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February 28, 1997

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David Waddell
Executive Secretary
Tennessee Regulatory Authority
460 James Robertson Parkway
Nashville, TN 37201


Re: Tariff Filing by UTSE to Reflect Annual
Cap Adjustment, Tariff No. 96-201
Docket No. 96-01423

Dear Mr. Waddell:

Enclosed for filing in the above-styled matter are an original and thirteen (13) copies of the Surrebuttal Testimony of G. Michael Harper on behalf of AT&T Communications of the South Central States, Inc.

Copies are being served on counsel for parties of record.

Yours very truly,



Val Sanford

VS/ka
Enclosures

cc: Guy M. Hicks, Esq.
L. Vincent Williams, Esq.
Richard M. Tettelbaum, Esq.
James B. Wright, Esq.
James P. Lamoureux, Esq.

1 SURREBUTTAL TESTIMONY OF
2 G. MICHAEL HARPER
3 ON BEHALF OF AT&T COMMUNICATIONS
4 OF THE SOUTH CENTRAL STATES, INC.
5 BEFORE THE
6 TENNESSEE REGULATORY AUTHORITY
7 Docket No. 96-01423
8 Filed: February 28, 1997
9

REC'D TN
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EXECUTIVE SECRETARY
CLERK OF THE

10 Q. PLEASE STATE YOUR NAME, BUSINESS ADDRESS AND POSITION
11 WITH AT&T.

12 A. My name is G. Michael Harper and my business address is 1200 Peachtree
13 Street, Atlanta, Georgia. I am employed by AT&T as Manager—Network
14 Services Division organization.
15

16 Q. ARE YOU THE SAME G. MICHAEL HARPER WHO FILED DIRECT
17 TESTIMONY ON BEHALF OF AT&T IN THIS PROCEEDING?

18 A. Yes.
19

20 Q. WHAT IS THE PURPOSE OF YOUR SURREBUTTAL TESTIMONY?

21 A. I want to address certain comments contained in the rebuttal testimonies of
22 United Telephone-Southeast, Inc. ("United") witness Charles S. Parrott and
23 Consumer Advocate witness Archie R. Hickerson.
24

UNITED WITNESS PARROTT

Q. MR. PARROTT STATES IN HIS REBUTTAL TESTIMONY THAT THE POINTS THAT YOU ADDRESS IN YOUR DIRECT TESTIMONY ARE BETTER BE LEFT TO BE DECIDED IN CERTAIN FEDERAL AND STATE INITIATIVES THAT ARE UNDER WAY. DO YOU AGREE WITH MR. PARROTT?

A. No. While Mr. Parrott accurately portrays some of the initiatives underway at both the Federal and State levels that promise to address access charges in the future in the context of universal service reform, the fact remains that this proceeding, as well as other United price changes since January 1, 1997 are affecting the price that AT&T pays United for access services today. As my direct testimony demonstrates, the net result of all the changes since January of this year made to United's access rates charged to AT&T and the other IXC's is an increase of approximately \$270,800 annually (AT&T portion) in access charges that are already priced excessively.

It is widely recognized in the industry that access is priced far in excess of the cost to provide the service. In fact, it is one of the primary drivers for the specific access reform actions that Mr. Parrott describes. It is, therefore, not reasonable for the interexchange carriers, and ultimately Tennessee's toll users, to pay increased amounts for these services when it is apparent that access fees should be reduced, not increased. More importantly, the current disparity between the costs the local exchange companies incur to provide access services and the high price for access that the local exchange companies charge interexchange carriers, is not compatible with the development and growth of meaningful competition for telecommunications services.

Since the local exchange companies have traditionally not been required to produce meaningful analyses of the necessity for such high margins on access

1 charges and how consumers benefit, access reform measures will certainly be
2 necessary to ascertain the extent to which access is overpriced and to implement
3 counter-measures to prevent this price/cost disparity from thwarting the
4 development of competition in all aspects of telecommunications in Tennessee
5 to benefit consumers as envisioned by the TRA.

