level but ADSL is now operating in almost 3 times the number of wire-centers as originally proposed.
Objective 5	Permit the Company the added flexibility to price competitive services, set depreciation rates, and respond to a changing marketplace.	See Finding IV-F2
Objective 6	Permit all Company retail rates to move toward incremental cost or market price.	See Finding IV-F1
Objective 7	Ensure that the potential introduction of competition to all markets in Kentucky is not hindered by the plan.	See Finding IV-F3

Is the TRP structure appropriate for meeting the Commission's need to balance the interests of all entities affected by its regulation - including BellSouth's customers, competitors, and owners?

Yes. Achieving a reasonable level of balance between competing parties is difficult to reach, however the TRP seems the best vehicle available for meeting that requirement. Meeting the objectives of the plan as described above is in many ways proof that the TRP works.

Does the plan's structure support the need for the Company to effectively compete in the Kentucky telecommunications market?

In general yes. While BellSouth-Kentucky continues to request changes in the plan regarding Presumptive Validity, the overall plan is appropriate for the current competitive environment in Kentucky.

Has there been significant change in Kentucky's competitive telecommunications market since the TRP was implemented?

Yes. The entire competitive structure of the telecommunications industry has changed significantly during the last three years. While at the total state level, Kentucky lags behind some states in the number and geographic coverage of competitors, it is clear that competition has arrived in both traditional and new forms in the just recent past. Competition is decidedly more intense in the BellSouth territory, which for the most part includes the more densely populated areas. The vast majority of competition is taking place in products and services which are only marginally, if at all, impacted by traditional regulation at the state level. In particular long distance bundling, cable (both broadband and VoIP), wireless and resale and UNE-P pricing are the major competitive conduits. Also, as mentioned, many of the areas in Kentucky lacking competitive pressure are outside the BellSouth-Kentucky territory. So while competition in Kentucky is below many states (as measured on zip code penetration), competition within the BellSouth territory has definitely changed and increased. Throughout this report, Vantage makes use of FCC reported data. The FCC data is one of the few sources of unbiased data on a state by state and national basis. It is also data that has been prominent in Kentucky BellSouth proceedings. As we present this data, Vantage has also noted places where the data may be misleading or at least not providing a complete picture.

E. SUMMARY OF FINDINGS AND RECOMMENDATIONS

- II-F1* Competition in the U.S. Telco industry has continued to increase from both traditional and new sources.
- II-F2* Competition has continued to increase in Kentucky during the three year term of the TRP.
- II-F3* There is no evidence that the TRP has hindered competition in Kentucky.
- II-F4* Industry experts and analysts believe the financial and regulatory climates are precarious for RBOCs, such as BellSouth.
- III-F1* Traditional Service Quality has not deteriorated under the TRP.
- III-F2* The measurement of Service Quality at the wholesale level has increased in recent years.
- III-F3* The Service Standards in place under the TRP combined with wholesale measures give adequate assurance of service quality.
- III-F4* High Speed Internet Connections appear to be growing at an increasing rate.
- III-F5* High Speed Data Information on the rural areas is very spotty.
- III-F6* Overall, the State of Kentucky lags behind other States in high speed internet access.

- III-F7* By any measure, the broadband investment objective agreed to by BellSouth as part of the TRP has been met.
- III-F8* The TRP alone did not drive broadband investment, but provided tremendous impetus.
- III-F9* The strategic plan, since 2001 and every year thereafter, has adequately addressed the impact of the PRP/TRP in meeting its overall corporate objectives.
- III-F10* The strategic plan although well defined and while reflecting the impact of the TRP on BellSouth's Kentucky operations does not specifically reference the goals of the TRP enumerated in the Commission's Order in Case No. 99-434.
- III-F11* The strategic plan and, in particular, BellSouth's aggressive broadband rollout, does not appear to conflict with broader BellSouth objectives.
- III-F12* During the 2001 through 2003 transition period, BellSouth met or exceeded all of the goals set in the TRP that were designed to replace the implicit effects that were an intended, but immeasurable, outcome of the prior application of the Total Factor Productivity offset.
- III-F13* BellSouth's strategic plan has effectively addressed the issue of line losses and has implemented a well-defined implementation plan to react to competitive pressures that have lead to the diminution of its market share.
- III-F14* There does not appear to be any relevant issues, specific to Kentucky including urban versus rural considerations, that are not already being addressed in BellSouth's strategic plan.
- IV-F1* Bell South has responded to the competitive Kentucky telecommunications marketplace through rebalancing rates and adjusting rates to reflect market conditions, all in compliance with the provisions and objectives of the TRP.
- IV-F2* The provisions of the TRP have not materially impacted BellSouth-Kentucky's ability to compete in the marketplace.¹
- IV-F3* The issue of presumptive validity, while still part of an ongoing proceeding, is as valid today as it was three years ago.
- IV-F4* BellSouth-Kentucky competitors have not been stifled in either entering or competing in the Kentucky telecommunications marketplace due to any provisions of the TRP.
- IV-F5* BellSouth has followed the TRP provisions regarding Contract Service Arrangements(CSA).

- IV-F6* BellSouth's requirements for filing CSA information have been modified and KPSC concerns over CSA policy issues have resulted in their opening a Case, which is still pending.
- IV-F7* BellSouth has proposed to the KPSC that the TRP continue as is with only one change.

RECOMMENDATIONS

- IV-R1* The TRP should be continued. (Refer to Finding IV-F1, F2, F4 and F7.)
- IV-R2* The KPSC should consider taking the next step in further relaxing regulatory oversight of BellSouth's tariffs through establishing some form of presumptive validity within the TRP. (Refer to Finding IV-F3.)
- IV-R3* The KPSC should strongly consider accepting, in some fashion, the Joint Industry Proposal put forth by BellSouth, Kentucky ALLTEL and Cincinnati Bell regarding Contract Service Arrangement standards. (Refer to Finding IV-F6.)
- IV-R4* The KPSC should make the TRP permanent and address any modifications needed in the future as issues arise. (Refer to Finding IV-F7.)
- IV-R5* BellSouth – Kentucky and the Commission should review existing statutes to determine if there are any outdated regulations in effect. (Refer to Finding IV – F3, and F7.)

II. BACKGROUND AND STATUS OF COMPETITIVE MARKET

This section provides details on the current status of competition in Kentucky and the US. As a great deal of information has already been provided to the Commission and Staff from BellSouth and others regarding competition in Kentucky, we have tried to add a broader context with additional information. The phrase “current status of competition “ alone will provide an idea of the nature of competition in Kentucky and elsewhere. During the course of drafting this over-section of the report in the fall of 2003, the section had to undergo numerous revisions to reflect the major changes and announcements that were taking place in telecommunication.

A. COMPETITIVE TRENDS FOR LOCAL SERVICE IN THE U.S.

II-F1 Competition in the U.S. Telco industry has continued to increase from both traditional and new sources.

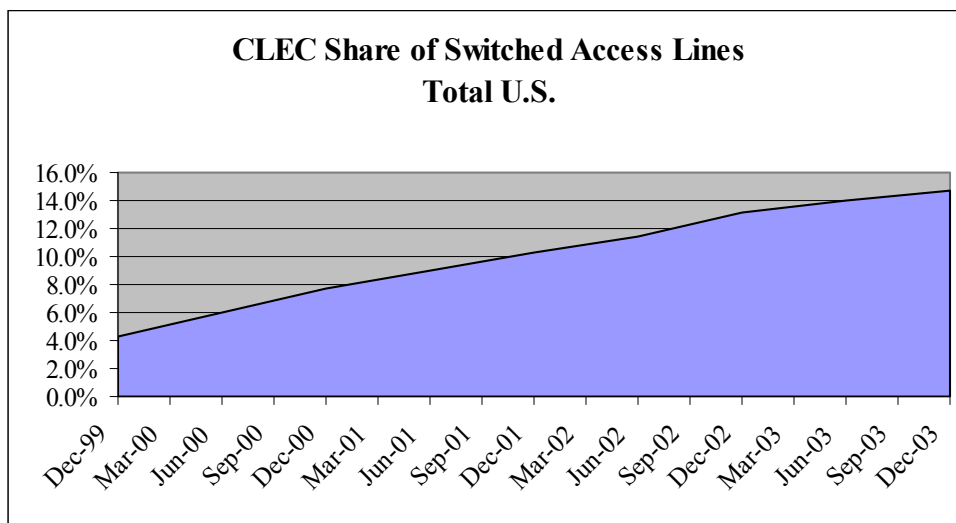
At the time of the original Vantage audit, we noted the extraordinary changes that were taking place in the telecommunications market. Those changes continued, but in a direction and pace totally unanticipated by seemingly almost all industry leaders and observers. Many of the up-and-coming companies at that time have subsequently ceased to exist, merged and/or declared bankruptcy. Some, if not most, of these companies suffered from fundamental flaws in business plans, what now seem to be grandiose predications of growth and in too many cases, criminal fraud. The industry has shown considerable resilience and has re-emerged with stronger players, new technology advances and combinations of legitimate and key players. The average consumer is at long last seeing the benefits of competition promised in the Telecom Act of 1996.

Competition today is definitely more visible at the residential level. At the time of the previous Vantage review, competition was in place in Kentucky, but it was primarily focused on the business market (this was the case throughout the country). Competition for the residential customer primarily consisted of wireless alternatives with a relatively small number of residential customers served by resellers. Cable was offering Voice Over IP, but with an older technology that never solved voice quality problems. In late 2003, this focus has shifted to the residential market. Residential customers increasingly have choices for phone and broadband service from landline CLECs, wireless, cable and Voice Over IP (VoIP). Another measure of competition, pricing, is coming under ever increasing pressure even in wireLINE as bundling of services has grown to include interstate and intrastate long distance calling, often at a fixed and very low rate. With all the known changes taking place in the industry and the experience of having seen first-hand emerging technologies evaporate, we limit our discussion of competition to “what is” rather than what may be.

Overall, in the U.S.², the FCC reports that in 2003 end user customers obtained local telephone service by means of some 155.9 million incumbent local exchange carrier (ILEC)

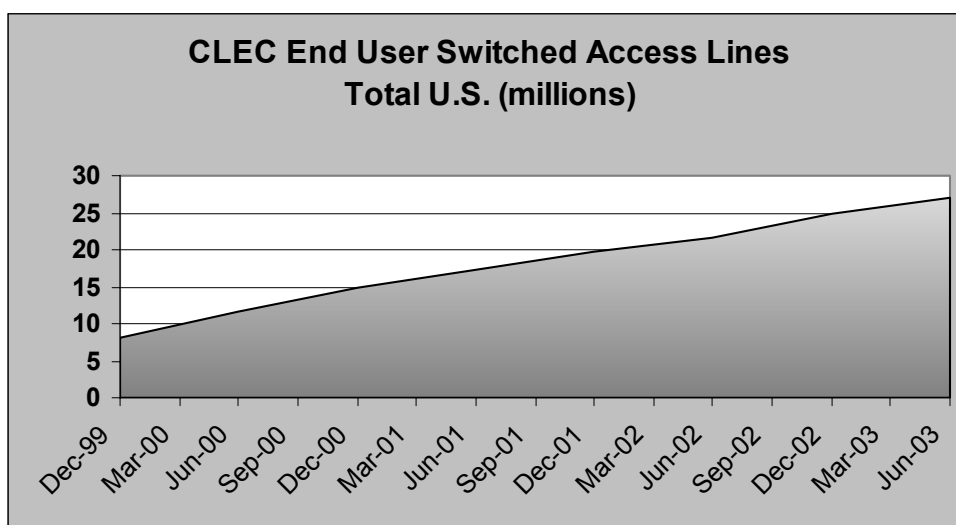
switched access lines, 26.9 million competitive local exchange carrier (CLEC) switched access lines, and 147.6 million mobile wireless telephone service subscriptions.³

Obviously CLECs have continued to make inroads in their share of switched access lines both through resale and also UNE. To put the increase in perspective, from December 1999 through June of 2003, the CLEC share of U.S. switched access lines grew more than threefold from 4.3 percent to 14.7 percent.⁴



Source: FCC Local Telephone Competition Status as of December 30, 2003, Table 1

The absolute number of CLEC lines has also grown in the U.S. from 8.2 million in December 1999 to almost 27 million in June 2003. This increase is accelerating. For the 12-month period ending June 30, 2003, CLEC end user lines increased by 24 percent.



Source: FCC Local Telephone Competition Status as of December 30, 2003, Table 3

CLEC lines and percentage market share are increasing as the total number of access lines reported by ILECs and all providers have decreased. The following table shows the changes since December 1999 in the number of total access lines, CLEC and ILEC lines and the CLEC percentage.

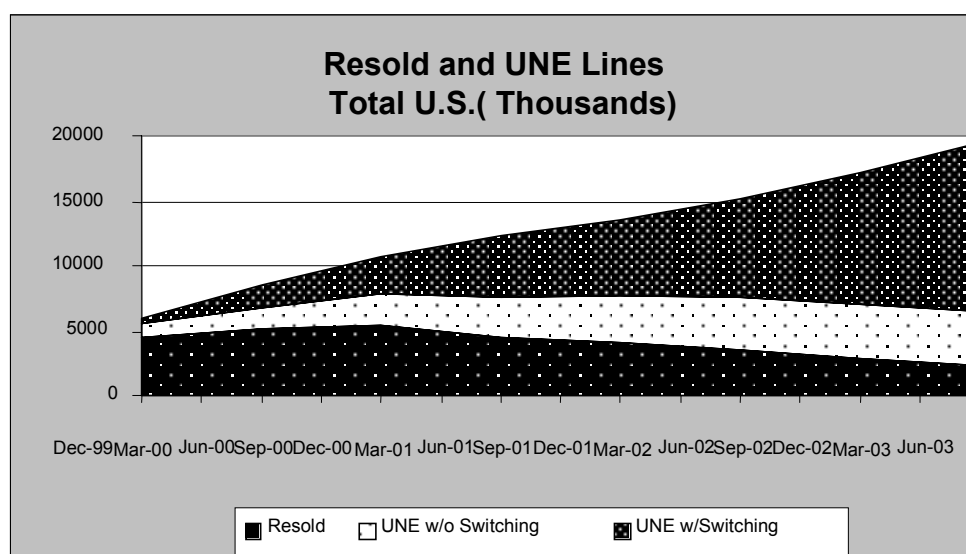
Total U.S. End User Switched Access Lines				
Date	ILEC Lines	CLEC Lines	Total	CLEC Share
December 1999	181,307,695	8,194,243	189,501,938	4.3 %
June 2003	155,922,118	26,890,594	182,812,712	14.7%

Source: FCC Local Telephone Competition Status as of December 30, 2003, Table13

Several things are notable beyond the CLEC increase. First, is the dramatic decrease in ILEC switched access lines since December 1999. Second, is the decrease in overall switched access lines. The decrease is actually more than shown since total access lines increased to 192,555,081 in December of 2000 before falling to the most recent level. Not shown in any FCC numbers is the increases in lines that have occurred in rural, less populated areas. The actual numbers and extent of penetration in these areas is somewhat of an enigma, due to FCC reporting requirements that only call for the largest CLECs to report. Many of the smaller communities and rural areas across the country are served by these small CLECs, which never show up in FCC numbers, (more on the impact of this reporting flaw later in this chapter). The major story however, remains the combination of decreasing traditional line count and increasing CLEC market penetration. ILECs have a decreasing share of a decreasing land-line switched access market.

Resold and UNE

The means of providing switched lines via traditional telephony has also changed as economics increasingly favored UNE over resale. This is represented graphically in the following exhibit.

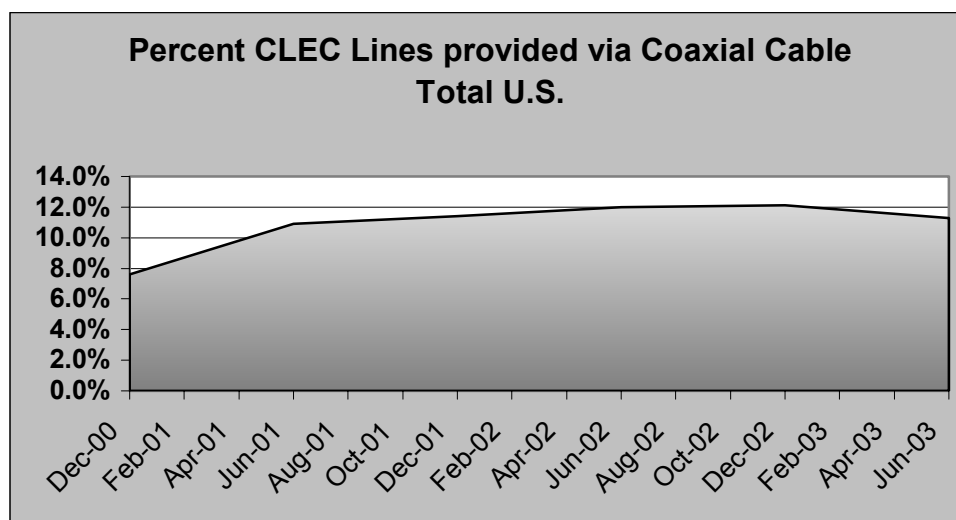


Source: FCC Local Telephone Competition Status as of December 30, 2003, Table 4⁵

CLECs reported that in June 2003, they were providing 18 percent of their switched access lines via resale, which is down from 43 percent in December 1999. Provisioning via UNEs increased to 58 percent of their total, up from 24 percent in December 1999.⁶ Within the UNE category, CLEC usage of UNE with switching is growing. Over the six month period January-June of 2003, ILECs reported to the FCC a 27 percent increase in UNE loops with switching along with a 1 percent reduction in UNE loops without switching.

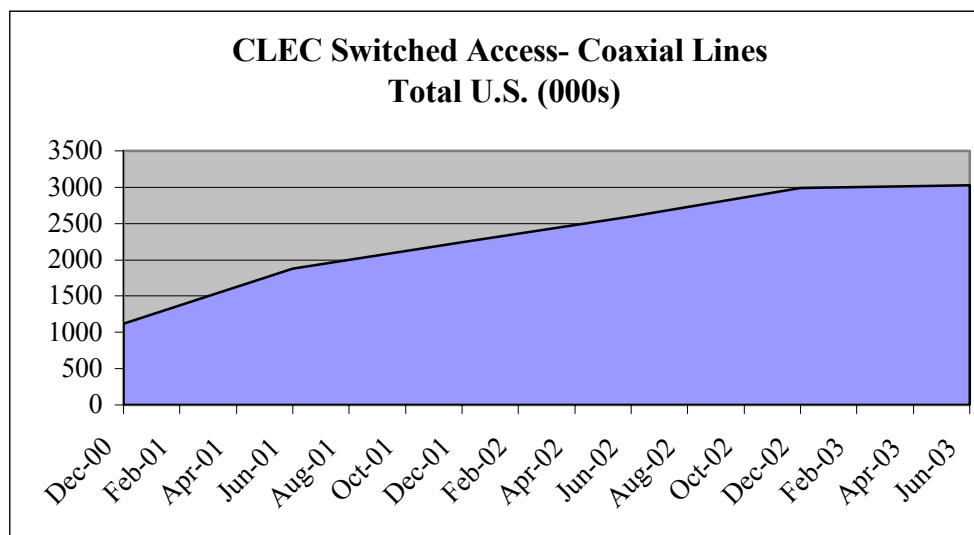
Cable

The provision of switched access via coaxial cable has grown although not at the rate or the level that the hype surrounding cable would lead one to believe. From December of 2000⁷ until June of 2003 the percent of end user switched access lines provided using coaxial cable grew from 7.6 percent to 11.3. As shown, the number actually declined slightly on a percentage basis in 2003⁸. This is shown graphically in the following chart.



Source: FCC Local Telephone Competition Status as of December 30, 2003, Table 5

However, the absolute number of access lines provided via cable has continued to grow until recently when it has leveled off.

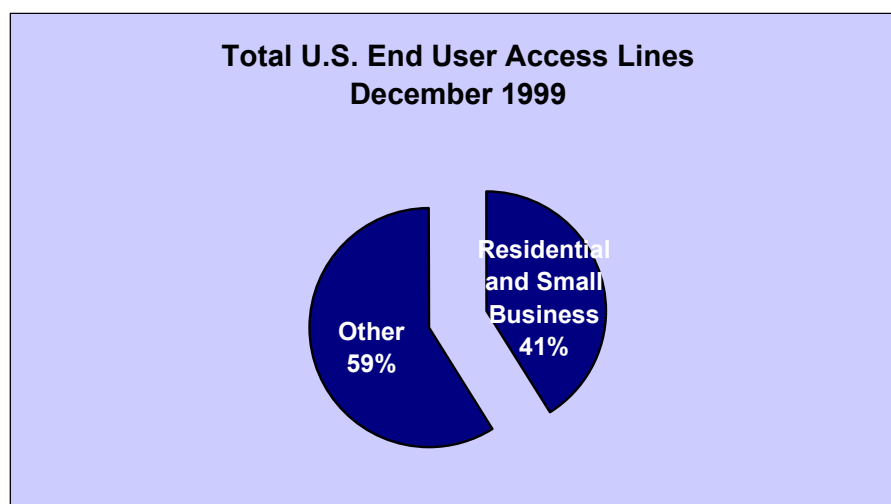


Source: FCC Local Telephone Competition Status as of December 30, 2003, Table 5

Cable will continue to be a major player, especially in the broadband markets, but many experts believe the saturation point is being reached. This is due to a limited number of customers coming from new build outs and price competitive competition from other sources. (notably DSL) VoIP is expected to grow but we hesitate to jump on the bandwagon as yet by accepting industry growth projections.

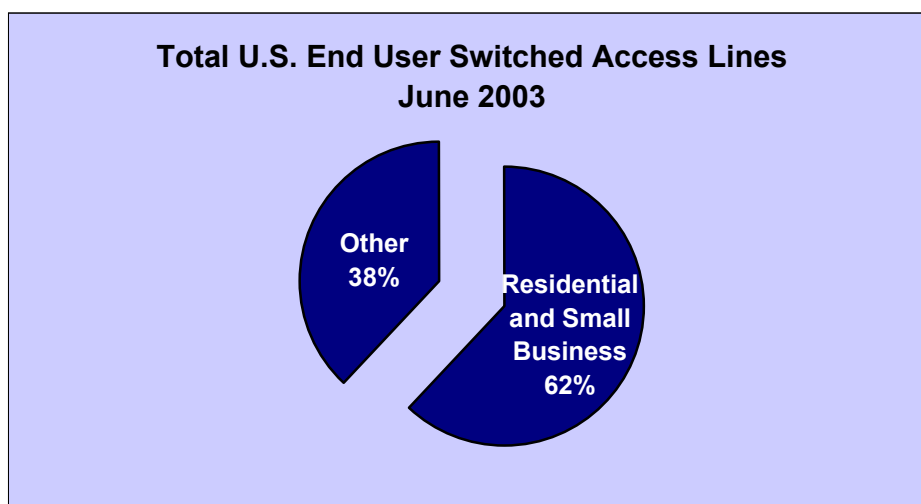
Business and Residential Service

At the time of the previous Vantage review, competition was certainly underway, but much of the focus was on large business, corporate and government customers. This situation has nearly reversed itself by the end of year 2003. In December of 1999, 41.1 percent of end user switched access lines served by CLECs were reported as residential and small business.



Source: FCC Local Telephone Competition Status as of December 30, 2003, Table 2

By June of 2003, 62 percent of end user lines served by CLECs were in the residential and small business category. This percentage varies greatly on a state-by-state basis. In North Carolina only 29 percent of CLEC lines serve residential and small business customers. In South Dakota, 95 percent of CLEC lines are for residential service. The remaining states⁹ reported across this spectrum with no discernable pattern. Nationwide, 78 percent of ILEC lines were providing service to residential and small business customers. Kentucky looks very much like the national averages. In Kentucky 81 percent of ILEC lines are provided to residential and small business customers, compared to the 78 percent national average. In Kentucky 57 percent of CLEC lines are provided to residential and small business customers, compared to the 62 percent national average.



