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Guy M. Hicks
General Counsel

May 9, 1997

VIA HAND DELIVERY

David Waddell, Executive Secretary
Tennessee Regulatory Authority
460 James Robertson Parkway
Nashville, TN 37238

Re: *Universal Service Proceeding*
Docket No. 95-02499

Dear Mr. Waddell:

Enclosed are the original and thirteen copies of BellSouth Telecommunications, Inc.'s Response to Universal Service Petitions in the above-referenced matter. A copy has been provided to counsel of record.

Very truly yours,

Guy M. Hicks

GMH:ch
Enclosure

BEFORE THE TENNESSEE REGULATORY AUTHORITY
NASHVILLE, TENNESSEE

IN RE: UNIVERSAL SERVICE PROCEEDING

DOCKET NO. 95-02499

BELLSOUTH TELECOMMUNICATIONS, INC.'S RESPONSE TO UNIVERSAL SERVICE PETITIONS

BellSouth Telecommunications, Inc. ("BellSouth") respectfully submits this response to the petitions of AT&T Communications of the South Central States, Inc. ("AT&T") and Citizens Telecommunications Company of Tennessee, L.L.C. and Citizens Telecommunications Company of the Volunteer State, L.L.C. ("Citizens"), concerning universal service.

BellSouth agrees with both AT&T and Citizens that the Tennessee Regulatory Authority ("TRA") should undertake a generic universal service proceeding.[1] The Tennessee Public Service Commission established a docket for this very purpose. Whether the docket should be closed, as requested by AT&T, or continued is a matter best left to the discretion of the TRA. While BellSouth would not dispute that the record in the current docket is "stale and incomplete," as noted by AT&T, the evidence developed in that docket nonetheless relates to universal service and properly may be considered by the TRA if it so desires.

Citizens' petition requesting that the TRA establish alternative universal service support mechanisms is predicated upon the notice given by BellSouth to all

[1] This proceeding will of necessity involve many issues. For example, the TRA will need to address the funding support mechanism for Tennessee's dual party relay system.

independent local exchange carriers of its intent to terminate preexisting intraLATA toll settlement agreements and extended area service arrangements and negotiate new agreements by June 30, 1997. According to Citizens, these new arrangements will eliminate "the implicit subsidy flow from intraLATA toll settlements" and will necessitate the establishment of "alternative universal service support mechanisms." (Petition ¶¶ 3, 10-11). Without commenting on the merits of Citizens' position, it is important for the TRA to appreciate that BellSouth's termination of and request for negotiations of the agreements with the independents was necessary and appropriate, in light of the TRA's arbitration decisions.

The FCC order required the filing of preexisting agreements between Class A carriers by June 30, 1997, but it left "the procedures and time frames" for filing all other preexisting agreements "largely in the hands of the states ...." Order at ¶171. The FCC Order, therefore, established no deadline for the filing of preexisting agreements other than those between Class A carriers. The TRA's order in the AT&T and MCI arbitrations discusses whether interconnection agreements executed prior to the effective date of the Act must be filed and concludes that "BellSouth is required to file all of its interconnection agreements, including those with other incumbent local exchange carriers and including those executed before February 8, 1996, with the Authority by June 30, 1997 for approval and that such interconnection agreements shall be made open to the public for inspection." Second and Final Order of Arbitration Awards , Issue 13, p.

38. Although some independent companies interpret this language as applying only to agreements between Class A carriers[2], prudence requires BellSouth to read this language as applying to all preexisting agreements absent clarification from the TRA.

To the extent the Authority's decision applies to all preexisting agreements with independent companies, Class A and B alike, it allows competitors to take advantage of the terms and conditions of outdated contracts executed by noncompeting companies and thus bypass many of the TRA's arbitration decisions because these contracts will be on file and available to new entrants. An example of this is bill and keep. The TRA ruled that "bill and keep is not an appropriate billing mechanism, unless the parties through their individual negotiations agree on the use of bill and keep." Second and Final Order of Arbitration Awards, Issue 26, p. 57. The FCC's local interconnection order, however, requires that incumbents' preexisting agreements with independent companies be made available to competitors. Order at ¶170. The FCC order, therefore, arguably allows competitors like AT&T and MCI to unilaterally impose a bill and keep arrangement upon BellSouth without BellSouth's agreement, which is contradictory to the TRA's decision that bill and keep was not an appropriate billing mechanism. To eliminate this unintended consequence, BellSouth was constrained to cancel its agreements with independent companies and to negotiate new arrangements.

[2] See attached correspondence.