6
7 Access charges paid by the IXC's in Tennessee, including AT&T, are a necessary
8 cost of doing business in order to provide interLATA and intraLATA toll
9 services. There are currently no viable alternatives to LEC-provided access
10 services. Certainly, if there were other viable alternative providers of switched
11 access services, AT&T would not be concerned with the underlying costs that
12 United incurs to provide the service. AT&T could explore other, more
13 favorable terms from the other alternatives available to it. But today, the lack
14 of other options forces AT&T to pay these charges without the benefit of
15 seeking other, more reasonable conditions from other providers. In turn, these
16 excessive access rates paid by IXC's must be passed on to Tennessee consumers
17 via toll rates at levels that are higher than would be charged if access were
18 priced at cost-based levels.

19
20 It is, therefore, harmful to consumers of Tennessee to allow United to increase
21 access rates without any showing that such rates are necessary.
22

ARCHIE R. HICKERSON

Q. MR. HICKERSON ALLEGES ON PAGE 4 OF HIS REBUTTAL TESTIMONY THAT YOUR ASSERTION REGARDING THE ACTUAL COSTS THAT LOCAL EXCHANGE COMPANIES INCUR TO PROVIDE SWITCHED ACCESS SERVICES IS NOT BASED ON "...ANY STUDIES, OR OTHER MATERIAL AND SUBSTANTIAL EVIDENCE..." DO YOU HAVE ANY SUCH VALIDATION FOR YOUR ASSERTION?

A. Yes, I do. However, it is important to understand that local exchange companies have been reluctant to disclose the actual costs that they incur to provide access services for obvious reasons. In those cases where such data has been made available, it has been provided under proprietary restrictions. For that reason, AT&T has not been afforded access to cost data that would permit a public demonstration of the specific local exchange company costs to provide switched access charges and their relationship to access charge rates assessed to IXC's.

There is, however, abundant record in regulatory proceedings in the South and around the nation where local exchange company testimony and responses to data requests have verified that the cost to provide access charges is one cent per conversation minute or less, and is most likely much less. I have submitted such evidence on numerous occasions in testimony in Tennessee (*Direct testimony, page 6, Docket No. 93-04818, Earnings Investigation of United Telephone, filed August, 1994; Direct testimony, pages 7-8, Docket 95-02499; Universal Service Proceeding, filed October, 1995; and Direct testimony, pages 4-5, Docket 95-02614, Application of BellSouth for Price Regulation Plan, filed November, 1995*) and in other cases around the South in support of the need to reduce access charges. However, in light of Mr. Hickerson's rebuttal testimony, I will present the documentation again.

1

2

Attachment GMH-1 - In Florida, both United Telephone Company and

3

BellSouth offered evidence that the cost of access does not exceed a penny per

4

minute.

5

6

Attachment GMH-2 - A BellSouth data request response to AT&T in South

7

Carolina indicates that Bell's cost of providing switched access in South

8

Carolina is around one cent per minute.

9

10

Attachment GMH-3 – BellSouth cost study results introduced in Mississippi in

11

Docket 94-UA-536 show that the incremental cost for Bell to provide switched

12

access services in Mississippi is about one-half cent per conversation minute, or

13

about one-fourth of a cent for each end of a call.

14

15

Attachment GMH-4 – BellSouth witness Margaret Greene, Vice-President -

16

Kentucky, agrees that the cost to provide switched access charges in Kentucky

17

is about one cent per minute.

18

19

While specific local exchange company cost studies for access service

20

components are generally not available, the above exhibits establish a range of

21

likely access costs for local exchange companies – a range that is below one cent

22

per minute, and is significantly less than the rates charged to IXCs. I recognize

23

that there may be individual differences among local exchange company cost

24

characteristics, even among the same company in different states. But there is

25

no reason to believe that these differences would produce access costs that are

26

significantly different from the range of about one cent for two ends of access to

27

well below one cent.

1
2 Q. HAS UNITED, OR ANY OTHER LOCAL EXCHANGE COMPANY
3 IN TENNESSEE PRODUCED COST STUDIES THAT VALIDATE THE
4 NEED TO CHARGE THE CURRENT LEVEL OF ACCESS TARIFFED
5 RATES TO IXCs?