Source: FCC Local Telephone Competition Status as of December 30, 2003, Table 2

B. COMPETITIVE TRENDS FOR BELL SOUTH

II-F2 Competition has continued to increase in Kentucky during the three year term of the TRP.

By almost any measure, competition and the choices available to Kentucky customers have increased since the TRP was put into place. The data presented here seems to also show that Kentucky is severely behind in many areas. The reasons behind this seeming contradiction, is the type of service area BellSouth covers, the technologies driving economic competition and the lack of completeness in the readily available FCC data.

Kentucky has relatively low population densities and income levels. Kentucky's per capita income level is only 84% of the national average, which places it at 41st in the U.S.¹⁰ In contrast, Florida has one of the highest, if not the highest, rates of zip code measured broadband deployment in the U.S.¹¹ Florida also ranks 19th in the nation in per capita income and has the ninth highest population density in the U.S.

Where the TRP has impact, competition has increased. Many of the zip codes in Kentucky which are without broadband and which contribute to the low penetration rates in

Kentucky are outside of the BellSouth service territory. Within BellSouth service territory, fully 77 percent of zip codes have broadband capability.

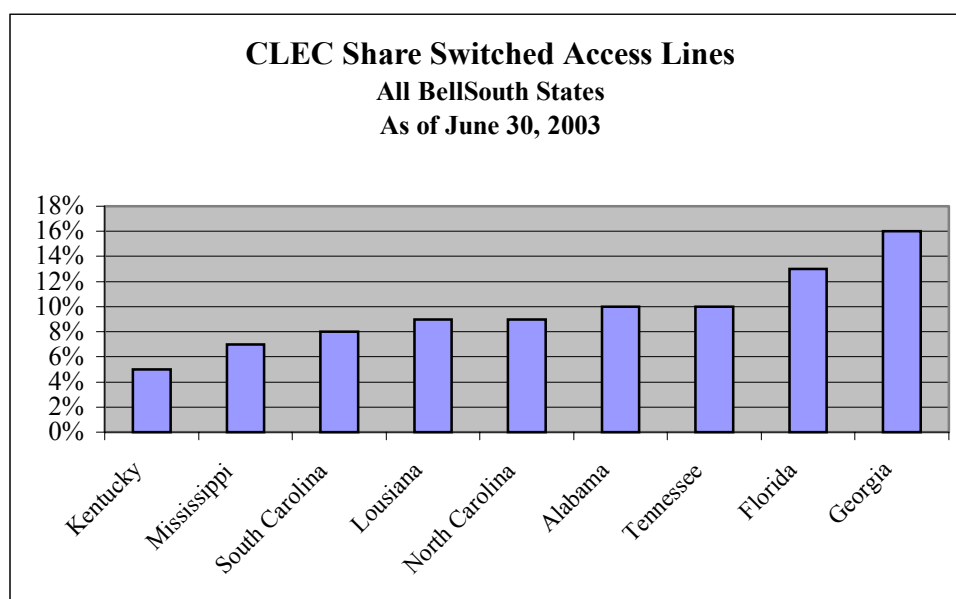
Lastly, the technologies now extend beyond copper and fiber. Cable is the high speed provider of choice in the U.S. and is now positioned to make significant inroads into voice with VoIP technology. Yet neither the TRP nor BellSouth have any control or impact over the deployment of coaxial cable.

II-F3 There is no evidence that the TRP has hindered competition in Kentucky.

The Vantage viewpoint, both in the original review and this one, is whether the regulatory structure would hinder competition. While regulation continues to play a significant role in telephony issues, the reality is that much of the competition is now coming from outside the traditional regulated arena of rates and standards imposed on the ILEC for local service. Cable and wireless(cellular) in particular provide the significant competition for broadband and voice respectively, yet operate using different conduits with little or no state regulation.

Switched Access - Kentucky and BellSouth States

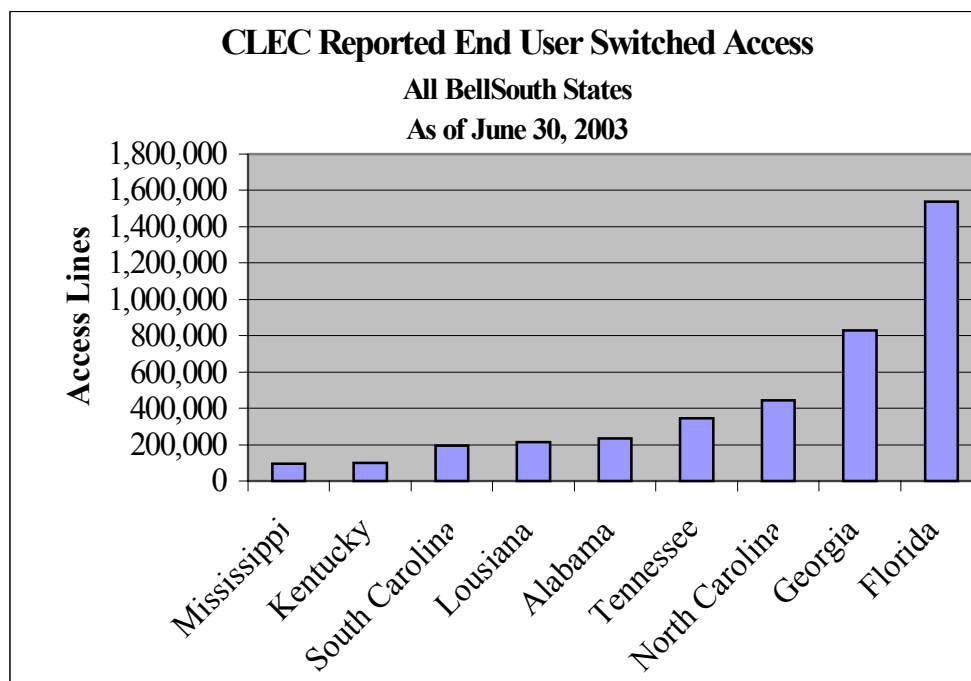
Within the BellSouth states, FCC data shows that Kentucky CLECs serve the lowest percentage of switched access lines at 5 percent.



Source: FCC Local Telephone Competition Status as of December 30, 2003, Table 6

On an access line basis, only Mississippi has fewer lines served by CLECs than does Kentucky. However, this is one of the statistics where the FCC reporting methods can skew numbers in states with large rural areas. The FCC only requires that CLECs with greater than 10,000 access lines in a state report on the Form 477. Form 477 serves as the basis for most FCC competitive telco reports.

For example, only 7 of the 85 CLECs operating in Kentucky report to the FCC on Form 477. This leaves Kentucky underrepresented on CLEC lines by 73,000 to 130,000.¹² Further, the FCC reports that 40 percent of Kentucky zip codes are without any competitive CLECs. Yet within BellSouth territory only seven percent of zip codes lack a competitive CLEC and all BellSouth wire centers have at least six CLECs.



Source: FCC Local Telephone Competition Status as of December 30, 2003, Table 10

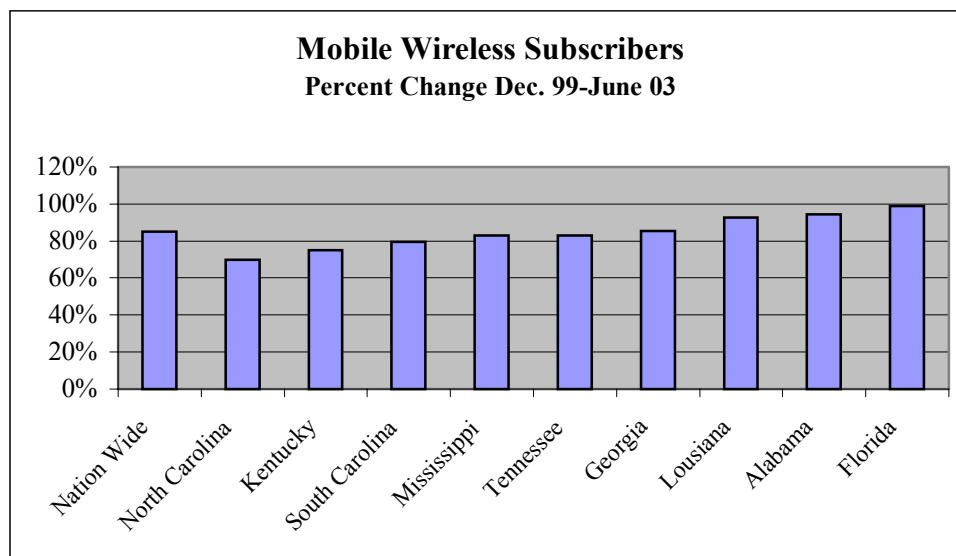
WIRELESS

By June 2003, end user customers obtained local telephone service by a variety of means – some 147.6 million mobile wireless telephone service subscriptions as compared to 155.9 million incumbent local exchange carrier (ILEC) switched access lines and 26.9 million competitive local exchange carrier (CLEC) switched access lines. Competition in this sector continues to grow.

Wireless voice competition was evident at the time of the original Vantage review and has continued to gain customers. Wireless is increasingly being used as total replacement for land lines either for additional lines or as a replacement for the land lines altogether. The estimates of the amount of total replacement vary considerably, but the overall absolute increases are known. Nationwide, mobile wireless telephone subscribers increased 6% during the first six months of 2003 from 138.9 million to 147.6 million. For the full twelve months ending June 30, 2003, mobile wireless subscriptions increased by 13 percent.

In Kentucky, wireless subscriptions have increased from 911,000 in December of 1999 to 1,595,290 in June of 2003, representing an approximate 75 percent increase. In the BellSouth states, Kentucky had the second lowest percentage increase in mobile line subscriptions

from December 1999 through June of 2003. Kentucky mobile growth is also below the national average. This is shown graphically in the following chart.

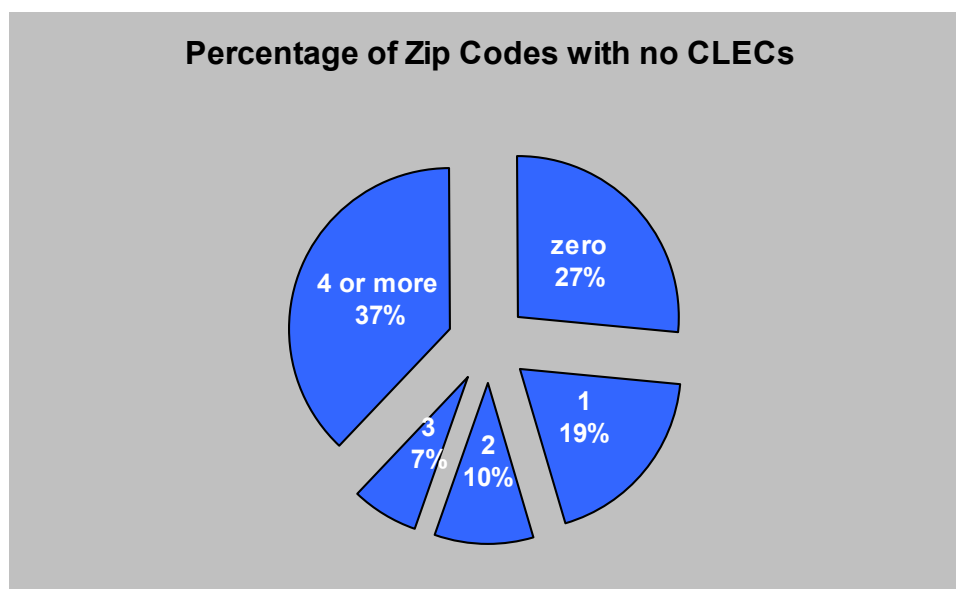


Source: FCC Local Telephone Competition Status as of December 30, 2003, Table 13

Customers with Competitive Options

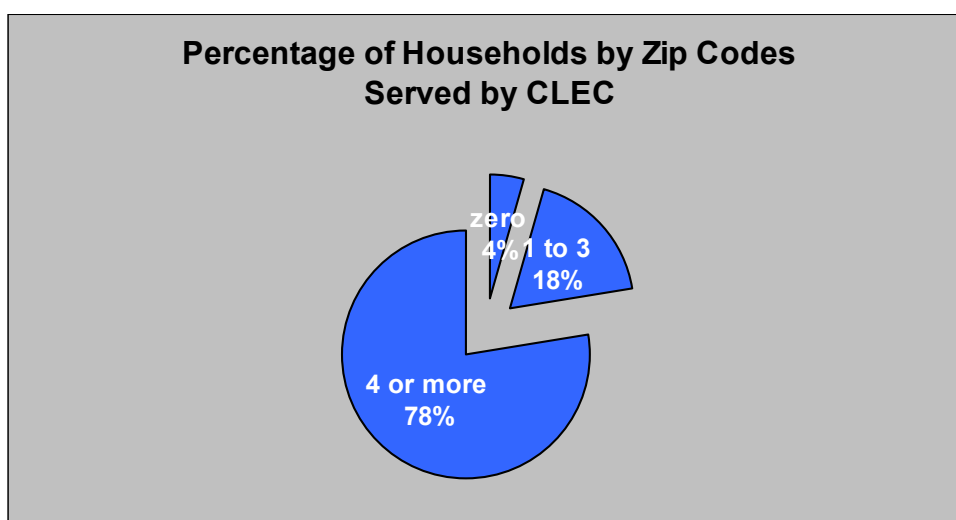
While it is easy to find information and articles noting how competition has increased, it is not so simple to understand who is benefiting from the competition and what it really means in terms of competitive choices. We have already discussed the shift in competitive focus since the first Vantage review. Clearly the focus on residential and small business has increased significantly. But, the questions still remain, how many customers are getting competitive choices?

At a geographic level, the number of US Zip codes with competitive choices is high. In fact it is surprisingly high when factoring in the low density of counties in the Western U.S. Fully 73 percent of U.S. zip codes were served by at least one CLEC in June of 2003. Alternately, as shown in the following chart, only 27 percent of the zip codes in the United States DO NOT have a CLEC, 19 percent have one CLEC opportunity and 37 percent have four or more CLECs serving the zip code. Amazingly, 12.2 percent of U.S. zip codes now have 10 OR MORE CLECs serving them (not shown in the graph). More than half the zip codes now have two or more CLECs serving the area.



Source: FCC Local Telephone Competition Status as of December 30, 2003, Table 10

Not surprisingly, the zip codes with the highest household density also tend to have the largest numbers of CLECs. The following chart gives an idea of population density and CLEC options. The chart requires some explanation. For example, what the chart is showing is that the zip codes with no CLECs are only four percent of the households. Zip codes with the minimum threshold of 1-3 competitors have 18 percent of the US households. Those zip codes with the greatest number of choices with 4 or more competitors have 78 percent of the population. This provides some perspective to the previous table. The 27 percent of zip codes shown above which have zero CLECs have only 4 percent of households.



Source: FCC Local Telephone Competition Status as of December 30, 2003, Table 10

Although it is not shown graphically, the same situation holds true for income levels. Again it is no surprise that the zip codes with highest incomes also enjoy the largest number of competitive choices.

C. US FINANCIAL AND REGULATORY PERSPECTIVE

II-F4 Industry experts and analysts believe the financial and regulatory climates are precarious for RBOCs such as BellSouth.

The new and increasing competition identified above has raised questions as to the financial health of traditional companies, such as BellSouth, as well as other players in the industry. This section of the report provides some recent assessments of both potential financial issues facing BellSouth and some overall regulatory questions and hurdles that must be addressed. Vantage does not endorse any of these positions or offer our own analysis.

In order to get a sense of the overall view of RBOCs, such as BellSouth by financial and regulatory analysts, we reviewed a number of analyst reports. These reports provide a perspective of how BellSouth and the other RBOCs are likely to fare in the near future. The following findings or comments come from the attachments below:

JP Morgan

- Competition will likely intensify
- Regulatory environment unaccommodating to the RBOCs
- IXCs face more competitive pressure than the RBOCs
- RBOC EBITDA margins will likely decline
- RBOC Capex sustainable at current levels

PRECURSOR INVESTMENT PERSPECTIVE (4Q review)

Telecom Is Nowhere Near Bottom. - Severe and multiple competitive pricing pressures are increasingly stressing this largely price-inelastic, high fixed-cost, and hyper-regulated industry. U.S. telecom is now likely the least hospitable G-7 telecom market.

PRECURSOR INVESTMENT PERSPECTIVE (September 3, 2003)

Triennial "Granular" Order Is Regulatory Quicksand for Wireline Shareholders. After a more detailed analysis of the *interplay* of the many individual provisions of the Triennial Review, Precursor now believes the order is more regulatory overall and much less deregulatory for broadband than the FCC signaled in February or the market expected. **Practically, this order could be the most anti-investment, shareholder wealth destroying FCC order since passage of the Telecom Act. This order is horrible for shareholders of SBC, Q, BLS, VZ, FON, and equipment suppliers (LU, NT, and TLAB).**

PRECURSOR INVESTMENT PERSPECTIVE (November 7, 2003)

Cheaper and Better VoIP Service Now Poised to Transform Telecom

Summary: Precursor believes Voice over Internet Protocol (VoIP) is poised to go mainstream in '04. VoIP will likely transform the telecom industry—accelerating local and long distance (LD) price declines, and changing generic voice services into a software application with near infinite, niche features. Overall, VoIP will likely be a negative dynamic for incumbent local and LD providers, crushing prices as much cheaper, VoIP based products substitute current services. However, the question still remains—how fast will the technology scale and consumers adopt? We believe VoIP is positioned for rapid growth in the consumer and business access market since: cost savings can be compelling; quality has improved and is less of an issue; new features will help differentiate the service; broadband penetration has increased; and cable has greater incentive to embrace the technology. We also believe the risk of significant regulatory overhang on VoIP is overblown. *Winners and Losers.* In the consumer market, VZ, SBC, BLS, and Q will likely face greater competition and price pressure from cable providers and Internet-based services.

FROM SOUNDVIEW (NOVEMBER 6, 2003)

The Issue

Shares of the regional bells (RBOCs) are coming under pressure today, and much of this is likely due to comments out of the FCC regarding wireLINE to wireLESS portability.

Potential Impact of WireLINE to WireLESS Legislation

The four RBOCs (BellSouth, Verizon, SBC and Qwest) currently possess 147.93 million access lines, and there are currently 152.9 million wireless customers (54.3% market penetration) in the U.S. In our opinion, it is conceivable that ~30% (44.4 million lines) of wireLINES may eventually migrate to wireLESS over the next several years.

US Equity Research
J.P. Morgan Securities Inc.
November 7, 2003

Telecommunication Services - Wireline

The Art of War

We believe the telecom industry is entering a new era of heightened competitive pressure. We expect that historic drivers of growth will increasingly cannibalize legacy revenues, prompting slower revenue growth and accelerating price competition across all major lines of business.

- Heightened competitive pressure will likely limit the industry's top-line growth to 1% per annum through 2007
- IXC's should face the most competitive pressure with 7% revenue declines and double-digit earnings declines
- RBOC's should see modest top-line growth, however, flat network expenses coupled with increased marketing costs will likely pressure near-term EPS
- RLECs, CLECs and MSOs should see growth in almost all areas
- We are initiating coverage on SBC, Verizon and BellSouth, rated Neutral; AT&T and Sprint, rated Underweight; and Qwest, rated Overweight

Key Investment Points

Competition Will Likely Intensify

Rarely have the fortunes of an industry changed so abruptly. And rarely does the change come with such heavy doses of irony. Double-digit revenue growth has given way to revenue stagnation. And, ironically, those former drivers of top line growth—wireless, IP, broadband—are the central characters of today's top line woes. Wireless substitutes for wireline, IP cannibalizes ATM and legacy voice, broadband pressures dial-up and private line. There are bright spots, to be sure, including robust wireless and DSL and cable modem growth, but these silver linings seem overwhelmed by darker, larger competitive and cannibalistic clouds.

Regulatory Environment Unaccommodating to the RBOCs

Adding to the industry's woes are the cold regulatory winds blowing in from Washington. While not so long ago it appeared as if regulation would take a back seat to market forces, investors must now contend with a bit of a double whammy: heightened inter-model competition from cable and wireless—courtesy of Adam Smith's "invisible hand"—coupled with intensified intra-modal competition from IXCs and CLECs, courtesy of the Feds.

IXCs Face More Competitive Pressure Than the RBOCs

We expect the IXCs—with heavy long-distance voice and IP exposure—to face the most top-line pressure. Long-distance voice will likely be the biggest causality on the telecom battlefield with two players (wireless and cable) essentially giving away the service for free. On the data side, we expect long-distance data traffic to continue to grow, but fear that significant excess long-haul capacity lurking in the shadows, coupled with the anticipated pricing pressure that comes with newly minted debt-free legacy IXCs, will dash the hopes of investors expecting robust revenue now that the economy is on the road to recovery.

The RBOCs, for all their challenges, should fare better than the IXCs on the top line due to sufficient exposure to high growth areas like wireless, DSL and new forays into long-distance voice. These growth engines should more than offset top-line pressure in local voice, even with the emerging wireless and cable threat. All told, we expect IXC revenues to decline around 7% per annum, while the RBOC's (ex Qwest) should see 0-1% annual revenue growth.

RBOC EBITDA Margins Will Likely Decline

Our efforts to find EPS or free cash growth by digging deeper into the RBOC's income statement proved elusive. Any hopes of meaningfully lower network expenses (owing to lost access lines) will likely be dashed as higher demand for local data (including private line and DSL) should keep trucks rolling and keep wireline network expenses essentially flat. In an era of heightened competitive pressures in wireless (read number portability), and local voice (read cable) we see marketing expenses headed nowhere but higher. Thus, while RBOC revenue should modestly grow, we think EBITDA margins will decline, resulting in flat EBITDA for the foreseeable future.

RBOC Capex Sustainable at Current Levels

The capital intensity of the ILEC's business was relatively stable throughout much of the 1990s. Beginning in 1997, however, capital intensity increased sharply. Sales to capex ratios increased from the historic norms of between 18% and 21% of sales, to nearly 30% of sales in 2001. Since then, we've seen two consecutive years of decline. Capex to sales ratios are now around 18%, well below the highs but in line with the low points in the early 1990s. Although the current levels of capex are below recent trends, we think the magnitude of spending is sustainable for the foreseeable future.

We Believe RBOC Free Cash Flow Stable and Dividends are Safe






Although the RBOC's free cash flow (cash from operations less capex) hovered between \$1 and \$2 billion in 1999 and 2000, cost cutting and capex reductions improved free cash flow to \$8 billion in 2001 and to \$22 billion in 2002. We expect free cash flow to remain between \$21-22 billion over the next five years due to modest revenue growth and our expectation of flat capex. Declining EBITDA margins should not materially impact our free cash flow estimates.

PRECURSOR INVESTMENT PERSPECTIVE (Precursor Investment Perspective 4Q 03)

Telecom Is Nowhere Near Bottom.

Severe and multiple competitive pricing pressures are increasingly stressing this largely price-inelastic, high fixed-cost, and hyper-regulated industry. U.S. telecom is now likely the least hospitable G-7 telecom market. The U.S. telecom pricing structure is collapsing from competitive substitution trends (data, wireless, and cable) and regulated, deep resale discount pricing. Precursor continues to advise **underweighting telecom, including SBC, BLS, Q, T, FON, AWE, PCS, LU, NT, and TLAB. We maintain a market weight for VZ only because it is relatively the strongest**

U.S. provider. COVD is a lone overweight as the regulatory “chosen one” to grow the new competitive line splitting voice-DSL bundle. The FCC’s recent Triennial Review Order was a disaster for investors.

Telecom/Wireless		 Underweight	Price Structure Collapsing – Regulatory decisions and technology substitution accelerate negative pricing pressure
Telecom	SBC, BLS, Q, T, FON	 Underweight	Hemorrhaging Wireline Revenue – Triennial Review and SBC LD entry increase churn and “self-UNE-P” bundles
	VZ	 Marketweight	Best of a Bad Bunch – Relatively strongest U.S. telecom; benefits from LNP churn; more left in capex piggy bank
	 COVD	 Overweight	FCC “Chosen One” – Grows with renewed line splitting business (the next generation of UNE-P; voice-data bundle)



Triennial "Granular" Order Is Regulatory Quicksand for Wireline Shareholders (Part I in Wireline Dismal Future Series)

Summary: After a more detailed analysis of the *interplay* of the many individual provisions of the Triennial Review, Precursor now believes the order is more regulatory overall and much less deregulatory for broadband than the FCC signaled in February or the market expected. **Practically, this order could be the most anti-investment, shareholder-wealth destroying FCC order** since passage of the Telecom Act. This order is **horrible for shareholders of SBC, Q, BLS, VZ, FON, and equipment suppliers (LU, NT, and TLAB)**. Despite its surface appearance, the order lacks clear and definitive broadband deregulation. **Therefore, we remain only marginally positive on fiber suppliers GLW and AFCI** given the resulting capex investment uncertainty (more on this in part two of this series). The order **strongly favors but is not enough to save market losers T, MCI and ELNK**. The **order's single biggest beneficiary is COVD**, whose unique line sharing business/facilities is now the springboard of choice for "line splitting," the FCC-favored next generation resale model. **Cable providers (CMCSA, COX, AOL, and CVC) benefit** as the government effectively has shackled their Bell competitors.

Why This Order Is Quicksand for Wireline Investors. Precursor argues that the extraordinarily "granular" level of regulatory intrusiveness and control

in this order is unique. These regulatory "grains" are "quicksand" for wireline shareholders. This order effectively completes the *FCC's de facto socialization of the Bells' infrastructure* to artificially drive prices down. This order is strongly imbued with the regulatory goal of making Bell competitors economically viable and successful. **(1) Effectively "Rigs" the Competitive Impairment Standard for Mass Market Switching.** The FCC's previous switching impairment standard assumed eventual deregulation if and when competitive facilities like cable, wireless, or overbuilds became sufficient alternatives. In short, it assumed facilities competition was possible, and that unbundled resale was a transition. However, the FCC's new impairment standard abandons a meaningful focus on the existence of competitive switching facilities and effectively assumes a barrier to entry if there is a *lack of resale access to Bell facilities*. In other words, *resale competition has ceased to be a transition to facilities competition and become an end in itself*. The heavy bias toward resale is evident by the pole-vault-high standard the FCC has created for what it views as a legitimate facilities competitor. To qualify as a competitive facility, a competitor must be both *willing* and capable of competing both economically and operationally in the *entire* market that a state defines. This means there is nearly nothing a Bell can do to get deregulated. It mostly depends on the

willingness of their competitors and the whims of regulators. **(2) Shifts "Control" to the More Regulatory State Forum.** This order effectively shifts primary regulatory power from the FCC, where there is substantial political pressure and interest in deregulation, to the states, where there is very little interest in deregulating or eliminating UNE-P. **The new "granular" and sweeping regulatory authority and latitude delegated to the states is much greater than anything envisioned in the Telecom Act.** Making "hot cuts" a pivotal part of any deregulation is especially troublesome for the Bells because the hot cut process has been a classic "moving goalpost." **(3) Biases the Process Towards Regulation.** If a state finds no impairment (7/04), deregulation does not go into effect for another 5 months (12/04) to allow for Bell competitor appeals. Even then, existing UNE-P is still slowly transitioned away over ~ three more years (2H07). Moreover, the FCC denied a sunset of the rules and concluded that they would not conduct another top to bottom UNE review like the current Triennial. The Bells would have to wait another two years for a national opportunity to request removal of a UNE, and they would have to submit in advance *documented* market change. The FCC also will not entertain any petitions during the two years. **(4) Creates New "Regulatory Backstops" Potentially Limiting Deregulation.** **(A) Network element definition clarification.**

tion. The FCC clarified the definition of a network element, declaring that a facility only needs to be *capable of* being used to provide a *telecom* service, not that the Bell is *actually using* the facility to provide a telecom service. This *potentially* creates a backdoor opportunity for competitors to gain access to a Bell's broadband facility through an FCC impairment finding. **(B) Non-impairment provides no escape from unbundling.** The FCC restated its policy that Section 271 long distance entry authority is an independent and additional unbundling obligation above and beyond Section 251. A Bell may still be required to unbundle its network (at wholesale, but not TELRIC rates) even after a non-impairment finding. **(5) Gives Greater Access to Bell Network.** **(A) Requires network modifications.** The FCC clarified that a Bell may not deny a requested UNE even if it requires additional investment. This order now requires the Bell to make "routine network modifications" to meet a CLEC's requests. "Routine network modifications" are defined very generously for the CLEC as almost anything a Bell would do to serve that customer itself. **(B) Encourages "Line Splitting."** Just as UNE-P was never envisioned by Congress, neither was "line splitting." The FCC's practical reversal on line sharing gives COVD, T, and others time to develop line splitting, a UNE-P/DSL resale combo that could be as deflationary for the Bells as UNE-P. * * * *



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Cheaper and Better VoIP Service Now Poised to Transform Telecom (Part I: VoIP Transforming Telecom Series)

Summary: Precursor believes Voice over Internet Protocol (VoIP) is poised to go mainstream in '04. VoIP will likely transform the telecom industry—accelerating local and long distance (LD) price declines, and changing generic voice services into a software application with near infinite, niche features. Overall, VoIP will likely be a negative dynamic for incumbent local and LD providers, crushing prices as much cheaper, VoIP-based products substitute current services. However, the question still remains—how fast will the technology scale and consumers adopt. We believe VoIP is positioned for rapid growth in the consumer and business access market since: cost savings can be compelling; quality has improved and is less of an issue; new features will help differentiate the service; broadband penetration has increased; and cable has greater incentive to embrace the technology. We also believe the risk of significant regulatory overhang on VoIP is overblown.

Winners and Losers. In the consumer market, VZ, SBC, BLS, and Q will likely face greater competition and price pressure from cable providers and Internet-based services. In the enterprise market, T, FON, and MCI will see access line pressure (dedicated trunk lines) as their customers convert from private and ATM lines to IP transport solutions. Cable (CMCSA, COX, TWX, and CVC) is best positioned to capitalize on the technology, leveraging VoIP to offer a more

complete service bundle. Non-traditional voice players, such as MSFT, YHOO, and Vonage, will have new opportunities to enter the communications market and develop value-added services, inserting themselves between incumbent providers and their customers. Finally, VoIP deployments will provide a growing opportunity for certain equipment providers. While it is still early, we believe UTSI and SONS are relatively best positioned among next-generation softswitch vendors for carriers, and COMS could see the most upside from growth in IP-PBXs for small and medium businesses (see Precursor 11/04/03).

Why Now Is Different for VoIP: While current adoption numbers are low, we believe conditions for VoIP have changed, indicating further momentum. **(1) Deployments gaining traction.** In '03, VoIP made its strongest showing yet. Internet services, like Vonage, grew and grabbed headlines. TWX and CVC launched commercial service. Comcast, COX, and T continued trials. Enterprises adoption of VoIP was significantly higher. **(2) Cable has greater need for telephony** to counter DSL price competition (and DBS/Bell partnerships), and will likely lead a big VoIP push. VoIP will strengthen the cable bundle and could add incremental revenue or be "sacrificed" to protect core video and high-speed subscribers. We expect to see rapid deployments once cable providers decide to enter the market (similar to CVC's expansion

plans). **(3) Increased broadband penetration** has created a significant and growing addressable market for consumer and small business service. Broadband is the prerequisite platform for VoIP, so more broadband means more opportunity. **(4) Ubiquity of mobile phones** benefits VoIP by providing service redundancy and lowering quality expectations. **(5) Enterprise cost cutting.** Enterprise spending on communications has become a cost cutting dynamic. VoIP provides the necessary cost savings, plus the bonus of new value-added features with a Graphical User Interface (GUI). **(6) Little regulatory risk to VoIP.** We see consensus in Washington not to saddle VoIP with traditional common carrier obligations.

Further Collapse of Telecom Pricing Model. We believe VoIP enables the fast and easy substitution of current services with cheaper and better (more features) alternatives. VoIP allows new competitors to enter the consumer market with lower fixed costs—accelerating price wars and Bell market share loss. (For cable, deployment savings compared to a circuit switched network can be significant, ranging from ~10% for a completely comparable service to ~75% for service without back-up power and subsidized CPE.) Current VoIP-based bundles are already being offered at big discounts. CVC's and Vonage's \$34.95 bundle of local and LD represents a ~20%-60% discount to other retail services. We believe

the price of VoIP services will go down, especially if cable sacrifices voice, making it even more compelling for consumers to overlook potential VoIP service differences (quality and reliability) and switch providers. In the enterprise space, VoIP provides cost savings, especially for large businesses, since ~30%+ of enterprise LD traffic occurs between branch/satellite offices. With a VoIP solution, trunk access lines are replaced with cheaper "fat IP pipes."

Voice Becomes Feature Rich Application. VoIP, along with its signaling mechanism—Session Initiation Protocol (SIP), has the potential to convert voice into an Internet application with new value-added services. We believe this conversion threatens to turn the Bells into simple broadband wholesalers as third party providers utilize the incumbents' wholesale broadband connections to offer their own service. Vonage is a current example of such a provider; however, larger companies, such as MSFT, which has already included SIP in Windows XP, are also positioned to benefit. Furthermore, as value-added services develop (from features such as unified messaging to instantaneous language translation), competitors may derive most of their revenue from these new services while providing traditional voice very cheaply or even as a loss leader. New features will be a positive differentiator for VoIP, making it less necessary to perfectly match circuit switched service. * *

FROM SOUNDVIEW (NOVEMBER 6, 2003)

The Issue

Shares of the regional bells (RBOCs) are coming under pressure today, and much of this is likely due to comments out of the FCC regarding wireLINE to wireLESS portability. Yesterday, FCC Commissioner Kathleen Abernathy stated she hoped that the FCC would issue a release on intermodal local number portability as early as Nov. 7, 2003, though we do not expect this to occur until at least late next week. Abernathy went on to indicate that she expects the Commission to study whether it should change the porting interval in a notice of proposed rulemaking (NPRM), which will perhaps be released with the local number portability order on Nov. 24, 2003. Wireless carriers are expected to adhere to a new porting interval of two and one-half hours, which is supported by the wireless carriers, though the wireline carriers support the current four-day porting requirement.

Background

On Nov. 24, wireLESS to wireLESS portability goes into effect, along with 12-15% of wireLINES, which are within what are termed fixed-line rate centers, within which a wireless switch is located. In these situations, wireLINES will be required as of Nov. 24 to be ported to wireLESS if desired by a customer. But this leaves the other 85-88% of wireLINES as an opportunity for the wireless sector (Nextel, Verizon Wireless, AT&T Wireless, Cingular, Sprint PCS and T-Mobile), and as we have anticipated, legislative support for this measure appears to be gaining traction. It appears to us that FCC Chairman Powell and the majority of the Commission are leaning toward implementing broad-based porting between wireLINE carriers and wireLESS carriers. This will be studied in a NPRM that would likely take six months or so, but we believe that this is the direction the industry is heading, and would be a negative for the regional bells.

FCC Is Potentially Accelerating Legislation

The FCC appears to be accelerating efforts (in its public commentary) to potentially require all wireLINE to wireLESS porting, which we believe would negatively impact the regional bells and result in an acceleration of RBOC line losses to wireless carriers. In our initiation of the wireless services sector, we mentioned that beyond the wireLESS to wireLESS portability opportunity, the potentially larger opportunity is for wireless companies to gain new customers at the expense of all wirelines. The NPRM to be issued by the FCC will be the first catalyst in this chain of events, in our opinion, and could come as soon as the next few weeks.

Potential Impact of WireLINE to WireLESS Legislation

The four RBOCs (BellSouth, Verizon, SBC and Qwest) currently possess 147.93 million access lines, and there are currently 152.9 million wireless customers (54.3% market penetration) in the U.S. In our opinion, it is conceivable that ~30% (44.4 million lines) of wireLINES may eventually migrate to wireLESS over the next several years. The major impediments to this include coverage, quality of service, and capacity. In addition, a lesser known impediment to consumers, and therefore not as much of an impediment as a result of

this, is that it will likely take until at least the end of 2005 for emergency 911 services to correctly identify caller location to emergency services. Nevertheless, this will gradually improve from the approximate 6% coverage for wireless E911 service today, and we believe this will help to further accelerate wireline to wireline migration.

Wireline to Wireless Migration: We expect the overall trend in the telecommunications sector during the next three to five years to center on the migration of access lines and wireline subscribers to the wireless sector. However, this does not imply lack of challenges in the wireless space including increased pricing competition, regulatory issues that can affect levels of churn, and increasing numbers of subscribers and sufficient coverage. However, while wireline access lines are estimated to decline 3%-5% annually for the next several years, conversely, we expect wireless subscribers to increase 6%-8% over the next five years. The desire to eliminate the tether of a wired access line is powerful for consumers, and nearly a requirement for an increasingly mobile workforce. Furthermore, as quality of wireless service continues to improve and additional vertical add-on services become required telephony features, there should be little reason for subscription to both a wireless and a wireline telephone.

It follows that we believe wireline revenues will decline 2%-4% per year over the next five years, while wireless revenues are expected to increase 8%-9% per year. The sustenance of wireless revenue will help to stabilize and increase operating margins steadily over our forecast period, albeit from lower levels than the wireline carriers. Conversely, carriers primarily focused on the wireline business will be required to reduce costs faster than declining revenues in order to generate improving margins. It appears that wireline carriers have come to this determination as well, and we believe the wireless carriers will remain better positioned relative to the wireline carriers even though some of the wireline businesses will be sufficient to offset the weakness in those company's wireline businesses.

III. BELL SOUTH - KENTUCKY PERFORMANCE

A. SERVICE QUALITY

A primary concern in any regulation is the impact that the regulation may inadvertently have on service quality. In this instance, Vantage was concerned that as BellSouth came under intense competitive pressure, while at the same time being required to extend funds for Broadband deployment, that service quality might suffer. Basically, if something had to give it might be service quality.

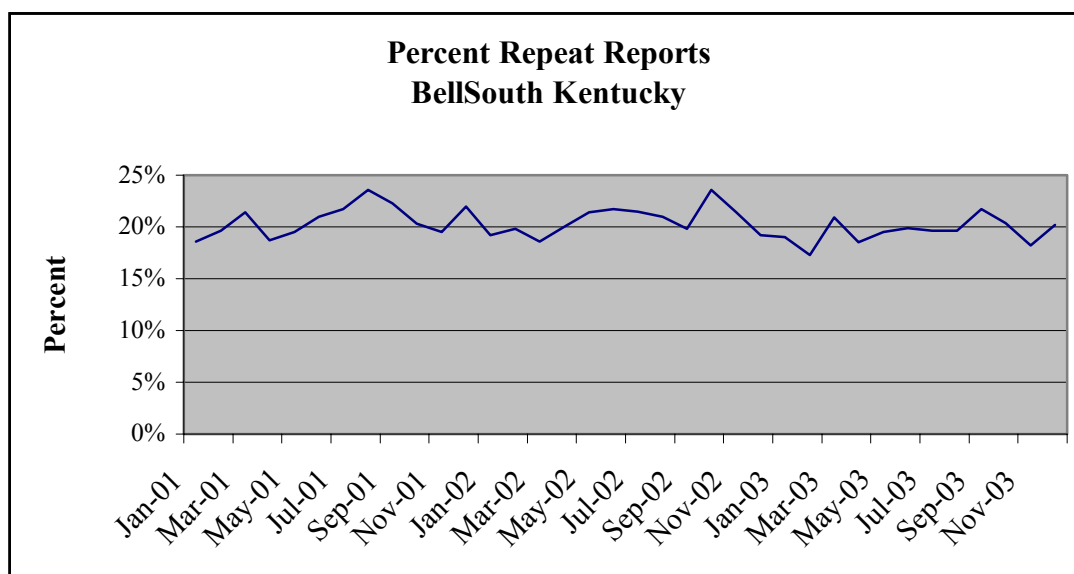
The original TRP, as supported by Vantage in the previous review, contained service quality measures that would continue to provide the Commission with visibility and monitoring of BellSouth service quality. Vantage reviewed these basic service quality measures which are the same as those provided to the Commission. Based on the review we concluded that service quality has not deteriorated during the TRP and there is no indication of negative trends at the reported level.¹³ We elected not to present the basic service quality measures here since they are the same measures formally presented to the Commission and that have also been provided numerous times in proceedings. The service objectives in this category include:

- Percent of requests for regular service fulfilled within 5 working days unless the applicant specifically requests a later date.
- Percent of telephone calls experiencing blockage due to an equipment or all trunks busy condition within the local dialing area.
- Percent of telephone calls offered to toll connecting or interchange trunks encountering an all trunks busy condition.
- Average speed of answer time for operator assisted calls and calls requiring operator number identification.
- Average speed of answering time for calls to repair service.
- Percent of out of service troubles cleared within 24 hours unless the customer requests a later time.
- Average rate of customer trouble reports per 100 access lines.

Our analysis showed that there were no negative trends in any of the service quality measures since implementation of the TRP. At a high level (number of misses reported to the Commission), service in most categories has improved or at least held steady. A more detailed review looked at the individual exchanges reporting under KRS 10(1), Requests for Service Filled within five days, 25(3) Percent out of Service Cleared in 24 hours, and 25(4) Average rate of customer trouble reports per 100 lines. Of particular interest were those exchanges that had broadband capability versus POTS and those with competition. Again no negative patterns could be discerned.

Vantage took the analysis of service quality one step deeper before reaching our final conclusions. One area that experience shows to be a very good barometer of service quality and resource constraints is the number of repeat reports. Repeat reports are trouble reports

issued on the same line within a 30 day period. Under resource constrained conditions or if operations are straining to meet Out Of Service (OOS) trouble objectives, repeats will rise. Troubles that would normally have been truly repaired are not and reappear as repeats. We looked for any such situations at BellSouth and found none. As the chart below shows, repeats have generally declined over the last three years and have stayed low throughout 2003¹⁴.



Source : DR 48

In Kentucky, BellSouth does not separate the work groups providing service to CLECs and to their own customers. All work is essentially handled as “work” without regard to whether the customer is wholesale or retail. This significantly minimizes opportunities for service slippage (which would occur on the retail not wholesale side).

III-F1 Traditional Service Quality has not deteriorated under the TRP.

Service quality as measured by the traditional service measures has not deteriorated under the TRP. The evaluative criteria used was not whether the TRP had improved quality but rather that service quality had remained consistent in the face of major broadband deployment, competition, and the massive changes taking place in the industry. With this criteria, service quality has not deteriorated.

III-F2 The measurement of Service Quality at the wholesale level has increased in recent years.

In addition to the traditional measures of service quality, long distance approval has meant greatly increased service quality measurement at the wholesale level with associated penalties. The wholesale performance plans have greatly increased the attention given to even obscure metrics. While these measurement plans by definition address wholesale performance, in reality it is often impossible or at least difficult, to separate performance

levels at the wholesale and retail levels. This results in a de facto performance measurement for all customers resulting in generally better service.

III-F3 The Service Standards in place under the TRP combined with wholesale measures give adequate assurance of service quality.

The combination of TRP service objectives, which are traditional in scope, and the wholesale service objectives mean that BellSouth is well measured and observed across the board. The critical measures in the TRP prevent resources from being shifted to the wholesale side and the wholesale measures with their considerable financial penalties prevent sliding in the other direction. A third factor, competition, has finally become viable enough in many areas to give customers the ultimate means of expressing displeasure with service.

B. ALTERNATE COMPETITORS

BROADBAND

Broadband or more specifically, high speed data services are increasing across the U.S. at an extremely high rate.¹⁵ During the first six months of 2003, high speed lines increased by 18 percent and have increased by 45 percent during the 12 months ending June 2003. Almost 88 percent of these lines serve residential and small business customers. Providers of high speed cable and ADSL now report serving customers in all US states, DC and Puerto Rico. Advanced service lines, which provide services in both directions at greater than 200 kilobits per second (kbps), make up 80 percent of the high speed lines. Almost 88 percent of these lines also serve residential customers. This is summarized in the chart below.

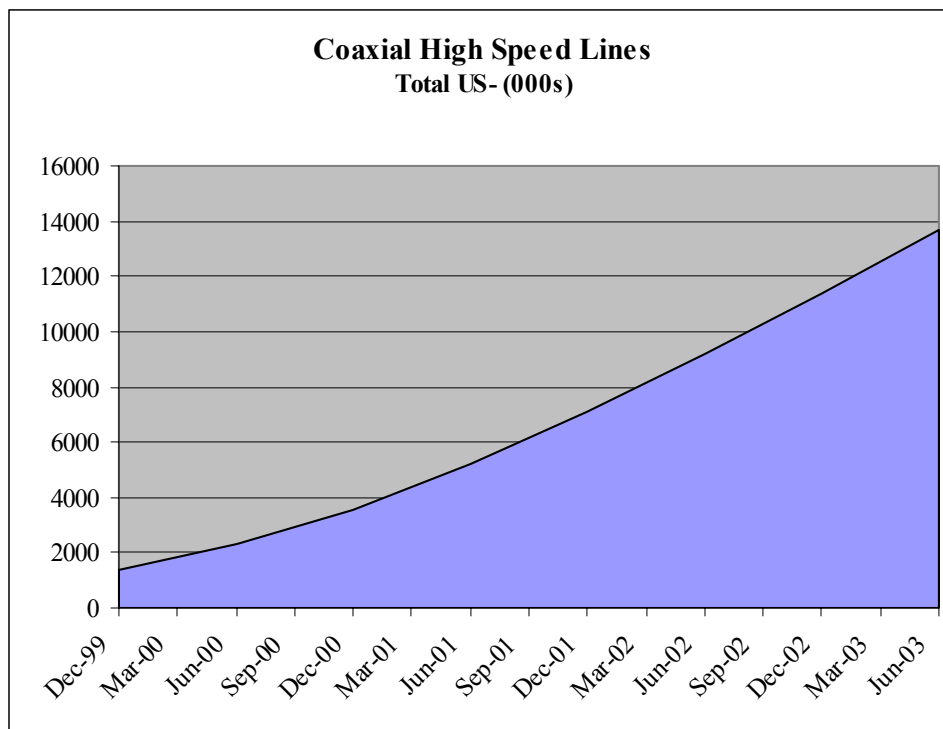
High Speed Lines in the U.S. June 2003 (in millions)			
	Business	Residential	Total
High Speed	2.9	20.6	23.5
Advanced	2.0	14.3	16.3

Source: FCC- High-Speed Services for Internet Access, Status as of June 30, 2003 Various

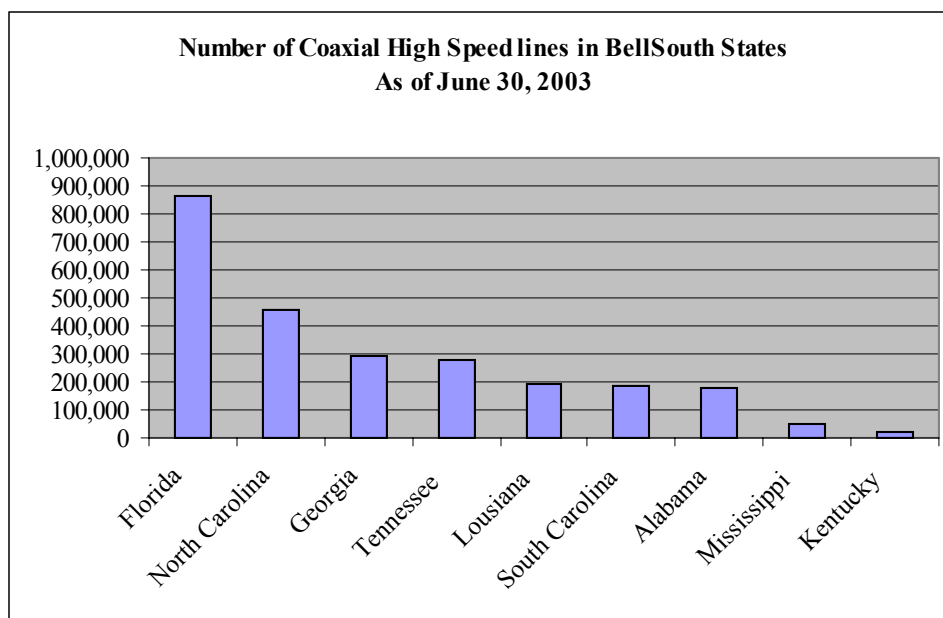
Cable modems and DSL (or ADSL - asymmetric digital subscriber lines) make up the majority of high speed and advanced lines. ADSL was used to provide high speed service to 7.7 million subscribers by June 2003. This is a 50 percent increase in the twelve months ending June 30, 2003. Cable modems provide service to 11.4 million subscribers. Cable modems have also experienced extreme growth in the last year. Cable modem subscription increased by 24 percent in the six months ending June 30, 2003 and for the twelve months ending the same date, the increase was 49 percent.