6 A. Not to my knowledge. In fact, it is significant that the same lack of validating
7 data that Mr. Hickerson alleges is missing from my conclusions regarding the
8 cost of LEC access, is also missing from local exchange company
9 documentation to validate the need for access rates at their current level.
10

11 Q. ON PAGE 5 OF HIS REBUTTAL TESTIMONY, MR. HICKERSON
12 CITES THE LACK OF EVIDENCE TO SUPPORT YOUR
13 CONCLUSION THAT LOCAL EXCHANGE SERVICE IS BEING
14 PROVIDED BY UNITED AT RATES THAT ARE BELOW COSTS.
15 WHAT IS THE BASIS FOR YOUR CONCLUSION THAT LOCAL
16 SERVICE IS PRICED BELOW COST?

17 A. The source of my conclusion is United Telephone-Southeast, Inc. in their
18 response to AT&T's first set of data requests dated, January 3, 1997. I have
19 included their response as **Attachment GMH-5**. Their response to item No. 9
20 states:

21
22 "For example, residential Basic Local Exchange Service, residential and
23 educational ISDN, IntraLATA Message Toll, Directory Assistance and
24 Service Order and Line Connect Charges are all offered below their
25 costs to provide the service."
26

27 It is clear, then, that United is providing local service below cost and, therefore,
28 is receiving a subsidy from other services.

1 Q. MR. HICKERSON STATES ON PAGE 6 OF HIS REBUTTAL
2 TESTIMONY THAT THERE IS NO EVIDENCE THAT IXC_s ARE
3 SUBSIDIZING UNITED FOR ITS OTHER SERVICES THROUGH
4 ACCESS CHARGES. WHAT IS YOUR REACTION TO HIS
5 STATEMENT?

6 A. In one sense, Mr. Hickerson is correct in that there is no conclusive evidence of
7 the extent revenues collected by United are used to subsidize which other
8 services, or the extent that such services require a subsidy. In fact, only United
9 knows for certain; 1.) which services are priced below costs, 2.) how much
10 subsidy is required, 3.) what other services are used to satisfy subsidy
11 requirements, and, 4.) to the extent revenues exceed costs and subsidy
12 requirements, where the excess profits are actually used, e.g., shareholder value,
13 service improvements, or new ventures.

14

15 Given the absence of financial data that only United possesses, a reasonable
16 analysis reveals that access revenue is the most likely candidate to subsidize
17 other services. While other services provide high margins, e.g., vertical
18 features, only access service produces the combination of high volumes, high
19 margins, and annual growth rates in the range of 12%. This high growth rate of
20 access revenue at the current margins explain why I term access as the “fuel for
21 the engine of overearnings”. I have been involved in local exchange company
22 overearnings cases in other states, as well as the United hearings in 1994 in
23 Tennessee. In such cases, access rates (and other rates) are adjusted downward
24 in an attempt to eliminate the amount of identified overearnings. While that
25 method addresses the identified amount, the growth of access at high margins
26 continues to pour increasing amounts of revenue to the local exchange
27 companies at a faster rate than costs are increasing, resulting in a need to address
28 another overearnings situation at some later date.

29

1 I understand that United is no longer rate-of-return regulated and is not subject
2 to overearnings proceedings, but access charge revenues continually increase
3 contribution to United, with little effort on United's part. In other words,
4 only United knows for sure, but it is likely that access revenues provide the
5 bulk of any subsidy or excess profits.

6
7 **Q. IN HIS REBUTTAL TESTIMONY MR. HICKERSON SEEMED**
8 **SKEPTICAL THAT UNITED OFFERS ANY OF ITS SERVICES**
9 **BELOW COST. NOTWITHSTANDING UNITED'S ADMISSION**
10 **THAT THERE ARE SERVICES OFFERED BELOW COST, WHAT**
11 **COMMENTS WOULD YOU HAVE IF, INDEED, UNITED WERE**
12 **COVERING COSTS ON ALL SERVICES?**

13 **A.** My concern would be that United has been collecting access revenues based on
14 access charges at several multiples of its actual cost, with the rationale that such
15 inflated access rates were necessary to support universal service, which includes
16 an affordable rate for local service. If local service were covering its cost
17 without the benefit of subsidies from other services, such as access, then I
18 would have to ask where United has been directing these excess profits.

19
20 **Q. MR. HICKERSON IS CONCERNED, BEGINNING AT THE BOTTOM**
21 **OF PAGE 9 OF HIS REBUTTAL TESTIMONY, WITH YOUR**
22 **RECOMMENDATIONS REGARDING UNITED'S \$0.03 TOLL RATE.**
23 **WOULD YOU PLEASE ELABORATE ON YOUR**
24 **RECOMMENDATION?**

25 **A.** Yes. Some of Mr. Hickerson's concerns may have been due to the confusing
26 language I used in my recommendation. My intention was to recommend that
27 United set access rates at cost based, TELRIC rates, and to price its own
28 intraLATA toll rates at a level that reflects the access rates it charges other
29 intraLATA carriers. In other words, United should impute the price of access
30 it charges others into its toll rate. For example, United could set its access rates

1 at cost-based levels. Conversely, if United is permitted to keep access at its
2 current levels, then their toll rate should reflect the cost of access at that level as
3 well, likely resulting in an increase above the \$0.03 per minute rate now in
4 effect. And, since Mr. Hickerson states on page 9 that "...it is not appropriate
5 to increase toll charges for toll calls in United Telephone-Southeast, Inc.'s
6 service area.", I concur with him that United should, instead, reduce access to
7 cost-based levels.

8
9 **Q. ON PAGE 12, MR. HICKERSON ADVOCATES THAT AT&T BE**
10 **REQUIRED BY THE TRA TO FILE COST STUDIES RELATIVE TO**
11 **ITS INTRASTATE TOLL PRICES. DO YOU AGREE WITH HIS**
12 **RECOMMENDATION?**

13 **A.** Certainly not. First, his recommendation seems to be the result of his
14 interpretation of my testimony as suggesting that United price its toll services
15 at cost. As indicated above, that was not my recommendation.

16
17 Second, the suggestion that AT&T file cost studies as validation for its retail
18 prices is totally inconsistent with the pricing forces at work in the interLATA
19 toll market as compared with the monopoly-driven local, access and
20 intraLATA toll markets. AT&T and other IXC's provide interLATA toll
21 services in a highly competitive environment. There are scores of alternative
22 providers for interLATA toll in Tennessee and throughout the country.
23 Consumers have a wide range of providers available to meet their unique
24 telecommunications needs and have shown great interest in exercising these
25 choices as evidenced by the millions of customers nationwide who change
26 interLATA carriers each year. In other words, the price that AT&T and other
27 interLATA carriers charge for toll services is more a function of market-driven
28 prices than of underlying costs.

1 The pricing of local service, access services and intraLATA toll, however, are
2 still monopoly driven as opposed to market driven:

3
4 --Local service is a monopoly service but may, at some point in the
5 future, evolve to the extent that lower prices and more choices will
6 provide consumers with viable alternatives.

7
8 --Access services are unlikely to be available from alternative sources to
9 any significant degree for the foreseeable future. It is for this reason that
10 access reform at both the state and federal levels is necessary to help
11 bring access rates to levels more in line with TELRIC costs.

12
13 --IntraLATA toll, while experiencing limited competition in some areas,
14 is still essentially a monopoly-priced service in United's area. This is
15 due to 1.) Expansion of local calling areas, thus reducing the traffic
16 available to competitors (which also has the effect of increasing the
17 burden on IXCs in the recovery of Dual-Party Relay costs) and 2.) due
18 to the current \$0.03 rate for intraLATA toll that no competitor can
19 hope to match because the \$0.03 rate will not cover even the access
20 charges that the competitors must pay, much less all other expenses.

21
22 **Q. DOES THIS COMPLETE YOUR SURREBUTTAL TESTIMONY?**

23 **A.** Yes, it does.

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MR. ERWIN: No questions.

COMMISSIONER CLARK: Mr. Carver?

MR. CARVER: No questions.