CABLE

As we have already noted, the growth across the U.S. in cable modems is extremely high and appears to be increasing. The following table shows the growth of high-speed coaxial lines in only three and one half years.



Unfortunately, data is not available for a direct comparison in Kentucky over this same period. However, June 2003 data is available for Kentucky and other BellSouth states. As shown in the following, Kentucky has by far the lowest number of coaxial high-speed lines of any of the BellSouth states.



Kentucky had only 23,672 high speed coaxial lines as of June 30, 2003 compared to the next lowest BellSouth state, Mississippi which had 50,234. However, as we have noted, the FCC

data may not be complete. As an example, Insight Communications, Inc.'s 2002 annual report states that Insight's Kentucky Systems served 51,500 cable modem customers at the end of 2002. Such disparities make it difficult to rely on the FCC high speed services report for Kentucky.

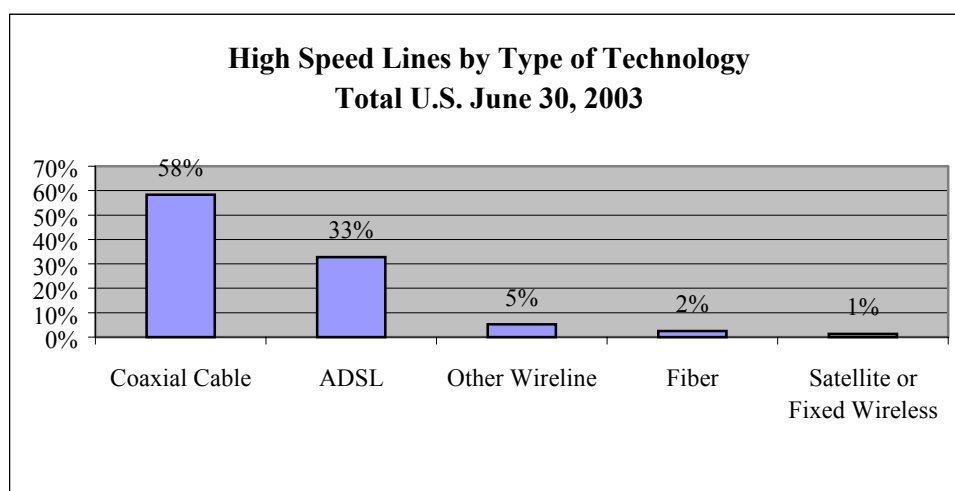
To say that competition from cable is fluid would be an understatement. In fact, during the drafting in November and December of 2003, this section was rewritten numerous times to take into account the dramatic changes in the market place in the cable arena. One of the more notable events was the announcement on December 8, 2003 by Time Warner that it had signed an agreement with both Sprint and MCI to send and deliver telephony services over Time Warner's cable lines.

SATELLITE, FIXED WIRELESS AND OTHER

Satellite continues to operate as an alternative for high-speed access in areas where both ADSL and cable are unavailable. Newer technology now allows for both high-speed uploads and downloads on satellite, which has improved the attractiveness. Some providers such as DirecTV have attempted to position satellite as a direct alternative to cable and ADSL, but this has been mostly unsuccessful to date. The lack of success is thought to be due to several factors including cost, requirements for an unobstructed southern exposure, reliability, and a lack of bundling options available with other options. The cost of satellite high-speed access has dropped, but still remains well above other options. DirecTV requires an up-front cost of at least \$599 for equipment plus \$60 per month.

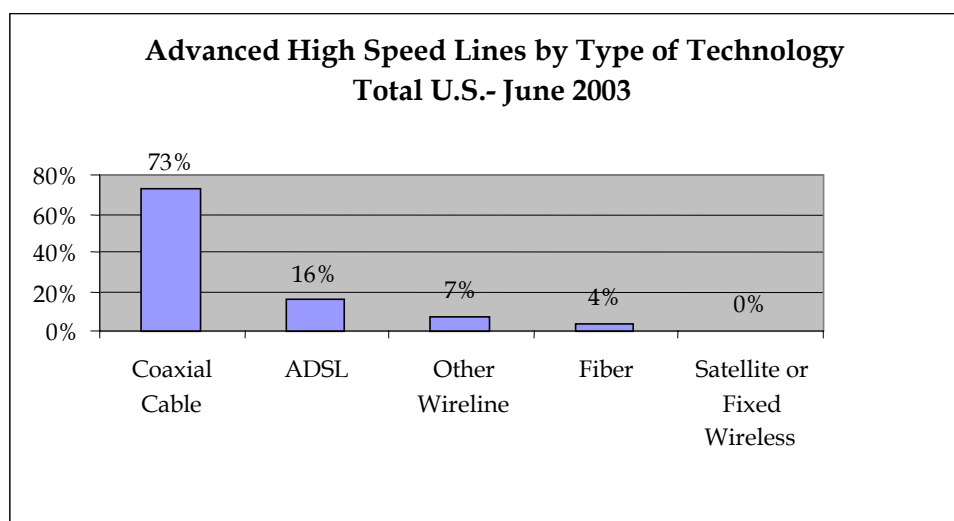
Fixed wireless, which uses a radio spectrum to communicate with a customer transmitter, also provides a limited number of high-speed lines in the U.S. Likewise, fiber to the home provides a limited number of subscribers with high-speed access.¹⁶

The relative distribution of high-speed and advanced lines as has been discussed is shown graphically below:



Source: FCC- High-Speed Services for Internet Access, Status as of June 30, 2003, Table 1

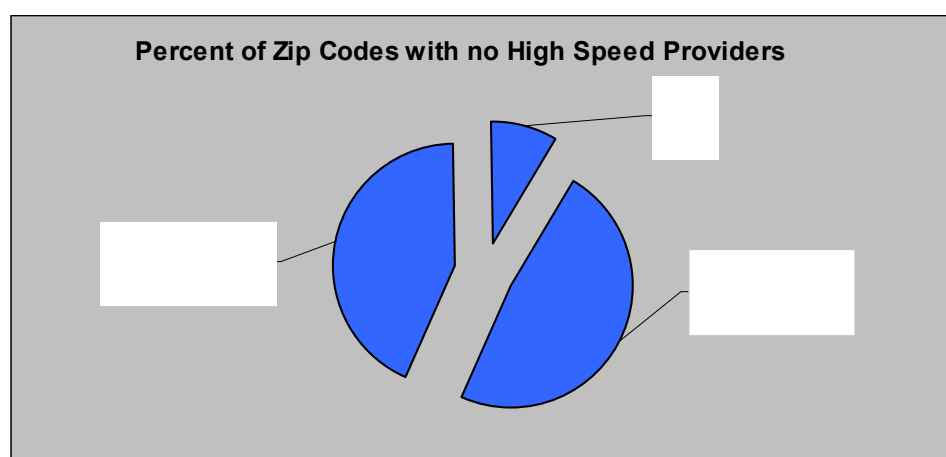
As the graph shows, the overwhelming number of high-speed lines is being provided via cable even before the recent six month advances. ADSL makes up 33 percent of high-speed lines. The remaining technologies provide less than 8 percent of high-speed lines.



Source: FCC- High-Speed Services for Internet Access, Status as of June 30, 2003, Table 2

The situation for advanced high-speed lines which carry signals at greater than 200 kbps in both directions is even more dominated by cable, which makes up 73 percent of these lines.

In terms of breadth of coverage, 91 percent of all zip codes in the U.S. have at least one high-speed provider as of June 30, 2003, 47 percent of the U.S. zip codes have from one to three providers, and nearly 44 percent have 4 or more providers.



Source: FCC- High-Speed Services for Internet Access, Status as of June 30, 2003, Table 12

The saturation in Kentucky is not nearly as high. In Kentucky 22 percent of zip codes still lacked a single high-speed provider, 57 percent of Kentucky zip codes had from one to three providers. Kentucky also lags behind the other BellSouth states. The following table shows the percentage of states zip codes that lack a single high-speed provider as of June 2003.

BellSouth States	Percent of U.S. Zip Codes with no High Speed Providers
Kentucky	22
Alabama	10
Nationwide	9
Louisiana	8
South Carolina	7
Mississippi	7
Georgia	5
Tennessee	3
North Carolina	2
Florida	1
Source: FCC- High-Speed Services for Internet Access, Status as of June 30, 2003, Table 13	

As shown, according to the FCC data, no other BellSouth State has even half the number of zip codes with no high-speed provider, as does Kentucky.

However, as we have noted, the FCC data has some flaws. One area of potential problems is that the data does not give an indication of the extent of each state's access lines served by BellSouth and other large independents. It also does not show the extent of geographic or income concentration. Since all competitive services flow first to areas of higher density and income, these factors are critical qualifiers. The following illustrates this point.

BELLSOUTH KENTUCKY SERVING AREA¹⁷

FCC Advanced Services Report Zip Code Data (June 30, 2003 Report)

Total Zip Codes in BellSouth-KY Serving Area	389
Zip Codes with at least one High-Speed Provider per FCC Advanced Services Report	308
Percentage of BellSouth Zip Codes with No High-Speed Provider	21%

As shown, within BellSouth Kentucky service territory, 21 percent of zip codes lack a high speed provider using FCC data, yet adjusting this data for zip codes which have availability of xDSL, drops the number to 14 percent. As shown in the following:¹⁸

FCC Advanced Services Report Zip Code Data Updated with BellSouth DSL Coverage¹⁹

Total Zip Codes in BellSouth-KY Serving Area	389
Zip Codes With a High-Speed Provider per FCC Advanced Services Report	308
Additional Zip Codes Within 18Kft of Central Office DSLAM	26
Total Zip Codes with a High-Speed Provider	334
Percentage of BellSouth Zip Codes with no High-Speed Provider	14%

III-F4 High-Speed Internet Connections appear to be growing at an increasing rate.

As we have discussed, high-speed internet connections from both cable and ADSL are increasing at rather remarkable rates. Cable modems almost appear to be increasing in a “hockey stick” fashion. Unfortunately for the timing of this report, much of the increase has occurred in the last year and is underway right now, yet reliable data is only available up through June of 2003.

This situation is true throughout the US and also in Kentucky, although Kentucky is operating from a smaller base than many states so the increase will be proportionally smaller. Some analysts expect the cable modem growth to moderate, but reliable objective data does not yet suggest this.

III-F5 High Speed Data Information on the rural areas is very spotty.

One of the primary areas Vantage was concerned with in this audit, is the extent of broadband availability in rural, less dense areas. While information is available from BellSouth on service in all areas, information from other ILECs, the FCC and small CLECs is very difficult or impossible to obtain. For example, the FCC only requires that facilities based providers with more than 250 high speed lines in a state must report on Form 477. While this has little, if any, impact on state level numbers, it definitely obscures the situation in the rural communities that often are served by small niche marketers. It also obscures the extent of coverage by geography(zip code) as many rural areas are served by high speed access, but the service providers are not required to report. To quote the FCC:

“ In particular, we do not know how comprehensively small providers, many of which serve rural areas with relatively small populations, are represented in the data summarized here.²⁰”

For this reason, it is difficult to make any comparison within Kentucky or with other states as to what is happening in these rural areas.

III-F6 Overall, the State of Kentucky lags behind other States in High-Speed Internet Access.

As we have discussed in the analysis just presented in this report, BellSouth has gone beyond the original TRP obligations in terms of DSL deployment, and high speed access. Yet, BellSouth is only part of the overall picture for high-speed access in the state of Kentucky. Other ILECs, cable providers, and CLECs operating within and outside of BellSouth territory also play a major role. It is in these areas that Kentucky seems to be lagging in terms of deployment.

BELLSOUTH LINE CANNIBALISM

A topic which is almost impossible to accurately quantify is the extent to which BellSouth line losses and competitive gains are in fact BellSouth and affiliates cannibalizing their own POTS lines. Many customers choose to remove a second voice line when installing DSL. Yet if BellSouth sells the DSL to the customer then there is offsetting revenue. The same is true for the increasing trend to utilize cellular as the primary or only voice line. If that customer chooses Cingular, then once again BellSouth at the corporate level receives offsetting revenue.²¹

The issue becomes even more convoluted when trying to evaluate the net losses and factoring in gains obtained through wholesale revenue increases. Obviously BellSouth, would prefer to have direct retention of revenues, but when DSL is provided over BellSouth Resold or UNE lines then there is an offsetting revenue component.

Estimates of real line losses can vary widely (at any ILEC, in any state) and are difficult to make due to simultaneous variables of real line losses, customer churn, DSL voice substitution and the provision of service over wholly owned competitor facilities in large customer markets. Vantage did not attempt to differentiate and quantify the offsetting revenue, but certainly considered it and was aware of the implications in this review.

C. BROADBAND IMPLEMENTATION

BROADBAND INVESTMENT

One of the fundamental objectives of the TRP was to encourage BellSouth investment in broadband. The broadband component of the TRP also acted to offset the productivity factor, which was eliminated after the previous review for numerous reasons, including the difficulty in calculating such a factor and the potential drain on competition in the state. BellSouth and the Commission through an iterative and cooperative process agreed on a BellSouth proposal as “a surrogate for further rate reductions based upon a specified productivity index”.²²

The BellSouth proposal was very specific. BellSouth was to deploy Digital Subscriber Line Access Multiplexers (DSLAMS) in 35 wire-centers and required an estimated investment of \$16M.²³ This was to encompass 75 percent of the access lines served by its wire-centers. Also, the proposal was to include 40 percent of the access lines in the Kentucky Rural

Economic Development Act ("KREDA") counties which were served by BellSouth. The Company made a further commitment that 90 percent of the BellSouth cities involved in the Kentucky Community and Technical College System ("KCTCS") would be included. The deployment was to be completed by December 31, 2002.

The Vantage evaluative criteria for this TRP objective was simple. Has BellSouth made the proposed technology deployment scope and timeframe. In order to evaluate this, we looked at the actual wire-center investment, deployment, relative investment and deployment and the mechanisms used to determine where, when and if a wire-center will be made broadband capable. Unfortunately for report purposes, much of this broadband data is highly confidential. As such, we will discuss the proprietary aspects of our review in high level terms.

III-F7 By any measure, the broadband investment objective agreed to by BellSouth as part of the TRP has been met.

The actual broadband investment in Kentucky now includes 115 wire centers in BellSouth - Kentucky territory and 90 percent of the access lines served by these wire-centers. Deployment also covers 94 percent of KREDA counties and 95 percent of KCTCS locations. While these are well documented statistics that have been presented and discussed elsewhere, (see Sections II.A and II.B) they also get to the crux of the evaluation. The broadband deployment under the TRP has been far more extensive than was previously envisioned.

BellSouth did not commit to an actual level of dollar investment for broadband. However, they did estimate the investment for the broadband deployment would be approximately \$16 million. BellSouth actually spent almost twice this amount. The actual amount of the investment made under the TRP and specifically directed at addressing the TRP objectives is so clear cut. BellSouth also has made simultaneous broadband investments as the result of upgrades, new business and moves and rearrangements as part of its ongoing, good business practice. But although it is not possible to identify a discrete dollar amount associated with the TRP, Vantage is confident in stating that the broadband investment originally envisioned has been greatly exceeded.

III-F8 The TRP alone did not drive broadband investment, but provided tremendous impetus.

The TRP did not by and of itself result in the broadband investment beyond the original stated requirements. It did however, provide the incentive not only in Kentucky, but perhaps even across BellSouth to further embrace broadband. Vantage was told that once the commitment was made in Kentucky, the entire issue of broadband deployment across BellSouth was revisited. The result was a far more aggressive roll out of broadband than had been previously envisioned. Here again, it is impossible to separate all the factors that came together at the time of the TRP that have in combination produced a very favorable result to Kentucky. Competition truly came into its own providing investment incentives to any telecommunications service provider who wished to remain in business long-term. Along with competition came the wholesale market, which meant some investment return for BellSouth on lines provided on a wholesale basis. Finally, was the commitment across

the BellSouth states to further deploy broadband. As our discussion in other areas has shown, BellSouth's deployment of broadband has increased across their service territory. While Kentucky did not get a disproportionately high share of broadband capital, it also did not lag significantly behind other states, which may have been the case without the TRP incentive.

D. STRATEGIC PLANNING AND COMPETITION

The Kentucky Public Service Commission, in its August 3, 2000 Order (Case No. 99-434)²⁴ approved BellSouth's proposed Transition Regulation Plan (TRP) for a three-year pilot period. The TRP Order identified seven specific objectives that the Commission sought in approving this plan. Those objectives are as follows:

- Objective 1: Ensure basic service continues to be available at reasonable rates, and shield the basic ratepayer from significant price increases resulting from the changing marketplace.
- Objective 2: Continue to provide high quality service.
- Objective 3: Permit the Commission and the Company to direct their energies to meet customers' needs and enhance efficiency in the provision of telecommunications services throughout Kentucky.
- Objective 4: Provide enhanced incentives to invest in new technologies and services.
- Objective 5: Permit the Company the added flexibility to price competitive services, set depreciation rates, and respond to a changing marketplace.
- Objective 6: Permit all Company retail rates to move toward incremental cost or market price.
- Objective 7: Ensure that the potential introduction of competition to all markets in Kentucky is not hindered by the plan.

After having carefully reviewed BellSouth's strategic plans, for the period of 2001 through 2003, it is fair to conclude that the company has adopted and successfully implemented the seven objectives listed above within the corporate planning process.

III-F9 The strategic plan, since 2001 and every year thereafter, has adequately addressed the impact of the PRP/TRP in meeting its overall corporate objectives.

It is important to understand that BellSouth, like most large conglomerates, performs its strategic planning at the corporate level²⁵. Our interviews with senior management²⁶ confirmed that BellSouth uses a top down – bottom up approach to strategic planning. In other words, the corporate mission and vision statements as well as broad corporate objectives are set by the Board of Directors and the executive management team (top down), while specific business unit goals, objectives, strategies and tactics are developed by each

business unit's senior and mid-management (bottom up). In this way, the direction of the firm, is guided by such principles as profit margin, sales growth, customer service and service quality, while more tactical measures are left to the business unit to develop.

Given this perspective, it is understandable that BellSouth's strategic plan does not specifically identify each or necessarily any of the TRP objectives, but instead reflects both directly, within the spirit of the settlement process that generated those seven objectives back in late 2000.

Vantage has carefully reviewed BellSouth's strategic plans for the years 2001, 2002 and 2003. While these plans are confidential and cannot be discussed in any detail, generally each plan is divided into functional areas such as Consumer, Small Business, and Large Business. Within each functional area, management establishes a set of broad objectives which are addressed through a set of strategic principles. The strategic plan also identifies for each function, challenges and issues that need to be addressed in the coming year.

In order to assure the Commission that BellSouth Kentucky has indeed met its challenge to adopt the seven TRP objectives during the 2001 – 2003 transition period, all of the strategies for the six functional areas and for each of the transition years were cross tabbed against the seven TRP objectives. For example, TRP Objective No. 1 stated²⁷:

Ensure basic service continues to be available at reasonable rates, and shield the basic ratepayer from significant price increases resulting from the changing marketplace.

BellSouth's corporate wide strategic plan specifically addressed such issues as to "aggressively manage the utilization of existing assets to reduce per unit costs ..."

As another example, Objective No. 6 stated:

Permit all Company retail rates to move toward incremental cost or market price.

Our review of the 2001 through 2003 strategic plans confirmed our findings that BellSouth employed as part of its competitive marketing strategy aggressive pricing programs to achieve market based prices that approached incremental costs. Over time (2001 through 2003 period) the company seemed to transition its emphasis on cost reduction and retraction to a more aggressive pricing strategy to retain and rebuild its customer base.

BellSouth's strategic plan represented a multi-dimensional approach which addressed both short and long term issues. For the short term, BellSouth focused on cost containment, and redeployment of its physical and intellectual assets toward more profitable segments of the market, system expansion into rural communities, improving customer service and price flexibility in order to mitigate the decline in its market share. Over the longer term, BellSouth's strategy addressed development of new technologies and product services as well as initiatives to attract and re-acquire high volume customers.

As noted above, we are not at liberty to further discuss the specifics of BellSouth's strategic plans. However, each of the annual plans did indeed address the TRP objectives set by this Commission.

III-F10 The strategic plan, although well defined and while reflecting the impact of the TRP on BellSouth's Kentucky operations, does not specifically reference the goals of the TRP enumerated in the Commission's Order in Case No. 99-434.

As discussed above, BellSouth's strategic plans do not specifically reference the TRP objectives outlined in the Commission Order in Case No. 99-434. However, it is our opinion that BellSouth has met both the intent and spirit of these objectives within its strategic planning process throughout the three-year transition period.

BellSouth's strategic plans appear to be well defined and do reflect the changing competitive market that they participate in. We compared the strategies in 2001 to those of 2002 and 2003 to determine if the market changes flowed through to BellSouth's strategic plans. We found that the focus of the strategic plans did reflect and respond to the competitive framework.

III-F11 The strategic plan, and in particular BellSouth's aggressive broadband rollout, does not appear to conflict with broader BellSouth objectives.

We witnessed no conflict between BellSouth's broadband rollout strategy and the broader BellSouth objectives. In fact, BellSouth's broadband strategy has had a positive impact on customer retention, capital investment in rural Kentucky and an expansion of consumer services and competitive pricing schemes.

III-F12 During the 2001 through 2003 transition period, BellSouth met or exceeded all of the goals set in the TRP that were designed to replace the implicit effects that were an intended, but immeasurable, outcome of the prior application of the Total Factor Productivity offset.