COMMISSIONER CLARK: Ms. Caswell?

MS. CASWELL: No questions.

COMMISSIONER CLARK: Is there anyone who has questions?

MR. TYE: I have a few questions, Commissioner Clark.

CROSS EXAMINATION

BY MR. TYE:

Q Mr. Poag, I'm really glad I didn't object to your summary. (Laughter)

Let me ask you a couple of questions about the price and the cost of intrastate switched access.

Is it correct that the price of intrastate switched access, both originating and terminating, is around 14 cents a minute?

A Yes, approximately.

Q Now, is it also correct that your incremental cost of providing that service is around a penny a minute?

A Yes.

Q Okay. So that's a 1400% markup; is that right?

FLORIDA PUBLIC SERVICE COMMISSION

FLORIDA

*Exhibit GMH-1
Docket # 921074 - T*

*United Telephone
Representative*

FLORIDA

Southern Bell Tel. & Tel. Co.
FFSC Docket No. 920260-FL
APR's 1st Interrogatories
September 3, 1993
Item No. 3
Page 1 of 1

REQUEST:

At page 27, lines 20-23 of the transcript of the testimony referenced in Interrogatory No. 1, Mr. Margison testified that "...we (local exchange companies) charge interexchange carriers to use our network, we charge, as you can see there, about 10 cents a minute, and the incremental cost is a penny a minute." Does Southern Bell agree with Mr. Margison's statement that the incremental cost of interexchange access service is "a penny a minute"?

RESPONSE:

Southern Bell agrees that the incremental cost for intrastate switched access, that is local transport and local switching, is not over a penny a minute.

INFORMATION PROVIDED BY: Lee Prather
Operations Manager
675 West Peachtree St.
Atlanta, Georgia 30375

TEL. INDUSTRY testimony
before the Business and Professional Regulation Committee
of the Florida House 3/93

1 the committee. I would like to start, because I think
2 it's so important --

3 UNIDENTIFIED SPEAKER: Mr. Chairman, would it be
4 possible to have each speaker identify himself so we
5 will know their interest.

6 CHAIRMAN TOBIN: Yes. Would you identify yourself
7 for the record, please.

8 MR. MARGISON: Yes, sir. My name is Andrew
9 Margison, and I represent the Florida Telephone
10 Companies. I would like to start by just reading the
11 fully separate subsidiary provision of the bill. The
12 reason being that I think most of us have an idea of
13 subsidiaries, you know, GE produces washing machines,
14 and they produce jet engines, and they produce them in
15 different subsidiaries, and it seems like a fairly
16 normal thing. This is a different thing, this is a
17 fully separated subsidiary, and what it means is a
18 complete operational separation with distinct and
19 different corporate identities, names, officers,
20 personnel, assets, facilities, and offices. It shall
21 also mean that a majority of the board of directors of
22 a local exchange company are not officers, employees or
23 directors of any affiliated company providing
24 competitive services. At no time shall a fully
25 separated affiliate or a local exchange company

1 the same service we actually charge them \$27.85. There
2 is a higher interstate subscriber line charge, 4.53 on
3 average, so the same sorts of incremental and fully
4 distributed costs, but higher rates. And for the very
5 largest customers, those that have their own
6 switchboards, and this is our tariff now, this isn't
7 some cost study that you hired some economist to come
8 up with, we charge 50 bucks plus \$6 for the subscriber
9 line charge for roughly comparable incremental costs.
10 And I would be happy to tell you why those costs are
11 not much different for the three services, if you like.

12 So the question is if we are not recovering our
13 costs from residential ratepayers, where is the money
14 coming from? And its well-known to just about every
15 student of the telecommunications industry that I know
16 of, it comes by overcharging for usage of the
17 telecommunications network. If you take all of the
18 usage that we charge for on our networks, not including
19 obviously flat rate residential service, but what we
20 charge for toll, and what we charge interexchange
21 carriers to use our network, we charge, as you can see
22 there, about 10 cents a minute, and the incremental
23 cost is a penny a minute. The fully distributed cost,
24 once again, is higher. It's by overcharging for usage
25 that we undercharge for access. And these are the

SOUTH CAROLINA PUBLIC SERVICE COMMISSION
DOCKET NO. 93-503-C
FIRST SET OF INTERROGATORIES OF AT&T
DATED 10/14/93
Item No. 13
Sheet 1 of 1

Item No. 13: If BellSouth disagrees with Andrew Margison's testimony that the cost of access is a penny a minute, please provide BellSouth's most current estimate of the incremental cost of access. Also, please provide all documentation and workpapers that support that estimate.

Response: Mr. Margison's estimate is within a reasonable range of approximation.

SOUTH CAROLINA PUBLIC SERVICE COMMISSION
DOCKET NO. 93-503-C
FIRST SET OF INTERROGATORIES OF AT&T
DATED 10/14/93
Item No. 14
Sheet 1 of 1

Item No. 14: Would a "penny a minute" be an accurate estimate of the cost of providing switched access in the state of South Carolina?

Response: See the response to Item No. 13.

96
13170

1 Q. Are South Central Bell's Access prices sufficiently
2 aligned with costs to support adoption of a price-cap
3 mechanism?

4
5 A. No, switched access prices are dramatically inflated
6 above costs. The pricing of this service effectively
7 shifts the recovery of South Central Bell's common costs
8 and overheads onto its rivals, thereby allowing it to
9 enjoy greater flexibility in the pricing of its own
10 services. Further, South Central Bell has pending before
11 this Commission a proposal to "market-price" the
12 transport component of access service in a manner which
13 would discriminate in favor of large carriers over their
14 smaller competitors. I am confident that the Commission
15 will reject this ill-advised proposal, but its very
16 existence illustrates the danger inherent in granting
17 pricing flexibility over this important service.

18
19 Q. What evidence have you reviewed to determine that
20 switched access service is priced far in excess of its
21 cost?

22
23 A. In response to a request from this Commission at the
24 initiation of this proceeding, South Central Bell
25 performed a direct-cost study of its major service
26 categories. Assuming that this cost study accurately

calculates the direct cost of each service -- and its labeling appears to claim that it did -- it is possible to compare which services provide the most "contribution"² to overall costs. Table 1 shows the "mark up" (i.e., the ratio of revenue to direct cost) for each of South Central Bell's major categories of service in Mississippi.

Table 1: Comparison of Contribution Recovery by Service Contains Allegedly Proprietary Data

Category	Ratio of Revenue to Direct Costs
Local Access & Usage	0.6 ³
Directory Service	1.2 ³
PBX and ESSX	1.2 ³
Vertical Services	8.3 ³
Switched Access	11.5 ³

Interexchange carriers have known for years that switched access services are the engine of contribution. As the comparison shows, prices are inflated by more than 10³ times their relevant costs. This type of markup would make a jewelry store blush. Only "vertical" services

² Contribution is used here simply to refer to the difference between a service's revenues and its direct costs. The term is not intended to convey the impression that any charitable purpose, or policy objective, is satisfied by this revenue source.

³ This information was obtained from the 1993 Mississippi Cost of Service Study purportedly reflecting actual results for South Central Bell in Mississippi for the twelve (12) month period ending December 31, 1993 ("Cost Study"). The Cost Study was pursuant to a Confidentiality/Protective Agreement ("Agreement"). This information will be made available to the Commission and Public Utilities Staff upon the establishment of a procedure with South Central Bell as contemplated in the Agreement.

(such as custom calling) bear a contribution burden even remotely close to that of switched access. The vertical services comparison, however, may be somewhat misleading. Several of these services (touch tone for instance) are frequently purchased in combination with local exchange service. If these categories were combined (as they frequently are purchased) then the resulting markup would be substantially diminished.

Q. How does this contribution strategy provide pricing flexibility?

A. For a telecommunications carrier to remain financially viable, it must recover not only the direct costs associated with individual services (or, as in case of South Central Bell's cost analysis, groups of services), it must also recover its joint/common/overhead costs (choose any term).