Those goals were reflected in improved performance as measured by:

- Capital investment in rural Kentucky
- Deployment of broadband services
- Improved levels of customer satisfaction

While a more detailed discussion of BellSouth's performance during the transition period is provided in Section IV of this report, in summary we found that²⁸:

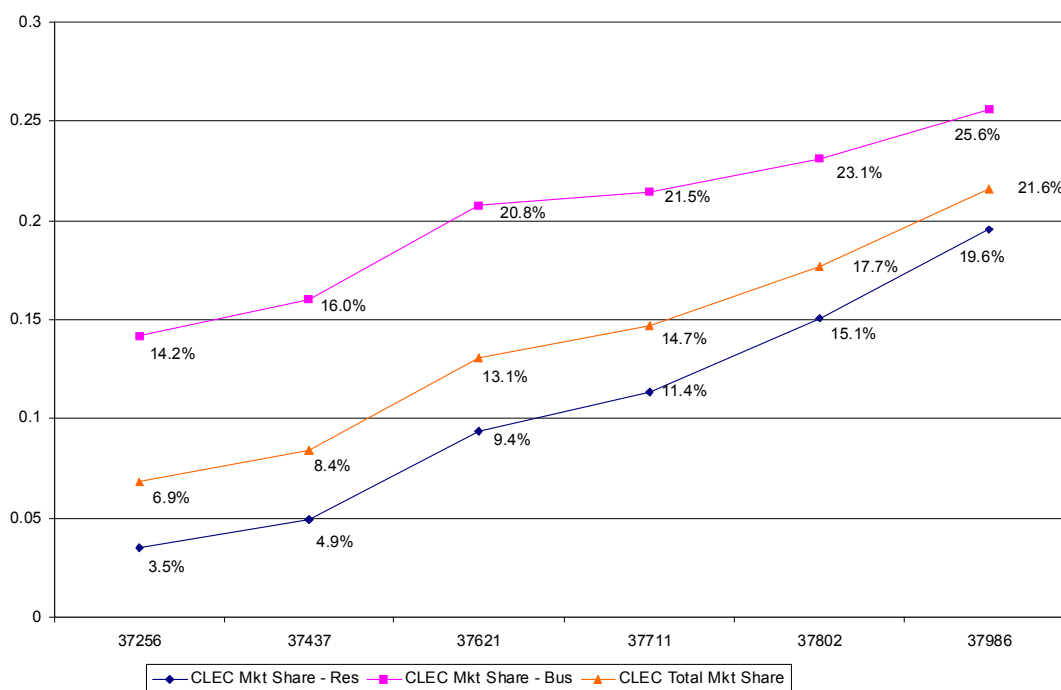
- BellSouth has spent nearly \$35 million in Kentucky on new technologies and exceeded the company's original goal to add 35 rural wire centers when in fact over 98 centers were added during this period.
- This expansion effort has expanded BellSouth's ability to offer broadband services to over 115 broadband capable wire centers throughout Kentucky.
- Independent market monitoring and survey organizations including J. D. Powers have consistently ranked BellSouth first in customer satisfaction.

III-F13 BellSouth's strategic plan has effectively addressed the issue of line losses and has implemented a well-defined implementation plan to react to competitive pressures that have lead to the diminution of its market share.

BellSouth continues to witness a diminution of its market share due to CLEC competition. BellSouth claims that there are now over 200,000 Kentucky customers being served by CLECs²⁹. Since 2000, the number of access lines served within Kentucky has declined from 1.2 million to 1.1 million as of September 2003. However, BellSouth's strategic planning process has evolved over this period of time to re-emphasize customer retention strategies and an aggressive market response program. Introduced in 2003, the company implemented a competitive response program that monitors, analyzes and triggers specific responses to specific competitive pressures. Each alert identified by the market monitoring system, depending upon a defined level of priority, has a specific timeline and deliverable associated with the alert.

Additional detail on Bell South – Kentucky's relative loss of lines compared to other Bell South states is provided in Appendix C.

CLEC MARKET SHARE IN BST KENTUCKY MARKETS



In summary, BellSouth's strategic planning process has been a dynamic exercise that has supported the company's ability to react to and respond to competitive and technological pressures faced during this transition period.

III-F14 There do not appear to be any relevant issues, specific to Kentucky including urban versus rural considerations, that are not already being addressed in BellSouth's strategic plan.

BellSouth's strategic plan is broad based and covers a wide range of issues that confront this Company. As noted above, the strategic planning process is a top down – bottom up approach which provides regional managers an opportunity to introduce and vet strategies and tactics tailored to their individual needs. Our review of the 2001 through 2003 strategic plans revealed no relevant issues specific to Kentucky that were not already being addressed within the context of the current planning process.

IV. TRP PLAN STRUCTURE

The Commission in its August 3, 2000 Order of Case No. 99-434 approved, with modifications and conditions, BellSouth-Kentucky's proposed Transition Regulation Plan (TRP). The TRP included the addition of two new objectives which had been recommended by Vantage in its 1999 Audit Report. These two new objectives are defined in the TRP as follows:

- Permit all Company retail rates to move toward incremental cost or market price.
- Ensure that the potential introduction of competition to all markets in Kentucky is not hindered by the Plan.

This section focuses on how BellSouth-Kentucky's performance over the TRP time-period has met these objectives.

A. PRICING ISSUES

IV-F1 Bell South has responded to the competitive Kentucky telecommunications marketplace through rebalancing rates and adjusting rates to reflect market conditions, all in compliance with the provisions and objectives of the TRP.

The Commission in its Order of Case No. 99-434 modified BellSouth-Kentucky's proposed TRP year-1, revenue-neutral rate restructuring³⁰. Additionally, the Commission authorized BellSouth-Kentucky to make revenue-neutral changes between residential and business rates in the second and third years of the TRP. Specifically, the yearly revenue target was set at \$5,000,000. The Commission's motive for this action was clearly stated in the Order³¹:

"The Commission's goal is to permit the retail rates of BellSouth to move toward incremental cost or market price,"

A summary of the revenue-neutral effects associated with BellSouth's subsequent pricing modifications over the three-year TRP time period is summarized below³²:

BellSouth - Kentucky - Revenue-Neutral Pricing Modifications

	Oct. 2000 (\$)	Oct. 2001 (\$)	Oct. 2002 (\$)
Residential	8,165,638	4,990,910	4,990,190
Business	0	(5,003,702)	(5,004,835)
Other	(8,184,689)	0	0
NET	(19,051)	(12,792)	(14,645)

First, we analyze the rebalancing impact upon residential rates. Look at the monthly 1FR, flat rate residence, by rate group (RG) prices over the 3-year TRP time-period³³:

BellSouth - Kentucky - Rebalancing Impact on Residential Rates

	1999 (\$)	2000 (\$)	2001 (\$)	2002 (\$)
RG 1	12.17	12.77	14.10*	15.20
RG 2	13.02	13.69	14.10*	15.20
RG 3	13.69	14.37	15.36*	16.65
RG 4	14.34	15.05	16.10	17.30
RG 5	17.55	18.40	18.40	18.40
Exception Exchanges	14.50	15.22	16.10	17.30

The three 2001 asterisked prices indicate that this is not the price proposed by BellSouth-Kentucky, but rather what the Commission ordered. For RG 1, 2, and 3, BellSouth-Kentucky proposed prices of \$13.90, \$14.05 and \$15.35, respectively.

In the table, Rate Group 1 represents the most rural areas in Kentucky while Rate Group 5 contains the most densely populated cities in Kentucky. Typically, residential rural rates have been more heavily subsidized than urban rates.

The first key item noted is the RG 5 price. After having been increased \$.85 (or 4.8%) in 2000, BellSouth-Kentucky has not modified the price. The major cities classified within this rate group are subject to a greater degree of competition. BellSouth-Kentucky's decision not to change this rate group's 1FR price since 2000 is a reflection of the competition for residential customers.

Over the 3-year TRP time-period, prices for 1FR in RG 1, RG 2, RG 3, RG 4 and Exception Exchanges have increased \$3.03, \$2.18, \$2.96 and \$2.80, respectively. BellSouth-Kentucky stated in its August 2002 rate-rebalancing filing that it believed additional pricing changes were still required to bring all residential rates in line with costs. However, BellSouth-Kentucky did not propose any residential price changes in its 2003 TRP filing.

BellSouth-Kentucky has adjusted residential vertical services prices during the 3-year TRP time-period. However, these price changes were made in separate tariff proposals, not with the yearly rate rebalancing filings. BellSouth-Kentucky's first tariff filing for residential vertical service price changes was made in November 2001 as follows³⁴:

BellSouth - Kentucky - Pricing Changes to Vertical Services

	Current Rate (\$)	Proposed Rate (\$)	Increase (\$) and (%)
Call Waiting	3.65	4.50	.85; 23%
Caller ID Deluxe	7.50	7.95	.45; 6%
BellSouth Essentials Package	(3.05)	(3.90)	(.85); 27%

BellSouth Essentials is a residential package combining multiple vertical services. BellSouth-Kentucky supported these price increases with a comparative market analysis of prices for these vertical service offerings³⁵ which indicated that its proposed price was still

below another Kentucky Local Exchange Carrier's prices. Given the support provided by BellSouth-Kentucky, their proposed price increases were allowable under the TRP. BellSouth-Kentucky does not have to justify why these three particular vertical services prices were being adjusted or why they chose not to adjust other vertical service prices. Again, the pricing changes BellSouth-Kentucky decides upon are based upon their strategic marketing/pricing plan. In point-of-fact, BellSouth-Kentucky asserted in the November 2001 filing a marketing strategy that³⁶:

(these price increases) will further increase the market value and attractiveness of our package services (like BellSouth Essentials)."

An issue that may arise, based upon these residential vertical service price increases, relates to a concern of gauging customers by BellSouth-Kentucky. If there were not a sufficient level of residential competition, then this would certainly be a concern. However, as discussed earlier in this report, Vantage believes that residential competition exists in Kentucky and will continue to grow. In this regard, BellSouth-Kentucky made the following statement in its tariff filing³⁷:

"All these services are optional and discretionary. BellSouth is proposing rates for these services that are more closely aligned with the value we perceive that they carry in the marketplace. **BellSouth bears the risk associated with this proposal if the Company has misjudged the value the market places on these services.**" (bold added for emphasis)

BellSouth-Kentucky's next price change for residential vertical services went into effect in January 2003. Refer to Appendix D for a complete listing of the vertical service offerings with a price change. The BellSouth Essentials package price was reduced \$1.60, making its total price reduction of \$5.50 over the 3-year TRP time-period. Call waiting was increased another \$1.00 to \$5.50. Even at this price, it is still below another Kentucky LEC's price back in 2001. Eight other residential vertical service offerings had price increases ranging from a \$.05 to \$.60. So, in the 3-year TRP time-period, several vertical services had a single price increase while one vertical service, call waiting, had two price increases. The BellSouth Essentials vertical services package had two price decreases. These price increases and decreases satisfy the PRP objective of allowing BellSouth-Kentucky to move its service prices to market levels, while complying with the provisions of the TRP.

BellSouth-Kentucky decreased costs for several residential two-line and three-line service packages in July 2001, as shown below³⁸:

BellSouth - Kentucky - Multiple Line Pricing

	Previous (\$)	July 2001 (\$)
Complete Choice Two-Line Plan	66.50	49.95
Complete Choice Three-Line Plan	97.50	69.95
Area Plus with Complete Choice Two-Line Plan	97.50	72.95
Area Plus with Complete Choice Three-Line Plan	145.50	102.95

The issue of Zone Charges has not changed during the TRP. BellSouth-Kentucky made no price changes to residential zone charges over the 3-year TRP time period. Neither the TRP nor the Commission allowed revenue-neutral rate rebalancings require BellSouth-Kentucky to make adjustments to specific service prices. The TRP does not place any obligation on BellSouth-Kentucky to justify why it did not make price adjustments to services. The TRP provides full discretion to BellSouth-Kentucky to make price changes, as it feels are necessary to successfully compete in the marketplace. Vantage believes that BellSouth's residential price changes over the 3-year TRP time-period comply with the provisions of the TRP.

The following table illustrates the decrease in business services revenues, due to service price reductions, included within the two Commission ordered revenue-neutral rate rebalancings:³⁹

Summary of Business Service Revenue Decreases

	October 2001 (\$)	October 2002 (\$)
Local Exchange	(882,235)	0
Grouping (Hunting)	(1,005,294)	(2,564,223)
Complete Choice for Business	(92,832)	(1,621,776)
Business Plus	0	(424,399)
Touchtone	(388,310)	0
Primary Rate ISDN	(2,012,675)	0
MegaLink	(622,356)	0
Custom Calling Service and Touchstar	0	(394,437)
Total Business	(5,003,702)	(5,004,835)

This data indicates that BellSouth-Kentucky identified three business service categories: hunting, complete choice for business and primary rate ISDN, whose pre-TRP prices were not considered competitive. The TRP provided BellSouth-Kentucky with the capability to make these price reductions. A review of BellSouth-Kentucky tariff filings during the 3-year TRP time-period indicates very few business service prices were adjusted, other than access related. Vantage believes that is the case because the primary vehicle for BellSouth-

Kentucky to respond to competition in the business marketplace is through Contract Service Arrangements.

Vantage believes that several of the TRP objectives have been met by BellSouth-Kentucky's pricing decisions over the 3-year TRP time-period. They are:

- Permit all Company retail rates to move toward incremental cost or market price,
- Ensure basic service continues to be available at reasonable rates, and shield the basic ratepayer from significant price increases resulting from the changing marketplace.

B. COMPETITIVE IMPACT OF TRP

IV-F2 The provisions of the TRP have not materially impacted BellSouth-Kentucky's ability to compete in the marketplace.⁴⁰

The second new TRP objective stated above, applies equally to BellSouth-Kentucky in that the TRP provisions should not hinder BellSouth-Kentucky's efforts to effectively price its products in response to competition.

To this point BellSouth-Kentucky has stated⁴¹:

"There have been no specific instances of BellSouth needing to modify pricing in response to a competitive threat where that need was precluded by the TRP, but there have been instances where provisions of the TRP have delayed and complicated BellSouth's timely and efficient response to the marketplace."

BellSouth-Kentucky first points to the pricing rules of the TRP in BellSouth-Kentucky's tariff, Section A36.1.3.C.3.a where it states: "the Company shall have full discretion to propose the rates..." BellSouth-Kentucky believes it should be able to *modify* rates for services in the Retail Category without Commission approval.

BellSouth-Kentucky describes one situation to support its contention. In March 2001, it filed a rate increase for several optional services and certain vertical services, which in total would have provided additional yearly revenue of \$17 million. The Commission initially denied the vertical services price increase based upon its position that, at the time, there was no competitive marketplace for these services⁴². However, subsequent to the Order in Administrative Case No. 382 regarding UNE prices, the Commission reversed its prior decision and allowed BellSouth-Kentucky's proposed prices for vertical services to become effective⁴³.

The net effect of the Commission's actions was a 9-month delay in BellSouth-Kentucky's new vertical services prices going into effect. Regardless of the portion that the vertical services price increases contributed to the annual \$17 million revenue impact, losing nine

months or approximately 75% of that amount does not appear to materially impact upon BellSouth-Kentucky's financial results

BellSouth-Kentucky identifies a second issue of TRP provision impacting its ability to compete effectively. This item is presumptive validity. Vantage, in its 1999 Audit Report, made the recommendation that the then PRP provisions be modified to allow for a reasonable level of presumptive validity. However, the Commission rejected that recommendation along with BellSouth-Kentucky's TRP proposal that its tariffs be presumed valid on one day's notice⁴⁴.

Vantage notes that all local exchange carriers in Kentucky are required to give the KPSC 30 days notice of tariff changes and that BellSouth-Kentucky has presented no compelling evidence as to the "harm" the lack of this language in the TRP provisions has caused, other than the vertical services example cited above.

Notwithstanding that, BellSouth-Kentucky filed a petition in July 2002 for presumptive validity treatment of certain of its tariffs, Case No. 2002-00276 "Petition of BellSouth Telecommunications, Inc., for Presumptive Validity of Tariff Filings". Subsequent to an informal conference with the Commission staff in November 2002, BellSouth-Kentucky filed a revised petition for presumptive validity applicable solely to the Retail Category. The Commission denied this new proposal in April 2003⁴⁵. BellSouth-Kentucky then submitted a Request for Reconsideration. That case is currently pending⁴⁶.

It should be noted that the Commission in its April 2003 Order in Case No. 2002-00276, did offer the following provision⁴⁷:

"Should time be of the essence for any tariff, the Commission stands ready, willing and able to consider shortening the notice period. The Commission also recommends that a carrier desiring expedited review confer informally with Staff before filing its tariff. Notifying Staff of the need for expedited review may help ensure that BellSouth's goals are met."

It is not clear to what extent, if any, BellSouth-Kentucky has availed itself of this opportunity. Regardless, the basic principle of presumptive validity remains. Vantage has seen no evidence of BellSouth-Kentucky consistently filing pricing revisions which, based on the Commission's 30 day review cycle, were denied. As such, Vantage continues to support its original presumptive validity recommendation put forth in its 1999 Audit Report.

IV-F3 The issue of presumptive validity, while still part of an ongoing proceeding, appears valid for all Kentucky carriers.

Vantage realizes that the KPSC's proceeding on presumptive validity is still proceeding and that there are difficult issues to be resolved. First, Vantage realizes that not all carriers in Kentucky operate under the same form of regulation. While BellSouth operates under the TRP, other ILECs operate under traditional rate-of-return regulation. Second, as is evident from the discussion in Chapter III, the degree of competition across the specific regions of the state and not just within BellSouth-Kentucky's territory. However, just as the KPSC

took decisive action by adopting Vantage's 1999 Audit Report recommendation for the elimination of the total factor productivity index in formulating the TRP provisions, it should consider doing so again by including some form of a presumptive validity provision in the TRP.

This is the next logical step in the road to deregulation of BellSouth and other ILECs. As BellSouth witness Ruscilli has testified in Case No. 2002-00276⁴⁸, six other states served by BellSouth have allowed some form of presumptive validity. We dare not suggest that the KPSC formulate policy based upon how other states regulate BellSouth. However, it is probative in that presumably these other states have carried out similar analysis, regarding presumptive validity, as the KPSC is currently undertaking, and found it reasonable in some form. Further, we would propose that any decisions on presumptive validity apply to all telecommunications carriers within a given market.

The KPSC has focused on two points in previously denying presumptive validity. First, relates to BellSouth's share of access lines as that correlates to a "reasonable" level of competition and second, concern that a reduction in tariff review time would limit its ability to ensure cross-subsidization is not occurring.

Vantage has discussed in this report its analysis of competition in Kentucky and found that competition is increasing, as is demonstrated by the presence of CLECs throughout the state, the growth in wireless replacing landlines, as well as emerging VOIP providers. BellSouth has proposed over 5,000 CSAs to business customers since 2000 while "winning" only 1,273, indicating the level of competition in that market segment.

IV-F4 BellSouth-Kentucky competitors have not been stifled in either entering or competing in the Kentucky telecommunications marketplace due to any provisions of the TRP.

There are two situations that BellSouth-Kentucky acknowledges occurred over the 3-year TRP time period where questions about competition arose. One relates to Contract Service Arrangements (CSA), which is discussed in Finding IV-F4.⁴⁹

The second and relevant situation, discussed here, is a complaint filed in 1999, prior to the TRP being initiated, by an Internet Services Provider (ISP). The ISP's allegations focus on BellSouth-Kentucky's provisioning of DSL, an interstate access service subject to FCC jurisdiction. The allegations were diverse, ranging from accounting safeguards, BellSouth-Kentucky provisioning of DSL to its unregulated ISP affiliate BellSouth.net, BellSouth-Kentucky marketing activity and business practices, and the structure of BellSouth-Kentucky's wholesale DSL Tariff⁵⁰.

The Commission in November 2000 ordered BellSouth-Kentucky to file a Kentucky specific DSL tariff for wholesale service and to modify its marketing directives. In response, BellSouth-Kentucky proposed revising the DSL FCC tariff, eliminating both the tier structure and the volume discounts. This was approved by the Commission in May 2001.⁵¹ No additional complaints have been filed by ISPs since that decision.

Vantage does not view BellSouth-Kentucky's original FCC DSL tariff pricing as any negative reflection upon the PRP and/or the TRP's pricing provisions being utilized to negate competitive entry into the marketplace. Rather, we commend the Commission for its active review of the tariff's structure and non-pricing issues associated with BellSouth-Kentucky's provisioning of DSL services. Vantage believes, based upon the information provided,⁵² that the TRP provisions have not hindered the growth of competition in the Kentucky telecommunications marketplace.

IV-F5 BellSouth - Kentucky has followed the TRP provisions regarding CSA's.

A CSA is a contract, currently regulated by the KPSC, between a business customer and BellSouth.⁵³ It provides for a service or a group of services at rates, terms and/or conditions different than standard applicable tariff. The CSA price floor, per the TRP, is Long Run Incremental Cost (LRIC). A CSA cannot be priced below LRIC unless it is to meet the price of a competitor, but only upon filing evidence of the competitor's below LRIC price.

The following table exhibits base information regarding BellSouth's use of CSAs since 1999, the last full year of the PRP, through 2003.

	1999	2000	2001	2002	11/2003
# of CSAs issued	159	203	311	424	335
Total \$ volume	8,502,924	15,653,496	11,355,936	9,518,772	7,191,408

The data indicate that BellSouth has aggressively utilized CSAs as a competitive response tactic. While the growth in numbers and yearly dollar volume, at first, seems excessive when compared to the earlier PRP years, further analysis puts that in perspective. A key statistic is the average CSA dollar volume. In 1999, it was \$53,000 and has been declining steadily to where it is \$21,000, through November 2003. A reasonable assessment of this decline is that competition has trickled down from large business customers to middle market business customers.

Lest these figures suggest that BellSouth has attempted to "stay ahead" of competition by pushing CSAs to its business customers, the testimony of BellSouth witness Ruscilli in Case No. 2002-00456 negates that interpretation. He states that BellSouth successfully wins only 25% of the CSAs it proposes⁵⁴. This would suggest that BellSouth has issued around 5,000 CSAs since, and including, the year 2000 through present and won only 1,273. This certainly suggests that competition for the Kentucky business customer is thriving.

There is a remaining question. Has BellSouth utilized CSA to inhibit competitors? That is, could they be pricing successful CSAs below LRIC? Their win/loss ratio of 25%/75% would immediately refute the premise. Additionally, however, no CLEC has contested a BellSouth CSA in Kentucky⁵⁵. Likewise, the KPSC has approved all BellSouth CSAs, other than one issued in 1990⁵⁶. This information supports the premise that BellSouth, indeed, is complying with the TRP CSA pricing provisions.

A KPSC concern regarding CSAs is the applicability of CSAs to "similarly situated" customers. The crux of the issue appears to be whether similar customers receiving similar services through CSAs should receive similar prices.

IV-F6 BellSouth's requirements for filing CSA information have been modified and KPSC concerns over CSA policy issues have resulted in their opening a Case, Case No. 2002-00456, "Inquiry into Contract Service Arrangements by Telecommunications Carriers in Kentucky," which is still pending.

In Vantage's 1999 Audit Report, we found that BellSouth had appropriately utilized CSAs, per the PRP provisions, and no changes to those provisions were required going forward. BellSouth accepted that recommendation, as it requested no CSA modifications in its TRP proposal. However, the KPSC in its Order establishing the TRP did request that BellSouth file information describing its classification for CSAs and the criteria used to develop and finalize the arrangements⁵⁷. Based upon the information filed by BellSouth, the KPSC made no changes to CSA requirements.

In March 2001, BellSouth filed a motion to modify the procedures for filing CSAs, Case No. 2001-00077 "BellSouth Telecommunications Inc., Proposed New Procedures for Filing Contract Service Arrangements and promotions". - No third party requested a hearing on the petition. - The KPSC in its September, 2001 Order on BellSouth's petition modified the CSA filing and review procedures. BellSouth was now to file within 10 days of the end of the prior month, a report of all CSAs along with a cost information summary. The KPSC retained the ability to accept or reject the CSAs by the end of the filing month. On a key issue, the KPSC rejected BellSouth's request and ordered that the CSA customer name be filed and not remain confidential⁵⁸.