The "contribution" to joint/common/overhead costs is a significant pricing issue. To the extent that these costs can be imposed on a single service -- particularly one which its rivals must purchase and which faces no meaningful competition -- then other services can be freed from their share. Rivals, however, cannot so easily avoid this problem -- with the burden embedded in

KENTUCKY
M. GRADONE TRANSCRIPT 94-121

1 Florida PSC Docket Number 920260-TL. Response
2 AT&T's first interrogatory September 3, 1993, I
3 Number 3, page 1 of 1. No, this is not
4 proprietary. Now, this has been put on the record
5 everywhere we get a chance.

6 MR. KERSHAW:

7 In many dockets.

8 MR. COKER:

9 Everywhere we get a chance.

10 Q Would you please--

11 MR. KERSHAW:

12 I bet it's cheap.

13 A Yeah. Gosh, what this says is that Southern Bell
14 agrees that the incremental cost for intrastate
15 switched access, that is, local transport and
16 local switching, is not over a penny a minute
17 incremental cost.

18 Q Do you have any reason to believe that that
19 wouldn't also apply to Kentucky?

20 A No, I don't have any reason to believe that
21 incremental cost for Kentucky would be
22 dramatically different than Florida.

23 Q So, when we say that its come down--what did you
24 say earlier today, it was--it used to be at 10

United Telephone-Southeast, Inc.
Discovery Request of AT&T Communications of the South Central States, Inc.
Dated January 3, 1997
Tariff No. 96-201, Annual Price Cap Adjustment, Docket No. 96-01423

Item 9. Please list any services offered by United in Tennessee that are priced below the costs to provide the service. Please indicate the cost standard, e.g., embedded, LRIC, TELRIC, etc., that was used as a basis for the response.

Response: Attached is United's Embedded Direct Analysis based on 1994 embedded cost information filed in the Universal Service Proceeding, Docket No. 95-02499. Based on this analysis, categories of services offered below their cost to provide the service are indicated as negative (preceded by -) in the "Net Operating Income, Post FIT" column. For example, residential Basic Local Exchange Service, residential and educational ISDN, IntraLATA Message Toll, Directory Assistance and Service Order and Line Connect Charges are all offered below their costs to provide the service.

CERTIFICATE OF SERVICE

I, Val Sanford, hereby certify that a true and exact copy of the foregoing Surrebuttal Testimony of G. Michael Harper on behalf of AT&T Communications of the South Central States, Inc. has been served on the following counsel of record, this 28th day of February, 1997, either by hand-delivery or by placing a copy of the same in the U.S. Mail, postage prepaid, and addressed as follows:

James B. Wright
United Telephone-Southeast, Inc.
14111 Capital Boulevard
Wake Forest, NC 27587-5900

L. Vincent Williams
Office of Attorney General
Consumer Advocate Division
426 Fifth Avenue North, Second Floor
Nashville, TN 37243-0500

Richard M. Tettelbaum
Citizens Telecommunications Company of
Tennessee, L.L.C.
Suite 500, 1400 16th Street N.W.
Washington, DC 20036

Guy M. Hicks
BellSouth Telecommunications, Inc.
333 Commerce Street, Suite 2101
Nashville, TN 37201-3300

James B. Wright
United Telephone-Southeast, Inc.
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Wake Forest, NC 27587-5900



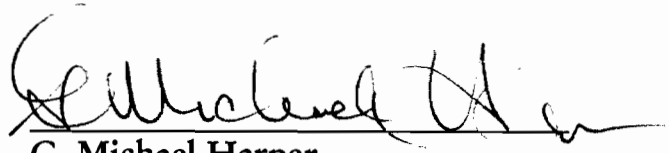
Val Sanford

AFFIDAVIT

STATE OF GEORGIA

COUNTY OF FULTON

BEFORE ME, the undersigned authority, did come and appear
G. Michael Harper, who, after being duly sworn, did depose and say that he
prepared the foregoing surrebuttal testimony consisting of 10 pages
and five (5) exhibits for Tennessee Docket No. 96-01423, and that it is
true and correct to the best of his knowledge and belief.


G. Michael Harper

Sworn to and signed before me
this 27 day of February, 1997

NOTARY PUBLIC