The next milestone occurred when the KPSC, in December 2002, opened Case No. 2002-000456. The purposes of this case were several. First, for the KPSC to re-evaluate its rulings from its September, 2001 Order in light of a complaint filed by a BellSouth customer regarding their CSA pricing. Also, policy issues implications associated with CSAs, including filing requirements and standards governing BellSouth usage of CSAs⁵⁹. Clearly, this case has significant implications.

The precursor to this case, as stated above, was a complaint filed by a BellSouth CSA customer alleging that their CSA price was higher than that in another customer's CSA, for the same service⁶⁰. The key issue revolved around BellSouth's contention that the different CSA prices it contracted with each customer were based upon the different competitor offer each customer had. The KPSC ruled⁶¹:

"We simply conclude that pricing the same service differently from customer to customer based on the single difference that one customer has received (or is alleged to have received) an offer is inappropriate pursuant to KRS 278.170."

As previously stated, this case is pending and Vantage admits to not reviewing all submissions and testimony, as that is far outside the scope of this effort. However, a limited summary of some salient issues is appropriate.

BellSouth witnesses have testified that there are three criteria used to assess if a customer is to be offered a CSA. They are⁶²:

1. “BellSouth has reason to believe that the price of service under its existing tariff is not competitive for that particular customer.
2. The customer has a competitive alternative available; and
3. The customer is willing to sign a CSA with BellSouth and commit to the terms and conditions contained in the CSA.”

BellSouth is also requesting, as it previously had, that the names of its CSA customers be held confidential. Their support for this position is that it allows competitors to know who their customers are and, possibly, make competitive proposals to them. BellSouth’s competitors face the same requirement.⁶³ In point of fact, BellSouth asserts that no competitor should be required to disclose customer names.

At the request of Cincinnati Bell Telephone, the KPSC, in advance of hearings in this case, convened an industry workshop to discuss CSAs and policy issues. As a result of that workshop, a joint proposal for CSA standards, signed by BellSouth, Kentucky Alltel and Cincinnati Bell Telephone was submitted in October 2003 to the KPSC⁶⁴.

The proposal applies to all carriers in Kentucky, including ILECs, CLECs and IXC. It states that the only filing requirement, for ILECs, is that, based upon the Commission’s request, it will file a copy of the signed contract, with the customer name redacted, and supporting cost information. The proposal also provides examples of when a CSA may be used to meet competition. In subsequent testimony, BellSouth witness Ruscilli reports on how other states in which BellSouth operates handle CSAs. He indicates that the states reviewed have far less restrictions on CSAs than Kentucky.

IV-F7 BellSouth has proposed to the KPSC that the TRP continue as is, with only one change.

The current TRP had a term of three years, after which the KPSC ordered BellSouth to file information regarding the method of regulation they propose going forward. BellSouth submitted that filing in August 2003. The only change that BellSouth proposed to the TRP is the “term” of the TRP. They requested that the KPSC eliminate the three-year term completely. Essentially, the provisions of the TRP would extend indefinitely until the KPSC, BellSouth or other parties filed a petition for changes to the TRP.

BellSouth provided no support for this position in its filing. However, in Vantage’s BellSouth TRP performance interview⁶⁵, BellSouth expressed the opinion that there was no basis for a three-year review, as it was just a point in time, without regard to the occurrence of key events.

C. REPORT RECOMMENDATIONS

IV-R1 The TRP should be continued. (Refer to Findings IV-F1, F2, F4 and F7.)

Vantage’s overriding recommendation is the PRP be continued. It has met all of its objectives and continues to be the most appropriate mechanism for moving competition

forward in Kentucky. It provides the type of balance necessary in an industry that is undergoing significant changes.

IV-R2 The KPSC should consider taking the next step in further relaxing regulatory oversight of BellSouth's and CLECs tariffs through establishing some form of presumptive validity. (Refer to Finding IV-F3.)

The question of presumptive validity for telecommunications companies in Kentucky is complex and needs a thorough discussion and Vantage believes, some changes. BellSouth argues that without presumptive validity, in some form, it is hampered in its ability to react quickly to competitor price changes. It states that the marketplace suffers, in general, as it cannot be a true price leader or offer new service packages while having to give 30 days notice based upon the current TRP provisions.

There is an important question, which requires some thought. If presumptive validity is allowed, to whom does it apply?. While it is appropriate for all CLECs competing with Bell South to also get presumptive validity, what about other ILECs that are still under rate of return regulation? Since most CLECs compete statewide, does it get presumptive validity everywhere? Our analysis in Chapter III of the report shows that the degree of competition varies significantly in Kentucky and it is likely that it is significantly less in other areas. This question warrants in-depth discussion by all parties.

BellSouth witness Ruscilli proposed an alternative presumptive validity schema⁶⁶ whereby 1FR and 1FB services would be excluded from the provision, and the current 30-day review and effective date would continue. For all other retail services (new services, new options to existing services, increases in rates of existing services and changes to terms and conditions of existing services), five provisions were put forward. The key one being that rate reductions would be presumed approved with one day's notice.

Nothing within BellSouth's proposal negates the KPSC from investigating a filing or a third party filing a petition, which may lead to an investigation while the proposed tariff is in effect. BellSouth is prepared to take the risk that its tariffs may be rescinded and damage done to its reputation in the marketplace.

IV-R3 The KPSC should strongly consider accepting, in some fashion, the Joint Industry Proposal put forth by BellSouth, Kentucky ALLTEL and Cincinnati Bell regarding Contract Service Arrangement standards. (Refer to Finding IV-F6.)

Vantage believes that a key provision of these proposed CSA standards is that the customer name be kept confidential, for information placed in the public record. Vantage agrees with the assertion that, in a competitive marketplace, the availability of such sensitive customer information places BellSouth, or any other CSA provider, at a competitive disadvantage. Such information does, to use BellSouth's phrase, provide competitors with a "shopping list" for their sales force. In short, an un-level playing field is created, which can subvert the growth of competition.

An important question is whether CLECs are required to give 30 days notice on CSAs. There is some dispute as to whether CLECs are required to give 30 days notice for CSAs and

more importantly, whether they do. A review of filings and responses in the associated case, Case No. 2002-00456, show that many CLECs do not believe they are required to comply. The source of the disagreement can be traced back to the Commissioner's August 8, 2000 Order in Administrative Case No. 370. BellSouth states that many CLECs simply do not give notice.

The KPSC is rightly concerned with the applicability of CSAs to "similarly situated" customers. CSAs are however, by concept, a tactical pricing response, by BellSouth, to a competitor's offering to a specific customer, required to retain or win the business. Under this premise, the possibility of multiple customers being "similarly situated" is predicated upon a competitor making similar proposals to all of them. To the extent that this occurs, then BellSouth should provide similar CSA proposals to those customers. Carrying this concept of "similarly situated" customers to a logical extreme, it would appear that it would possibly lead to a tariff filing, if the "similarly situated" customer base grew significantly. It should remain incumbent upon BellSouth to justify why CSA customers were/were not considered "similarly situated."

Vantage notes that BellSouth, in its case testimony, provided three criteria that a customer must meet prior to the offering of a CSA. A critical factor is that the customer has a competitive alternative available. The Joint Industry Proposed CSA Standards expands the circumstances upon which a CSA may be offered to parameters, which are not predicated upon a competitive threat.⁶⁷ Vantage has seen no evidence of the competitive threats that would justify such an extension to "reasons" why a CSA should be offered to a customer. We suggest that the KPSC evaluate this portion of the Joint Industry Proposal extensively before any concurrence.

Finally, Vantage believes there is no reason to support a change to the current TRP CSA filing and review, approval provisions.

IV-R4 The KPSC should make the TRP permanent and address any modifications needed in the future as issues arise. (Refer to Finding IV-F7.)

Vantage suggests that the KPSC carefully review BellSouth's request to eliminate the TRP term period. There is clearly a strong argument that after three years of success there is no need for another "probationary period". Further, a three-year period is subjective.

However there are advantages to establishing a new term of some duration. When a review is conducted at that time, a snapshot picture of the marketplace is captured. As exhibited over the past three-years the TRP has been in effect, numerous issues have been considered by the KPSC in both formal hearings and industry workshops. There is no reason to believe that course of action will not continue for the foreseeable future, certainly for the next three years. As such, the requirement for a three-year review provides for a timely breather from the otherwise hectic pace of both KPSC and marketplace activity. It allows for a formal review and assessment of events that have occurred in the past three years and assess their implications to the structure of the TRP on a continuing basis.

One consideration is to have BellSouth – Kentucky provide an annual assessment of competition in its service territory, with details on lines lost, broad band implementation, and other relevant statistics.

IV-R5 BellSouth – Kentucky and the Commission should review existing statutes to determine if there are any outdated regulations in effect. (Refer to Finding IV F3, and F7.)

During interviews, BellSouth management indicated that some regulations such as “278.170 – Discrimination as to rates or service – Free or reduced rates” may no longer be appropriate for the Telco industry. While Vantage has not performed an analysis of the intent or alleged issues with the statute, we raise the question for informational reasons.

V. APPENDICES

APPENDIX A

End-User Switched Access Lines Served by Reporting Local Exchange Carriers
(As of June 30, 2003)

State	ILECs	CLECs	Total	CLEC Share
Alabama	2,183,237	234,330	2,417,567	10 %
Alaska	430,339	*	*	*
Arizona	2,700,186	519,128	3,219,314	16
Arkansas	1,220,542	*	*	*
California	20,645,363	3,046,959	23,692,322	13
Colorado	2,557,814	495,007	3,052,821	16
Connecticut	2,215,546	234,372	2,449,918	10
Delaware	503,681	53,473	557,154	10
District of Columbia	772,587	174,584	947,171	18
Florida	10,133,865	1,537,632	11,671,497	13
Georgia	4,308,760	827,841	5,136,601	16
Hawaii	707,634	*	*	*
Idaho	687,342	33,864	721,206	5
Illinois	6,741,172	1,616,765	8,357,937	19
Indiana	3,327,235	348,159	3,675,394	9
Iowa	1,296,148	195,860	1,492,008	13
Kansas	1,186,953	318,862	1,505,815	21
Kentucky	2,024,894	97,288	2,122,182	5
Louisiana	2,251,091	212,363	2,463,454	9
Maine	721,077	70,275	791,352	9
Maryland	3,250,282	379,961	3,630,243	10
Massachusetts	3,561,688	846,276	4,407,964	19
Michigan	4,819,294	1,384,973	6,204,267	22
Minnesota	2,572,413	534,965	3,107,378	17
Mississippi	1,235,339	93,912	1,329,251	7
Missouri	3,067,732	334,319	3,402,051	10
Montana	500,865	17,473	518,338	3
Nebraska	775,829	190,754	966,583	20
Nevada	1,304,641	132,684	1,437,325	9
New Hampshire	692,777	136,510	829,287	16
New Jersey	5,389,747	1,009,996	6,399,743	16
New Mexico	940,232	*	*	*
New York	9,019,394	3,478,918	12,498,312	28
North Carolina	4,682,253	443,600	5,125,853	9
North Dakota	280,507	*	*	*
Ohio	6,131,768	754,020	6,885,788	11
Oklahoma	1,679,984	217,854	1,897,838	11
Oregon	1,871,970	167,965	2,039,935	8
Pennsylvania	6,848,086	1,413,458	8,261,544	17
Puerto Rico	1,212,779	*	*	*
Rhode Island	491,682	167,714	659,396	25
South Carolina	2,143,712	192,934	2,336,646	8
South Dakota	296,879	49,243	346,122	14
Tennessee	3,042,739	346,060	3,388,799	10
Texas	10,451,045	2,266,028	12,717,073	18
Utah	1,019,089	235,170	1,254,259	19
Vermont	372,238	*	*	*
Virgin Islands	71,132	0	71,132	0
Virginia	4,021,042	738,479	4,759,521	16
Washington	3,452,669	386,104	3,838,773	10
West Virginia	911,882	*	*	*
Wisconsin	2,953,647	526,343	3,479,990	15
Wyoming	241,316	*	*	*
Nationwide	155,922,118	26,890,594	182,812,712	15 %

Note: Carriers with under 10,000 lines in a state were not required to report.

* Data withheld to maintain firm confidentiality

APPENDIX B

BellSouth Transition Regulation Plan Proposed Infrastructure Deployment (Sort by County)

Item No. 4
Attachment
Page 1 of 1

County No.	County	Wire Center	CLLI Codes	Deployment Year	KREDA County	KCTCS Location
1	Anderson	LAWRENCEBURG	LRBGKYMA	2002		Y
2	Bell	MIDDLESBORO	MDBOKYMA	2001	Y	Y
3	Bourbon	PARIS	PARSKYMA	2002		
4	Boyle	DANVILLE	DAVLKYMA	2001		Y
5	Calloway	MURRAY	MRRYKYMA	2001		
6	Carroll	CARROLLTON	CRTNKYMA	2002		Y
7	Christian	HOPKINSVILLE	HPVLKYMA	2000		Y
	Christian	OAK GROVE	OKGVKYES	2001		Y
8	Clark	WINCHESTER	WNCHKYMA	2000		
9	Daviess	OWENSBORO	OWBOKYMA	2000		Y
10	Floyd	PRESTONSBURG	PRBGKYES	2002	Y	Y
11	Franklin	FRANKFORT-EAST	FRFTKYES	2002		
	Franklin	FRANKFORT-MAIN	FRFTKYMA	2000		
12	Graves	MAYFIELD	MYFDKYMA	2001	Y	
13	Hardin	ROSE TERRACE	RSTRKYES	2002		Y
14	Harlan	HARLAN	HRLNKYMA	2002	Y	Y
15	Henderson	HENDERSON	HNSNKYMA	2000		Y
16	Hopkins	MADISONVILLE	MDVIKYMA	2000	Y	Y
17	Johnson	PAINTSVILLE	PNVLKYMA	2001	Y	Y
18	Letcher	WHITESBURG	WHBGKYMA	2002	Y	Y
19	Madison	RICHMOND	RCMDKYMA	2000		
20	Marshall	BENTON	BNTNKYMA	2002	Y	
21	McCracken	PADUCAH-LONE OAK	PDCHKYLO	2001		Y
	McCracken	PADUCAH-MAIN	PDCHKYMA	2000		Y
	McCracken	PADUCAH-REIDLAND	PDCHKYRL	2002		Y
22	Mercer	HARRODSBURG	HDBGKYMA	2002		
23	Montgomery	MOUNT STERLING	MTSTKYMA	2001		
24	Muhlenberg	GREENVILLE	GNVLKYMA	2002	Y	Y
25	Nelson	BARDSTOWN	BRTWKYES	2002	Y	
26	Pike	PIKEVILLE-MAIN	PKVLKYMA	2000	Y	Y
27	Scott	GEORGETOWN	GRTWKYMA	2002		
28	Shelby	SHELBYVILLE	SHVLKYMA	2001		
29	Simpson	FRANKLIN	FKLNKYMA	2002		
30	Warren	BOWLING GREEN	BWLGTKYMA	2000		Y
31	Whitley	CORBIN	CIRBNKYMA	2001	Y	

APPENDIX C

		Kentucky Rank in BellSouth Region on Market Share Loss at 12/31/2003															AL	BST-AL
State	KY	Residence 2nd Business 8th Total Lines Tied for 4th with 2 other States.															FL	BST-FL
Study Area	BST-KY																	
																KY	BST-KY	
Item 3a.																		
Class of Service	Description	12/31/2001	6/30/2002	12/31/2002	1/31/2003	2/28/2003	3/31/2003	4/30/2003	5/31/2003	6/30/2003	7/31/2003	8/31/2003	9/30/2003	10/31/2003	11/30/2003	12/31/2003		
Res	CLEC Owned (est.) - Res	5,552	14,751	28,147	31,566	34,692	36,628	41,434	43,116	43,724	43,618	43,950	48,966	50,686	51,790	52,876		
Res	CLEC Wholesale - Res	25,934	30,924	54,598	58,830	64,584	70,406	76,386	82,710	88,825	94,415	98,139	102,848	110,308	115,969	118,559		
Res	CLEC Total Res	31,486	45,675	82,745	90,396	99,276	107,034	117,820	125,826	132,549	138,033	142,089	151,814	160,994	167,759	171,435		
Res	Retail - Res	859,601	841,622	796,937	790,215	785,427	777,047	766,978	756,063	746,408	736,760	729,497	722,001	711,512	703,501	696,430		
Bus	CLEC Owned (est.) - Bus	26,245	31,124	49,511	50,112	52,061	52,748	53,803	55,941	57,664	59,154	60,034	60,926	61,400	60,564	60,476		
Bus	CLEC Wholesale - Bus	34,418	37,747	38,336	38,546	38,616	38,713	39,626	40,042	40,255	40,159	40,481	41,088	41,758	42,573	42,960		
Bus	CLEC Total Bus	60,663	68,871	87,847	88,658	90,677	91,461	93,429	95,983	97,919	99,313	100,515	102,014	103,158	103,137	103,436		
Bus	Retail - Bus	348,700	339,150	335,280	334,421	333,706	333,550	332,265	329,446	325,919	319,594	318,539	317,866	316,729	315,267	314,185		
Res	Res Wireline Market	891,087	887,297	879,682	880,611	884,703	884,081	884,798	881,889	878,957	874,793	871,586	873,815	872,506	871,260	867,865		
Bus	Bus Wireline Market	409,363	408,021	423,127	423,079	424,383	425,011	425,694	425,429	423,838	418,907	419,054	419,880	419,887	418,404	417,621		
Res + Bus	Total Wireline Market	1,300,450	1,295,318	1,302,809	1,303,690	1,309,086	1,309,092	1,310,492	1,307,318	1,302,795	1,293,700	1,290,640	1,293,695	1,292,393	1,289,664	1,285,486		
Class of Service	Description	12/31/2001	6/30/2002	12/31/2002	1/31/2003	2/28/2003	3/31/2003	4/30/2003	5/31/2003	6/30/2003	7/31/2003	8/31/2003	9/30/2003	10/31/2003	11/30/2003	12/31/2003		
Res	CLEC Market Share - Res	4%	5%	9%	10%	11%	12%	13%	14%	15%	16%	16%	17%	18%	19%	20%		
Bus	CLEC Market Share - Bus	15%	17%	21%	21%	21%	22%	22%	23%	23%	24%	24%	24%	25%	25%	25%		
Res + Bus	CLEC Total Market Share	7%	9%	13%	14%	15%	15%	16%	17%	18%	18%	19%	20%	20%	21%	21%		
Class of Service	Description	12/31/2001	6/30/2002	12/31/2002	1/31/2003	2/28/2003	3/31/2003	4/30/2003	5/31/2003	6/30/2003	7/31/2003	8/31/2003	9/30/2003	10/31/2003	11/30/2003	12/31/2003		
Res	CLEC Owned (est.) - Res	5,552	14,751	28,147	31,566	34,692	36,628	41,434	43,116	43,724	43,618	43,950	48,966	50,686	51,790	52,876		
Bus	CLEC Wholesale - Res	25,934	30,924	54,598	58,830	64,584	70,406	76,386	82,710	88,825	94,415	98,139	102,848	110,308	115,969	118,559		
Res + Bus	CLEC Total Res	31,486	45,675	82,745	90,396	99,276	107,034	117,820	125,826	132,549	138,033	142,089	151,814	160,994	167,759	171,435		
Class of Service	Description	12/31/2001	6/30/2002	12/31/2002	1/31/2003	2/28/2003	3/31/2003	4/30/2003	5/31/2003	6/30/2003	7/31/2003	8/31/2003	9/30/2003	10/31/2003	11/30/2003	12/31/2003		
Res	CLEC Owned (est.) - Bus	26,245	31,124	49,511	50,112	52,061	52,748	53,803	55,941	57,664	59,154	60,034	60,926	61,400	60,564	60,476		
Bus	CLEC Wholesale - Bus	34,418	37,747	38,336	38,546	38,616	38,713	39,626	40,042	40,255	40,159	40,481	41,088	41,758	42,573	42,960		
Res + Bus	CLEC Total Bus	60,663	68,871	87,847	88,658	90,677	91,461	93,429	95,983	97,919	99,313	100,515	102,014	103,158	103,137	103,436		
	Total est. CLEC Lines	92,149	114,546	170,592	179,054	189,953	198,495	211,249	221,809	230,468	237,346	242,604	253,828	264,152	270,896	274,871		

	Description	12/31/2001	6/30/2002	12/31/2002	1/31/2003	2/28/2003	3/31/2003	4/30/2003	5/31/2003	6/30/2003	7/31/2003	8/31/2003	9/30/2003	10/31/2003	11/30/2003	12/31/2003
Alabama	CLEC Market Share - Res	4%	4%	8%	8%	9%	9%	10%	10%	10%	11%	11%	12%	13%	14%	14%
	CLEC Market Share - Bus	25%	27%	29%	29%	29%	30%	30%	31%	31%	32%	32%	32%	33%	33%	33%
	CLEC Total Market Share	11%	12%	15%	15%	16%	16%	17%	17%	17%	18%	18%	19%	20%	20%	21%
Florida	CLEC Market Share - Res	8%	11%	12%	12%	13%	13%	13%	13%	13%	14%	14%	13%	13%	13%	14%
	CLEC Market Share - Bus	28%	30%	32%	32%	33%	33%	33%	34%	34%	35%	34%	35%	36%	36%	37%
	CLEC Total Market Share	15%	18%	19%	19%	20%	20%	20%	20%	21%	21%	21%	21%	22%	22%	22%
Georgia	CLEC Market Share - Res	11%	14%	17%	17%	18%	18%	18%	19%	19%	20%	20%	20%	21%	21%	21%
	CLEC Market Share - Bus	31%	32%	33%	34%	34%	34%	34%	35%	36%	36%	36%	36%	37%	36%	36%
	CLEC Total Market Share	19%	22%	23%	24%	24%	24%	25%	25%	26%	26%	27%	27%	27%	28%	28%
Louisiana	CLEC Market Share - Res	4%	5%	8%	8%	9%	9%	10%	10%	10%	11%	11%	12%	12%	13%	13%
	CLEC Market Share - Bus	19%	24%	23%	23%	24%	24%	24%	25%	26%	27%	27%	28%	28%	29%	29%
	CLEC Total Market Share	9%	11%	13%	13%	14%	14%	15%	15%	16%	16%	17%	17%	18%	18%	19%
Mississippi	CLEC Market Share - Res	5%	6%	8%	9%	9%	10%	10%	10%	11%	11%	11%	12%	13%	14%	14%
	CLEC Market Share - Bus	12%	16%	17%	18%	18%	18%	19%	20%	21%	22%	22%	22%	22%	23%	23%
	CLEC Total Market Share	8%	9%	11%	12%	12%	12%	13%	14%	14%	15%	15%	15%	16%	16%	17%
North Carolina	CLEC Market Share - Res	4%	4%	6%	6%	7%	7%	7%	8%	8%	8%	8%	8%	9%	9%	9%
	CLEC Market Share - Bus	25%	29%	33%	33%	34%	34%	34%	35%	36%	36%	37%	38%	38%	39%	39%
	CLEC Total Market Share	12%	14%	17%	17%	18%	18%	18%	19%	19%	20%	20%	21%	21%	21%	22%
South Carolina	CLEC Market Share - Res	4%	5%	6%	7%	7%	8%	8%	8%	9%	9%	9%	9%	10%	10%	10%
	CLEC Market Share - Bus	14%	26%	30%	30%	30%	30%	31%	32%	32%	33%	33%	34%	34%	35%	35%
	CLEC Total Market Share	7%	12%	15%	15%	15%	16%	16%	17%	17%	17%	18%	18%	19%	19%	19%
Tennessee	CLEC Market Share - Res	2%	2%	4%	5%	5%	5%	6%	6%	6%	7%	7%	7%	8%	8%	9%
	CLEC Market Share - Bus	32%	33%	34%	35%	35%	36%	38%	38%	39%	39%	40%	41%	41%	42%	42%
	CLEC Total Market Share	12%	13%	15%	15%	15%	16%	17%	17%	18%	18%	19%	19%	20%	20%	21%

APPENDIX D

DR #55 Provide for the following rate elements, the price at the time the TRP went into effect and a complete price history since then to now. For each price increase, provide the BellSouth reasoning for such an increase.

1. 1FB
2. Custom Calling Services (A13.9.3A and A13.9.3B)
3. Band Zone Charges (A3.9.3.4)
4. Complete Choice for Business (A3.45.2A)

Response Attached is a summary of the rate changes requested. The effective dates for these rate changes were 9/1/00, 10/1/00, 10/20/01, 1/2/02, 10/13/02, and 1/16/03. The reasons for each rate change (which are included in the respective filing packages provided in the response to 1-15) are as follows (No changes have been made to zone charges):

9/1/00:

- Increased per use rates for three features, revenue increase to be offset with reduction in Non Traffic Sensitive Revenue Requirement.

10/1/2000

- Rebalance filing – please see response to # 54.

10/20/01:

- Rebalance filing – please see response to # 54.

1/2/02:

- More closely align the rates with the value we perceive that they carry in the marketplace.
- Enhance the comparable value of BellSouth's packaged services that include these or similar services, since package rates were not increased.

10/13/02:

- Rebalance filing – please see response to # 54.

DR #55. Continued

1/16/03:

- More closely align the rates with the value we perceive that they carry in the marketplace.
- The rates proposed for Call Waiting, Call Forwarding Variable, Three-Way Calling, Speed Calling - 8, and Call Return were identified as "Target Prices" in the Settlement Proposal filed with the Commission on May 3, 2000 in Case # 99-434.

Name of the Service	Old Rate	New Rate	Effective date
Consumer and Business			
Call Return per use	\$ 0.75	\$ 0.80	9/1/2000
Repeat Dialing / Busy Connect per use	\$ 0.75	\$ 0.80	9/1/2000
Three Way per use	\$ 0.75	\$ 0.80	9/1/2000
Consumer			
Flat Rate Residence			
Rate Group 1	\$12.17	\$12.77	10/1/2000
Rate Group 2	\$13.02	\$13.67	10/1/2000
Rate Group 3	\$13.69	\$14.37	10/1/2000
Rate Group 4	\$14.34	\$15.05	10/1/2000
Rate Group 5	\$17.55	\$18.40	10/1/2000
Exception	\$14.50	\$15.22	10/1/2000
Two-Party Residence			
Rate Group 1	\$9.38	\$9.84	10/1/2000
Rate Group 2	\$10.02	\$10.52	10/1/2000
Rate Group 3	\$10.52	\$11.04	10/1/2000
Rate Group 4	\$11.01	\$11.56	10/1/2000
Rate Group 5	\$13.41	\$14.08	10/1/2000
Exception	\$11.13	\$11.68	10/1/2000
Standard Measured			
Rate Group 1	\$9.38	\$9.84	10/1/2000
Rate Group 2	\$10.02	\$10.52	10/1/2000
Rate Group 3	\$10.52	\$11.04	10/1/2000
Rate Group 4	\$11.01	\$11.56	10/1/2000
Rate Group 5	\$13.41	\$14.08	10/1/2000
Low Usage Measured			
Rate Group 1	\$6.59	\$6.91	10/1/2000

Rate Group 2	\$7.01	\$7.36	10/1/2000
Rate Group 3	\$7.34	\$7.70	10/1/2000
Rate Group 4	\$7.67	\$8.05	10/1/2000
Rate Group 5	\$9.27	\$9.73	10/1/2000

Area Calling Service, Access Line (without LUD)

Rate Group 1	\$9.00	\$9.45	10/1/2000
Rate Group 2	\$9.00	\$9.45	10/1/2000
Rate Group 3	\$9.00	\$9.45	10/1/2000
Rate Group 4	\$9.00	\$9.45	10/1/2000
Rate Group 5	\$10.50	\$11.02	10/1/2000

Area Calling Service, Access Line (with LUD)

Rate Group 1	\$10.00	\$10.50	10/1/2000
Rate Group 2	\$10.00	\$10.50	10/1/2000
Rate Group 3	\$10.00	\$10.50	10/1/2000
Rate Group 4	\$10.00	\$10.50	10/1/2000
Rate Group 5	\$11.50	\$12.07	10/1/2000

Area Calling Service, Premium Calling

Premium Usage Calling Package	\$20.00	\$21.00	10/1/2000
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Area Calling Service, Premium Calling Access Line

Rate Group 1	\$9.00	\$9.45	10/1/2000
Rate Group 2	\$9.00	\$9.45	10/1/2000
Rate Group 3	\$9.00	\$9.45	10/1/2000
Rate Group 4	\$9.00	\$9.45	10/1/2000
Rate Group 5	\$10.50	\$11.02	10/1/2000

BUSINESS

Business one party flat rate line

RG1	\$35.00	\$35.90	10/20/2001
RG4	\$35.90	\$33.75	10/20/2001
RG5	\$35.25	\$33.75	10/20/2001
Exception Exchanges	\$35.90	\$33.75	10/20/2001

BellSouth® Complete Choice® For Business Package - Option 1

Each 2 Line Package	\$ 150.00	\$ 148.00	10/20/2001
Each 3 Line Package	\$ 217.00	\$ 213.00	10/20/2001
Each 4 Line Package	\$ 284.00	\$ 268.00	10/20/2001
Each 5 Line Package	\$ 350.00	\$ 321.00	10/20/2001
Each 6 Line Package	\$ 417.00	\$ 374.00	10/20/2001
Each 7 Line Package	\$ 485.00	\$ 426.00	10/20/2001
Each 8 Line Package	\$ 552.00	\$ 479.00	10/20/2001

Each 9 Line Package	\$ 620.00	\$ 532.00	10/20/2001
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CONSUMER*Residence one party flat rate line*

RG1	\$12.77	\$14.10	10/20/2001
RG2	\$13.67	\$14.10	10/20/2001
RG3	\$14.37	\$15.36	10/20/2001
RG4	\$15.05	\$16.10	10/20/2001
Exception Exchanges	\$15.22	\$16.10	10/20/2001

CONSUMER

Call Waiting	\$ 3.65	\$ 4.50	1/2/2002
Caller ID Deluxe	\$ 7.50	\$ 7.95	1/2/2002
BellSouth Essentials* Package	\$ (3.05)	\$ (3.90)	1/2/2002

BUSINESS*Custom Calling Services*

Call Waiting	\$ 4.40	\$ 7.00	1/2/2002
Call Forward Variable -Multipath	\$ 3.55	\$ 5.00	1/2/2002

CONSUMER and BUSINESS PER USE**VERTICALS**

Call Return	\$ 0.80	\$ 0.90	1/2/2002
Repeat Dialing/ BusyConnect	\$ 0.80	\$ 0.90	1/2/2002
Per Use Three-Way Calling Service	\$ 0.80	\$ 0.90	1/2/2002

*Residence local exchange increases***Flat Rate**

Rate Group 1	\$ 14.10	\$ 15.20	10/13/2002
Rate Group 2	\$ 14.10	\$ 15.20	10/13/2002
Rate Group 3	\$ 15.36	\$ 16.65	10/13/2002
Rate Group 4	\$ 16.10	\$ 17.30	10/13/2002
Exception Exchanges	\$ 16.10	\$ 17.30	10/13/2002

Residence

BellSouth Twenty-five cent call plan; monthly rate, per Residence line	\$ 4.95	\$ 6.95	12/12/2002
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BELLSOU COMPL CHOICE PLAN 1 PKG

EACH 1 LINE PACKAGE	\$81.00	\$75.00	10/13/2002
EACH 2 LINE PACKAGE	\$148.00	\$136.00	10/13/2002
EACH 3 LINE PACKAGE	\$213.00	\$196.00	10/13/2002
EACH 4 LINE PACKAGE	\$268.00	\$247.00	10/13/2002
EACH 5 LINE PKG	\$321.00	\$295.00	10/13/2002
EACH 6 LINE PKG	\$374.00	\$344.00	10/13/2002
EACH 7 LINE PKG	\$426.00	\$392.00	10/13/2002
EACH 8 LINE PKG	\$479.00	\$441.00	10/13/2002
EACH 9 LINE PKG	\$532.00	\$489.00	10/13/2002

BELLSOU COMPL CHOICE PLAN 2 PKG

EACH 1 LINE PACKAGE	\$56.00	\$52.00	10/13/2002
EACH 2 LINE PACKAGE	\$100.00	\$92.00	10/13/2002
EACH 3 LINE PACKAGE	\$142.00	\$131.00	10/13/2002
EACH 4 LINE PACKAGE	\$179.00	\$165.00	10/13/2002
EACH 5 LINE PKG	\$215.00	\$198.00	10/13/2002
EACH 6 LINE PKG	\$252.00	\$232.00	10/13/2002
EACH 7 LINE PKG	\$290.00	\$267.00	10/13/2002
EACH 8 LINE PKG	\$327.00	\$301.00	10/13/2002
EACH 9 LINE PKG	\$365.00	\$336.00	10/13/2002

BELLSOU COMPL CHOICE FLAT RATE

BUS FLAT LN 1 LINE PKG	\$56.00	\$52.00	10/13/2002
BUS FLAT LN 2 LINE PKG	\$100.00	\$92.00	10/13/2002
BUS FLAT LN 3 LINE PKG	\$142.00	\$131.00	10/13/2002
BUS FLAT LN 4 LINE PKG	\$179.00	\$165.00	10/13/2002
BUS FLAT LN 5 LINE PKG	\$215.00	\$198.00	10/13/2002
BUS FLAT LN 6 LINE PKG	\$252.00	\$232.00	10/13/2002
BUS FLAT LN 7 LINE PKG	\$290.00	\$267.00	10/13/2002
BUS FLAT LN 8 LINE PKG	\$327.00	\$301.00	10/13/2002
BUS FLAT LN 9 LINE PKG	\$365.00	\$336.00	10/13/2002

CUSTOM CALLING SVCS - BUSINESS

CALL WAITING	\$7.00	\$6.00	10/13/2002
CALL FORWARDING VARIABLE	\$4.40	\$4.00	10/13/2002
THREE-WAY CALLING	\$4.40	\$4.00	10/13/2002
SPEED CALLING, 8 CODE	\$4.40	\$4.00	10/13/2002
SPEED CALLING, 30 CODE	\$5.50	\$5.00	10/13/2002
CALL FWD BUSY LINE	\$3.85	\$3.00	10/13/2002
CALL FWD DONT ANSWER	\$3.85	\$3.00	10/13/2002
CUST CTRL CFBL	\$7.40	\$6.95	10/13/2002
CUST CTRL CFDA	\$7.00	\$6.00	10/13/2002
CFBL MULTPTH, CC CFBL MP	\$3.55	\$3.55	10/13/2002
CFDA MULTPTH, CC CFDA MP	\$3.55	\$3.55	10/13/2002
CFV MULTPTH, RC CFV	\$5.00	\$5.00	10/13/2002
REMOTE ACC - CFV	\$9.35	\$8.25	10/13/2002
CFDA - RING CONTROL	\$3.85	\$3.20	10/13/2002
3WAY CALLING W/TRANSFER	\$6.00	\$5.00	10/13/2002

TOUCHSTAR SERVICE - BUSINESS

CALL RETURN, PER LINE	\$5.20	\$4.75	10/13/2002
REPEAT DIALING, PER LINE	\$4.95	\$4.75	10/13/2002
CALL SELECTOR, PER LINE	\$4.95	\$4.75	10/13/2002
PREF CALL FWD, PER LINE	\$4.95	\$4.75	10/13/2002
CALL BLOCK, PER LINE	\$4.95	\$4.75	10/13/2002
CALL TRACING, PER LINE	\$5.50	\$5.00	10/13/2002
CALLER ID-BASIC, PER LI	\$9.05	\$8.30	10/13/2002

CID-DELUX W/ACR /LINE	\$10.00	\$8.50	10/13/2002
CID-DELUX WO/ACR/LN MLHG	\$10.00	\$8.50	10/13/2002
ECID WO/ACR	\$15.95	\$13.95	10/13/2002
ANONYMOUS CALL REJCTN/LI	\$4.40	\$4.00	10/13/2002

Residence Verticals

Call Waiting	\$ 4.50	\$ 5.50	1/16/2003
Call Forwarding Variable	\$ 3.60	\$ 4.00	1/16/2003
Three-Way Calling	\$ 3.60	\$ 5.00	1/16/2003
Speed Calling 8 Code	\$ 3.60	\$ 4.00	1/16/2003
Speed Calling 30 Code	\$ 4.10	\$ 4.50	1/16/2003
Call Waiting Deluxe	\$ 6.00	\$ 6.50	1/16/2003
RingMaster® I Service	\$ 3.95	\$ 5.00	1/16/2003
RingMaster® II Service	\$ 5.95	\$ 7.00	1/16/2003
Call Return, Per Line	\$ 4.40	\$ 5.00	1/16/2003
BellSouth Essentials * Package	\$ (3.90)	\$ (5.50)	1/16/2003

APPENDIX E

WORKPLAN

The work plan is modeled on the September 10, 2003 memo from the Commission Staff to the Commissioners, which was subsequently referenced in the September 17, 2003 letter selecting Vantage. It has been interpreted by Vantage, to create specific work steps and a budget. We believe our work plan meets all of the requirements of the base documents.

We have organized the work plan into five tasks that correspond with the five areas of inquiry in the September 10th letter.

TASK I CAPITAL SPENDING AND BROADBAND

This broad area of inquiry will seek to evaluate the direction of, and the effectiveness of, BellSouth's capital investment during the TRP (with particular emphasis on broadband deployment). Central questions to be addressed are how much investment has been made, the appropriateness of this investment in light of changes in the telecommunications marketplace since the previous audit, service quality impacts (if any) given the capital investment (i.e. has service degraded due to decreased investment?), the reach of broadband deployment, and what BellSouth's future plans are for further deployment.

Evaluative Criteria

- A detailed plan should be in place to ensure that the maximum number of customers are ultimately served.
- Future plans for broadband deployment should consider competitive threats.
- Migration strategies should be considered such as movements from copper to fiber products.
- The impact on take rates of the various BellSouth service offerings, the types of services being offered and access line (landline) loss due to the deployment of broadband should be understood.
- The plan should clearly articulate where and why broadband is being deployed.

Work Steps

1. Capital budgeting and spending
 - 1.1. Determine the level of net capital investment (as noted in the August 8, 2000 order, account for "associated carrying charges and attributable revenues") including the DSL deployment that has occurred during the TRP period.
 - 1.2. Provide a comparison of budgeted and actual DSL investment in Kentucky with that in BellSouth's other states, including an explanation of the differences.
 - 1.3. Assess the reasonableness of the net capital investment focusing on the DSL deployment

- 1.4. Detail the capital investment by wire center
2. DSL Investments
 - 2.1. Identify total number of DSL ports available and associated utilization.
 - 2.2. Calculate a 'per available DSL port' investment.
 - 2.3. Identify total number of DSL capable access lines and calculate a 'per DSL' capable access line investment.
3. Determine the extent to which broadband services are available to BellSouth customers from other sources, including wireless, cable and satellite.
 - 3.1. Conduct interviews where possible, with CLECs, wireless, cable and satellite providers
 - 3.2. Utilize secondary research to augment primary interviews and data gathering
 - 3.3. Detail strengths, weaknesses and relative costs of alternatives
4. Determine the effects and implications of broadband deployment over the last four years, by BellSouth and its competitors on the take rates of the various BellSouth service offerings, the types of services being offered and access line (landline) loss.
 - 4.1. Utilize industry estimates, BellSouth research and Vantage analysis to assess the impact on take rates. Disaggregate the information as much as possible (i.e. rural, urban exchanges).

TASK II SERVICE QUALITY

This Inquiry Area will evaluate BellSouth's service objectives and performance levels. It will seek to identify changing levels of customer service for POTS and for broadband customers, as well as between urban and rural customers (or more specifically low density and high density service areas). It will attempt to identify not only changes in service levels (if any) but also the drivers of the changes.

Evaluative Criteria

- The impact on POTS service quality due to broadband implementation should be understood.
- Performance levels under TRP should have improved or at a minimum not declined.
- Annual outside plant investment and assigned personnel should be adequate not only for POTS but also for the new broadband requirements.
- Performance levels and internal service objectives should be comparable for POTS customers and broadband customers.

Work Steps

1. Service Objectives and Quality of Service levels.
 - 1.1. Compare performance levels during the TRP period with performance levels under prior price regulation plan.
 - 1.2. Identify exchanges that have missed service objectives more than 2 consecutive times during the TRP period.
 - 1.3. Analyze and compare the annual outside plant investment in these exchanges that occurred during the prior price regulation plan with the TRP period.
 - 1.4. Analyze and compare the number of outside plant personnel assigned to these exchanges at the beginning of the TRP period and at present.
 - 1.5. Analyze and compare customer complaint levels during the TRP period and during the prior price regulation plan.
 - 1.6. Calculate number of complaints per access line for each exchange for every year of the TRP and compare with prior price regulation plan levels.
2. Evaluate service quality under the TRP.
 - 2.1. Compare and contrast performance levels and internal service objectives for POTS customers and for broadband customers. Of specific concern is whether POTS customer service has suffered as greater emphasis is being placed upon broadband and other high-end technical service offerings.
 - 2.2. Compare metrics in exchanges where broadband is available with exchanges where it is not.
 - 2.3. Identify dispatch table parameters used for BellSouth broadband, CLEC broadband and POTS customers.
 - 2.4. Identify the work groups used for the broadband installations and POTS.
 - 2.5. Identify escalation procedures for Out of Service, new installations and other troubles. Compare POTS to broadband (determine if broadband gets an unreasonable allocation of resources).
 - 2.6. Evaluate repair and repeat trends as an indicator of, among other things, plant deterioration. Give special attention to rural or low growth potential wirecenters.
 - 2.7. Determine how plant deterioration in certain territories plays into the broadband deployment strategy (how is plant maintained in wire centers scheduled for significant rehabilitation or replacement).

TASK III TARIFF AND SERVICE PRICING

The original Audit recommended that BellSouth should work with the Commission to undertake several proceedings with the aim of eliminating implicit/explicit subsidies from BellSouth's rates, establishing de-averaged recurring UNEs and modifying nonrecurring rates. The Commission, through Administrative Case 382, established both recurring and nonrecurring rates for UNEs and through the TRP allowed BellSouth to increase basic local service rates to reduce the amount of subsidy in the rate structure. From a global perspective, evaluate how these proceedings fulfill the goal.

Evaluative Criteria

- Discrete efforts should have been taken to eliminate implicit/explicit subsidies.
- BellSouth should have increased basic local service residential rates in order to reduce the amount of subsidy in the rate structure.
- The tariff and pricing changes made by BellSouth should clearly meet the intent of the Commission in the TRP.

Work Steps

1. In the retail basket, with the exception of basic local service, BellSouth was given great latitude in pricing.
 - 1.1. Evaluate the tariff changes made by BellSouth.
 - 1.2. Determine the reasonableness of basic rates for residential and single line business customers.
 - 1.3. Analyze the changes in retail rates that have occurred during the TRP period for both business and residential customers.
 - 1.4. Show the beginning, ending and net change in rates for basic residential service and single-line business service, including any applicable zone charges for each rate group.
 - 1.5. Show the beginning, ending and net change in rates for each optional custom calling service on a stand-alone basis and, if applicable, discounted as part of a packaged offering.
 - 1.6. Identify changes made that were in response to competitive pressures. Were changes made that enhanced the competitiveness of BellSouth and the marketplace as a whole?
 - 1.7. Determine how effectively BellSouth used its pricing flexibility? Were any changes made (with the exception of those mandated by the Commission) that effectively rebalanced rates?

- 1.8. Consider the reasonableness of initiating pricing differentiation for the Louisville service area (Metro pricing).
2. The Commission recently addressed a consumer complaint as to the level of BellSouth's Band Zone Charges. The Commission's decision in that case was to defer any changes to BellSouth's Band Zone Charges until it reviewed the TRP and address any changes in context with changes in the plan.
 - 2.1. Determine if Band Zone Charges are appropriate for the current environment?
3. KRS 278.512 provides a means that telecommunications providers may petition the Commission to exempt a service from regulation by the Commission.
 - 3.1. Determine how effectively BellSouth has utilized this statute and should any services offered by BellSouth be exempt from the Commission's jurisdiction?

TASK IV STRATEGIC PLANNING AND COMPETITION

This Inquiry Area will evaluate BellSouth's strategic planning and serve to tie together the other Inquiry Areas from a strategic planning (forward looking) perspective. In this section we will "pull it all together" in an evaluation of the outgrowth and success of the PRP, BellSouth service performance and future outlooks.

Evaluative Criteria

- Strategic planning should adequately address the impact of the PRP/TRP in meeting overall corporate objectives.
- The strategic plan should be well defined with specific references to the TRP.
- The strategic plan, and in particular the aggressive broadband rollout, should not conflict with broader BellSouth objectives.

Work Steps

1. Strategic Planning in Kentucky
 - 1.1. Evaluate BellSouth's strategic planning in terms of capital investment (including broadband deployment), changing levels of service and service quality (including customer satisfaction), and changes in service offerings and service prices, all of which are designed, in part, to meet perceived competitive threats.
 - 1.2. Address the issue of line losses to BellSouth's own alternative services, as well as to other competitive firms.
 - 1.3. Determine if there are relevant urban versus rural issues that are not being addressed.
2. Regional BellSouth Strategic Planning.

- 2.1. Evaluate the extent to which strategic planning issues specific to Kentucky, exist relative to BellSouth regional strategic planning issues and the extent to which they are addressed.
- 2.2. Determine if there are Kentucky issues that are not being adequately addressed in the overall strategic plan.

TASK V FUTURE COURSE OF ACTION

Evaluative Criteria

- The proposal by BellSouth to not change the TRP should be well founded and supported by qualitative analysis.
- Another scheduled review should be based upon the overall evaluation of the TRP.

Work Steps

1. Forward looking Recommendations.
 - 1.1. Make recommendations for going forward. In particular, evaluate the BellSouth proposal that no changes be made to the plan. Is this in the combined best interest of BellSouth, the consumers and ultimately competition within the state. Do the changes that have occurred since the original plan mean plan changes are necessary?
 - 1.2. Should there be another scheduled review in the future and if so what should trigger the review?

APPENDIX F

DATA REQUEST LISTING WITH FILE REFERENCES

#	Description	Files
1.	Provide copies of BellSouth's Kentucky Annual Report (Form T) for 2000, 2001 and 2002.	1-1 (2000).pdf 1-1 (2001).pdf 1-1 (2002).pdf
2.	Provide the broadband deployment proposal made by BellSouth in the Transition Regulation Plan (TRP).	1-2 (Cover).doc 1-2 (8-1-03 TRP Filing).pdf 1-2 (99-434 FLG Testimony).pdf 1-2 (99-434 Response to Data Requests wo map).pdf 1-2 (99-434 Response).pdf 1-2 (TRP Proposal).pdf
3.	Provide the actual BellSouth-Kentucky broadband deployment by year between 2000 and August 31, 2003 in terms similar to the original broadband deployment proposal made by BellSouth in the TRP.	1-3 (bb deployment00-03).pdf 1-3 cover.pdf
4.	Provide the number of DSL capable access lines available at the end of the years of 2000-2002, and August 31, 2003.	1-4 (DSLcapable).pdf 1-4 cover.pdf
5	Provide BellSouth-Kentucky DSL investment, associated carrying charges, and associated DSL service revenues for each year between 2000 and 2002.	1-5 (DSL).doc
6	Provide the number of DSL ports available and utilized at the end of the years of 2000-2002, and August 31, 2003.	1-6 (DSL Ports).pdf
7.	Provide a comparison in BellSouth's broadband deployment in terms of DSL capable lines versus total access lines among the nine states served by BellSouth.	1-7 Cover.pdf 1-7 (bb comparison).pdf

8.	Provide copies of all State Commission orders and legislative decisions affecting DSL deployment in each of the nine BellSouth states for each year between 2000 and 2003.	1-8 (Cover).doc 1-8 (DSL-Ga).pdf 1-8 (DSL-La).pdf 1-8 (DSL-Miss).pdf 1-8 (DSL-NC).pdf 1-8 (DSL-SC).pdf
9.	Please provide any data that BellSouth has that indicates the availability of broadband services from wireless, cable, and satellite companies in Kentucky.	1-9 cover.pdf BGMU Network.pdf BGMU.pdf Chapel Communications High Speed Wireless.pdf Comcast High Speed Internet Business.pdf Comcast High Speed Internet Pro.pdf Comcast High Speed Internet Products.pdf Comcast High Speed Internet Teleworker.pdf Comcast High Speed Internet Workplace.pdf Comcast High Speed Internet.pdf Comcast Home Networking A.pdf Comcast Home Networking Pricing.pdf Comcast Home Networking.pdf Comcast.pdf connectkentucky map.pdf direcpc.pdf directpc high speed internet access.pdf Hopkinsville EnergyNet Features.pdf Hopkinsville EnergyNet History.pdf Hopkinsville EnergyNet Pricing.pdf Hopkinsville EnergyNet.pdf KCTA Future.pdf Murray Electric.pdf

		OMU High Fiber Optic Network.pdf OMU High Speed Fiber Connection.pdf OMU High Speed Internet Acces.pdf OMU NetCom.pdf OMU Pricing.pdf SET DSL.pdf SET internet services.pdf SET WebHosting.pdf US Wireless.pdf
10.	Provide monthly service objective reports filed with the Kentucky Public Service Commission for the years of 1995-2003.	1-10 (cover).doc 1-10_11 SO 1995 Apr.pdf 1-10_11 SO 1995 Dec.pdf 1-10_11 SO 1995 Feb.pdf 1-10_11 SO 1995 JA.pdf 1-10_11 SO 1995 Jan.pdf 1-10_11 SO 1995 June.pdf 1-10_11 SO 1995 Mar.pdf 1-10_11 SO 1995 May.pdf 1-10_11 SO 1995 Nov.pdf 1-10_11 SO 1995 Oct.pdf 1-10_11 SO 1995 Sept.pdf 1-10_11 SO 1996 Aug.pdf 1-10_11 SO 1996 Dec.pdf 1-10_11 SO 1996 Feb.pdf 1-10_11 SO 1996 Jan.pdf 1-10_11 SO 1996 JJ.pdf 1-10_11 SO 1996 MA.pdf 1-10_11 SO 1996 May.pdf 1-10_11 SO 1996 Nov.pdf 1-10_11 SO 1996 Oct.pdf 1-10_11 SO 1996 Sept.pdf

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		1-10_11 SO - 2000 FM.pdf 1-10_11 SO - 2000 July.pdf 1-10_11 SO - 2000 Oct.pdf 1-10_11 SO - 2001 - AM.pdf 1-10_11 SO - 2001 - JA.pdf 1-10_11 SO - 2001 - JFM.pdf 1-10_11 SO - 2001 - June.pdf 1-10_11 SO - 2001 - ND.pdf 1-10_11 SO - 2001 - SO.pdf 1-10_11 SVCobj - 2002 - Apr.pdf 1-10_11 SVCobj - 2002 - Aug.pdf 1-10_11 SVCobj - 2002 - Dec.pdf 1-10_11 SVCobj - 2002 - JanFeb.pdf 1-10_11 SVCobj - 2002 - JunJuly.pdf 1-10_11 SVCobj - 2002 - Mar.pdf 1-10_11 SVCobj - 2002 - May.pdf 1-10_11 SVCobj - 2002 - Nov.pdf 1-10_11 SVCobj - 2002 - Oct.pdf 1-10_11 SVCobj - 2002 - Sept.pdf 1-10_11 svobj2003-1.pdf 1-10_11 svobj2003-2.pdf 1-10_11 svobj2003-3.pdf 1-10_11 svobj2003-4.pdf 1-10_11 svobj2003-5.pdf 1-10_11 svobj2003-6.pdf 1-10_11 svobj2003-7.pdf
11.	For exchanges where the service objective was missed for two consecutive months, provide an explanation for the misses in those exchanges.	1-11 (cover).doc letterseptandoct.pdf SVCOBJO2.xls Letter5.doc 25(3).xls 25(4).xls

12.	Provide a list of PSC and higher management complaints, identified by exchange, for the years of 1995-2003.	1-12 (cover).doc 1-12(1998Appeals).xls 1-12(Appeals1999).xls 1-12(Appeals2000).xls 1-12(Appeals2001).xls 1-12(Appeals2002).xls 1-12(Appeals2003).xls
13.	Provide the end-of-year Access Services Report (ASR-2) for the years of 1995-2002, and August 31, 2003.	1-13 (Bus).xls 1-13 (CLLI).XLS 1-13 (Coin).xls 1-13 (Cover).doc 1-13 (Res).xls 1-13 (Summary).xls 1-13 (Total).xls
14.	Provide results on any internal measures of customer satisfaction for POTS customers and broadband customers for August 1, 2000 through August 1, 2003.	1-14 (cover-POTS).doc 1-14 (20002001Customer Sat POTS).pdf 1-14(2002 Customer Sat POTS).pdf 1-14(2003 Customer Sat POTS).pdf
15.	Provide copies of all tariff and promotions filed during the years of 2000-2003.	1-15 Promotions 2000 2000-p1.pdf 2000-p2.pdf 2000-p3.pdf 2000-p4.pdf 2000-p5.pdf 2000-p6.pdf 2000-p7.pdf 2000-p8.pdf 2000-p9.pdf 2000-p10.pdf 2000-p11.pdf 2000-p12.pdf 2000-p13.pdf

	<p> 2000-p14.pdf 2000-p15.pdf 2000-p16.pdf 2000-p17.pdf 2000-p18.pdf 2000-p19.pdf 2000-p20.pdf 2000-p21.pdf 2000-p22.pdf 2000-p23.pdf 2000-p24.pdf 2000-p25.pdf 2000-p26.pdf 2000-p27.pdf 2000-p28.pdf 2000-p29.pdf 2000-p30.pdf 2000-p31.pdf 2000-p32.pdf 2000-p33.pdf 2000-p34.pdf 2000-p35.pdf 2000-p36.pdf 2000-p37.pdf 2000-p38.pdf 2000-p39.pdf </p> <p> 1-15 Promotions 2001 2001-p1.pdf 2001-p2.pdf 2001-p3.pdf 2001-p4.pdf </p>
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		2001-p5.pdf 2001-p6.pdf 2001-p7.pdf 2001-p8.pdf 2001-p9.pdf 2001-p10.pdf 2001-p11.pdf 2001-p12.pdf 2001-p13.pdf 2001-p14.pdf 2001-p15.pdf 2001-p16.pdf 2001-p17.pdf 2001-p18.pdf 2001-p19.pdf 2001-p20.pdf 2001-p21.pdf 2001-p22.pdf 2001-p23.pdf 2001-p24.pdf 2001-p25.pdf 2001-p26.pdf 2001-p27.pdf 2001-p28.pdf 2001-p29.pdf 2001-p30.pdf 2001-p31.pdf 2001-p32.pdf 2001-p33.pdf 2001-p34.pdf 2001-p35.pdf 2001-p36.pdf
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		1-15 Promotions 2002 2002-p1.pdf 2002-p2.pdf 2002-p3.pdf 2002-p4.pdf 2002-p5.pdf 2002-p6.pdf 2002-p7.pdf 2002-p8.pdf 2002-p9.pdf 2002-p10.pdf 2002-p11.pdf 2002-p12.pdf 2002-p13.pdf 2002-p14.pdf 2002-p15.pdf 2002-p16.pdf 2002-p17.pdf 2002-p18.pdf 2002-p19.pdf 2002-p20.pdf 2002-p21.pdf 2002-p22.pdf 2002-p23.pdf 2002-p24.pdf 2002-p25.pdf 2002-p26.pdf 2002-p27.pdf 2002-p28.pdf 2002-p29.pdf 2002-p30.pdf 2002-p31.pdf
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		2002 T11.pdf 2002 T12.pdf 2002 T13.pdf 2002 T14.pdf 2002 T15.pdf 2002 T16.pdf 2002 T17.pdf 2002 T18.pdf 2002 T19.pdf 2002 T10.pdf 2002 T21.pdf 2002 T22.pdf 2002 T23.pdf 2002 T24.pdf 2002 T25.pdf 2002 T26.pdf 2002 T27.pdf 2002 T28.pdf 2002 T29.pdf 2002 T30.pdf 2002 T31.pdf 2002 T32.pdf 2002 T33.pdf 2002 T34.pdf 2002 T35.pdf 2002 T36.pdf 2002 T37.pdf 2002 T38.pdf 2002 T39.pdf 2002 T40.pdf 2002 T41.pdf 2002 T42.pdf
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16.	Copies of tariff pages that show rates in effect for basic residential service, single line business service, zone charges, custom calling services, and packages of services as of August 1, 2000 and August 1, 2003.	1-16 (Tariff).pdf 1-16 (Tariff).xls
17.	Define mileage band zone charges and the history of such charges in Kentucky. Also provide copies of Commission cases related to such charges and the proposal made by BellSouth to rebalance such charges.	1-17 (7-9-03 order).pdf 1-17 (8-14-03 order).pdf 1-17 (Answer).pdf 1-17 (Complaint).pdf 1-17 (Cover).doc 1-17 (Proposal).pdf
18	All filings for exemption of services from regulation pursuant to KRS 278.512 filed by BellSouth between August 1, 2000 and the present	1-18 (Cover).doc

19.	List of Contract Service Arrangements (CSAs) provided in Kentucky, including identification of services provided, for the years of 2000 through 2003 (YTD).	CSA-Year 2000.pdf CSA-Year 2001.pdf CSA April 2002.pdf CSA August 2002.pdf CSA December 2002.pdf CSA February 2002.pdf CSA January 2002.pdf CSA July 2002.pdf CSA June 2002.pdf CSA March 2002.pdf CSA May 2002.pdf CSA November 2002.pdf CSA October 2002.pdf CSA September 2002.pdf CSA April 2003.pdf CSA August 2003.pdf CSA February 2003.pdf CSA January 2003.pdf CSA July 2003.pdf CSA June 2003.pdf CSA March 2003.pdf CSA May 2003.pdf CSA September 2003.pdf
20	Any analyses of competitive losses filed with the Kentucky Public Service Commission since August 1, 2002.	1-20 & 27 (cover).doc 1-20 & 27 (CSATestimony).pdf 1-20 & 27 (CSARebuttal).pdf 1-20 & 27 TRP.pdf
21	Provide BellSouth strategic plans or objectives for the three years of 2000-2003 and their impact on Kentucky	1-21 (Cover).doc 1-21 (Domestic Communicationss 01-03).ppt 1-21 (Strategic Planning Process) ppt

22.	Provide a listing of all wire centers, within this list show those with broadband deployment and those in the plans for broadband deployment	1-22 (wirecenters_bb).pdf 1-22 cover.pdf
23.	Provide a listing [of number] of customers by wire center	1-23 (wire center).pdf 1-23 cover .pdf
24	Provide for 2000 – present the number of customers using DSL, ISDN, T-1, T-3 and other broadband service offering by business and residential.	1-24 (Broadband).doc
25.	Provide the broadband deployment criteria including at a minimum the assumptions regarding; cost per customer, minimum anticipated customers per converted center, fixed costs per component.	1-25 (BB deployment criteria).pdf
26.	Describe the workgroups performing Maintenance and Repair (M&R) and installations for both residential POTS and broadband. Are these the same work group? If not what are the titles and organizations of the two work groups.	1-26 (M&R).doc
27	Provide any estimates of line loss since 2000 describing the source of the loss (competitors, cell phone, net population movements, DSL etc.)	1-20 & 27 (cover).doc 1-20 & 27 (CSATestimony).pdf 1-20 & 27 (CSARebuttal).pdf 1-20 & 27 TRP.pdf
28	Provide an organization chart for the field technicians (or other job titles) performing the Maintenance and Repair (M&R) and installation for Kentucky POTS and Residential customers.	1-28 (Cover).doc 1-28 (EASTORGChart).XLS 1-28 (westkyorg).xls
29	Kick-Off 1	Kickoff-1 (cover).pdf
30	Omitted	Kickoff-1.pdf
31	Kick-Off 2	Kickoff-2 (cover).pdf Kickoff-2.pdf 2002-00276.pdf
32	Pricing Please provide a copy of the August 2000, in effect PRP, a copy of the current, in-effect, PRP, a copy of BellSouth's filing requesting changes to the PRP following Vantage's 2000 audit	I-32 (Cover).doc I-32(Tom 1).pdf I-32 (Tom 2).pdf I-32 (Tom 3).pdf

	and the Commissions reply to that filing.	I-32 (Tom 4).pdf
33	Identify all services since August 2000 that BellSouth has requested be reclassified between PRP service categories.	I-33 (Cover).doc
34	Identify all competitive pricing scenarios, since August 2000, that BellSouth believes the provisions of the PRP have hindered their competitive response. Include a full discussion of what provision of the PRP precluded a proper BellSouth response.	1-34 (Cover).doc
35	Identify all changes that BellSouth believes should be made now to the PRP and explain why. If BellSouth believes that the PRP is no longer required, provide an explanation detailing that opinion	1-35 (Cover).doc
36	Provide a description of all proceedings held by the KY PSC since August 2000 that addressed PRP pricing issues (e.g., de-averaging, UNE's, Lifeline Service etc.). Include a synopsis of the proceeding, BellSouth's position and the Commission's Order.	1-36 (Cover).doc 1-36 (484-1).doc 1-36 (484-2).doc 1-36 (048).doc 1-36 (382).pdf 1-36 (077).pdf 1-36 (061).TIF 1-36 (470).pdf 1-36 (276).pdf 1-36 (310-1).pdf 1-36 (310-2).pdf 1-36 (421).pdf 1-36 (225).pdf
37	Refer to Vantage's 1999 Audit Report, in particular Exhibit V-1. Update this table for years 1999 through available 2003 data.	1-37 (Cover).doc
38	Identify all CSA's which have been contested by a CLEC or other party. Explain the basis for their intervention and provide the Commission's ruling. Also, identify all CSA's which have been re-sold to a CLEC.	I-38 (Cover).doc I-38 (SPIS.net).pdf I-38 (CI-Final).pdf I-38 (CI-Clarification).pdf

39	Identify all CSA's which have been rejected by the Commission. Provide their decision.	1-39 (Cover).doc
40	Provide a summary of CLEC's, IXC's, other competitors and other interveners positions on the current structure of the TRP. What changes, if any, are they recommending and why.	1-40 (Cover).doc 1-40 (AT&T).pdf 1-40 (AG).pdf 1-40 (MCI).pdf 1-40 (Supplement).pdf
41	Provide a copy of the Commission's Order in Case No. 2001-077.	1-41 (Cover).doc
42	Refer to order in Case No. 99-434, pg 9. provide the requested annual filings BellSouth has made to the Commission regarding the economic development tariff.	1-42 (Cover).doc 1-42 (2001).pdf 1-42 (2002).pdf
43	Refer to Order in Case No. 99-434, pg 11. Explain the BellSouth proposed residential rate changes in years 2 and 3. Also, indicate if th proposals were accepted by the Commission.	1-43 (Cover).doc 1-43 (2ndyearrebal).pdf 1-43 (3rdyearrebal).pdf 1-43 (3rdyearrebal-bexhibits).xls
44	Refer to Order in Case No. 99-434, pg 17. Provide a copy of the material BellSouth submitted to the Commission per it's request regarding Contract Service Arrangements. Also, if BellSouth has submitted any additional CSA material since then, please also provide it.	1-44 (Cover).doc 1-44 (2002-00456..1).pdf 1-44 (2002-00456..2).pdf 1-44 (2002-00456..3).pdf 1-44 (2002-00456..4).pdf 1-44 (2002-00456..5).pdf 1-44 (2002-00456..6).pdf 1-44 (Filing).TIF
45	Refer to order in Case No. 99-434, pg 16. Therein, the Commission states that at the conclusion of the pilot program, process of basic residential services shall be frozen until further Commission order. Explain why BellSouth in its August 1, 2003 submission did not request any additional pricing flexibility for basic residential rates? How long does BellSouth believe these rates should remain frozen?	1-45 (Cover).doc

46	Provide a listing and description of all BellSouth competitor filings to the KY Commission, any other State Commission, in which BellSouth KY was identified, or any other KY State Agency since 1999 in which the competitor alleged anti-competitive behavior by BellSouth. Also, include the Commission's and/or state agency's final report/order addressing the complaint.	1-36 (Cover).doc 1-46 (FPB).pdf 1-46 (518-1).pdf 1-46 (518-2).pdf
47	Please provide a sample of analyses prepared by industry analysts, as referenced by Ellen Mitchell in the Kick-Off meeting.	1-47 (Cover).doc 1-47 (Gartner).pdf 1-47 (Morgan).pdf 1-47 (Precursor-2003Q4).pdf 1-47 (Precursor-TRO).pdf 1-47 (Precursor-VOID).pdf 1-47 (Wireless).doc
48	Please provide, by month, 2001-2003 repeat troubles at the State level	1-48 (Cover).doc 1-48 (Repeats).xls
49	Refer to DR36, Order in Case No. 99-484; in particular the Conclusion clauses 5 & 6. Please provide the BellSouth report from item 5 and provide a summary of the item meeting with the Commission. Finally, detail all subsequent activity resulting from either of these items.	1-49 (Cover).doc 1-49 (Response).pdf
50	Refer to DR 36, order in Case No. 2002-00276 of April 2003. Identify all subsequent situations that BellSouth has taken the Commission up on its intent to meet informally to discuss a proposed tariff on order to expedite it's approval (refer to the 2 nd to last paragraph of the Order in which the Commission offers such an opportunity).	1-50 (Cover).doc
51	Please provide the dates of PSC endorsement and FCC approval of BellSouth's request for authority to provide long distance in Kentucky.	1-51 (Cover).doc 1-51 (ld-psc).asp 1-51 (ld-fcc).asp 1-51 (ld-pscorder).doc

52	Please provide a web site where the wholesale measurements for the performance measurement plan can be accessed.	http://pmap.bellsouth.com/content/MSSrpt.aspx 1-52 (Cover).doc 1-52 (Summary).xls
53	Please provide information concerning the availability of high speed data services in the BellSouth-served area of Kentucky, and data concerning the share of the total access lines in Kentucky served by BellSouth.	1-53 (Cover).doc 1-53 (Cinergy #3).doc 1-53 (Support).pdf 1-53 (USF).xls
54	Refer to DR 43 response. Discuss BS's reasoning, rationale, support etc. for choosing which rate elements would incur a price reduction, in each year. For example, were competitive pressures a key factor, if so based upon what information.	1-54 (Cover).doc 1-54 (Attachment).xls
55	Provide for the following rate elements, the price at the time the TRP went into effect and a complete price history since then to date. For each price increase, provide the BellSouth reasoning for such an increase. Please provide the data first if the second part of the request takes more time. 1. 1FB 2. Custom calling services (A.3.9.2 and A.3.9.3 3. Band Zone Charges (A.3.9.2 and A.3.9.3 4. Complete Choice for business (A.3.45.2A and for the corresponding residential offerings).	1-55 (Cover).doc 1-55 Audit Attachment 55.xls
56	Please provide BellSouth's expanded analysis of the FCC data Competition data and the FCC High Speed Data providers by zip code data.	1-56 (FCCcomp).xls 1-56 (Zip).xls CD Received

Footnotes

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- ¹ / DR31
 - ² / Unless noted, FCC data for the United States includes Puerto Rico, the Virgin Islands and the District of Columbia.
 - ³ / FCC News release and related supporting data from FCC Form 477. December 22, 2003.
"FEDERAL COMMUNICATIONS COMMISSION RELEASES DATA ON LOCAL TELEPHONE COMPETITION"
 - ⁴ / Switched access lines as reported to the FCC on form 477 is mandatory for carriers with at least 10,000 access lines in a state.
 - ⁵ / CLEC and UNE reported numbers to the FCC differ. (See Tables 3 and 4 in the referenced documents). This is partially due to CLECs reporting resold and UNE lines acquired "from other carriers" including CLECs, ILECs, DLECs and others. ILECs only report those lines they provide to others. Data shown is lines reported to the FCC by ILECs.
 - ⁶ / The remaining CLEC switched access lines are provisioned over CLEC owned lines.
 - ⁷ / Reliable data regarding cable provided switched access is not available prior to the December 2000 reporting period.
 - ⁸ / This data is also subject to frequent revision by the FCC.
 - ⁹ / The FCC withheld data in nine states to "maintain firm confidentiality". These were mostly low populations states. See: FCC Local Telephone Competition Status as of December 30, 2003, Table 11
 - ¹⁰ / *Broadband's Reach in the Southeast*, Broadband Markets Close Up, www.broadbandmarkets.com/closeup.htm
 - ¹¹ / Florida varies from first to second in this measure depending on information source.
 - ¹² / BellSouth Estimate based on FCC Form 477 data and best available information on CLECs.
 - ¹³ / Data was provided through June of 2003.
 - ¹⁴ / The BellSouth internal objective is 20 percent.
 - ¹⁵ / In this report we follow the FCC nomenclature. High-speed lines are those providing service at speeds exceeding 200 kilobits per second in at least one direction.
 - ¹⁶ / Symmetrical DSL is also included in the "other wireline" category.
 - ¹⁷ / Raw data provided by BellSouth in e-mail 2/7/04.
 - ¹⁸ / Using the standard technical constraint for xDSL of 18,000 feet from the DSLAM "18 kilofeet".
 - ¹⁹ / Raw data provided by BellSouth in e-mail 2/7/04.
 - ²⁰ / FCC News release December 22, 2003. Federal Communications Commission releases Data on High-Speed Services for Internet Access.
 - ²¹ / Cingular is the second largest wireless provider in the US behind Verizon wireless, and is jointly owned by BellSouth Corp. and SBC Communications.
 - ²² / Commission Order, August 3, 2000, page 6
 - ²³ / See Appendix B. Wirecenters proposed.
 - ²⁴ / DR 2
 - ²⁵ / DR 21
 - ²⁶ / Interview meetings at BellSouth in Atlanta
 - ²⁷ / DR 21
 - ²⁸ / DR 21
 - ²⁹ / DR 21
 - ³⁰ / DR31
 - ³¹ / DR31
 - ³² / DR43
 - ³³ / DR56
 - ³⁴ / DR15

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- 35 / DR15
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45 / DR36
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48 / DR31
49 / DR43
50 / DR36
51 / DR36
52 / DR46
53 / DR37
54 / DR44
55 / DR38
56 / DR39
57 / DR31
58 / DR41
59 / DR38
60 / DR38
61 / DR38
62 / DR38
63 / Review of briefs filed in PSC 2002-00456 – Inquiry into Contract Service Arrangements by
Telecommunications Carriers in Kentucky
64 / DR38
65 / December, 2003 telephone interview. Participants included BellSouth regulatory
personnel, Vantage consultants and KPSC Staff.
66 / DR31
67 / DR44