BellSouth's decision to renegotiate its agreements with independent companies is one that was contemplated by the FCC. In its interconnection order, the FCC acknowledged that "neighboring LECs may have negotiated terms that simply are not viable in a competitive market" and that such preexisting agreements "may not provide a reasonable basis for interconnection agreements under the 1996 Act." Order at ¶170. The FCC, therefore, expressly condoned the renegotiation of preexisting agreements. *Id.* Furthermore, absent clarification from the TRA regarding the scope of the deadline for filing preexisting agreements, and the availability of those agreements to new entrants, BellSouth has a very limited time in which to conclude such negotiations. BellSouth, therefore, had no choice but to file promptly its notice to terminate preexisting agreements with the independents and to renegotiate the terms of such agreements.

Respectfully submitted,

BELLSOUTH TELECOMMUNICATIONS, INC.

By: _____

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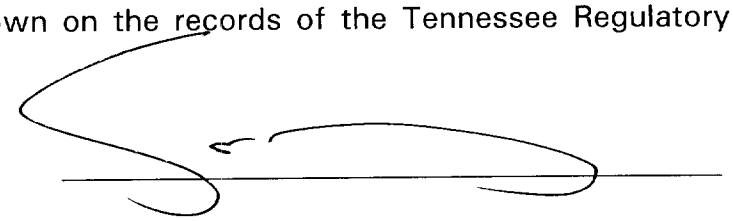
CERTIFICATE OF SERVICE

I hereby certify that on this 21st day of May, 1997, a copy of the foregoing document was served on all incumbent local exchange companies, all competing telecommunications service providers, all interexchange carriers, and all resellers certificate in Tennessee, by depositing a copy of the same in the US Mail, postage prepaid, to their addresses as shown on the records of the Tennessee Regulatory Authority in the attached list.



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TDS TELECOM

April 9, 1997

Mr. David Waddell
Executive Secretary
Tennessee Regulatory Authority
480 James Robertson Parkway
Nashville, TN 37843

FROM:

Ardmore Telephone Company	Ringgold Telephone Company
Ben Lomand Telephone Co-op	TEC
Bledsoe Telephone Co-op	TDS TELECOM
Century Telephone	Twin Lakes Telephone Co-op
Dekalb Telephone Co-op	United Telephone Company
Highland Telephone Cooperative	West Kentucky Telephone Cooperative
Loretto Telephone Company, Inc.	Yorkville Telephone Co-op
Millington Telephone Company	West Tennessee Telephone Cooperative
North Central Telephone Corporation	

Re: Ramifications of BellSouth Telecommunication's Cancellation of EAS Agreements

Dear Mr. Waddell:

On March 26, 1997, BellSouth Telecommunications ("BST") presented a proposal to the Tennessee independent telephone companies and cooperatives. In presenting its proposal, BST stated that it was being required by the Tennessee Regulatory Authority ("TRA") to file copies of all its interconnection agreements. According to BST, this filing is to take place by June 30, 1997. BST also stated that the TRA, as part of this filing, is requiring BST to file all Extended Area Service ("EAS") Agreements. In making these statements, BST relied upon its reading of the TRA's Order dated January 20, 1997 in its 2nd and Final Order of Arbitration Awards in Docket Numbers 96-01152 and 96-01271.

Our reading of the TRA's order does not lead us to conclude that EAS agreements are intended to be included in the order. Rather, it appears that the purpose of the order was to inform the TRA of interconnection agreements which BST had entered into for the purpose of facilitating competition. Because EAS does not facilitate competition, but is instead merely transport and termination of traffic between exchanges of non-competing service providers, the filing of these agreements would not further the goals of the TRA. Nevertheless, BST is convinced that it is required by the orders to file EAS Agreements that it has with all companies, including independent telephone companies and cooperatives, by June 30, 1997.

EAS is a "bill and keep" arrangement in Tennessee. BST is concerned that a bill and keep arrangement is not an appropriate arrangement in a competitive environment. For this reason, BST has canceled existing EAS Agreements between it and independent telephone companies and cooperatives, and has requested the independents to renegotiate arrangements with BST so that they include symmetric reciprocal compensation.

Existing EAS arrangements have resulted in flat rate local calling scopes that were sanctioned by the Tennessee Public Service Commission. In orders establishing these arrangements, the Commission acknowledged the revenue impact which EAS arrangements have on telephone companies, and local rates were adjusted accordingly. In some cases, specific settlement arrangements were ordered between telephone companies.

The important public policy goals which were achieved in part with the implementation of EAS arrangements, under the auspices of the Tennessee Public Service Commission and the TRA, will be undermined if the existing bill and keep arrangements are replaced with reciprocal compensation arrangements at the behest of one of the parties to the arrangement. It is very unlikely that any arrangement which involves moving from bill and keep to reciprocal compensation will remain revenue neutral for both parties involved. Under BST's interpretation of the TRA's Order, all companies are involved, including companies with fewer than 100,000 access lines. The Tennessee Public Service Commission exempted companies with fewer than 100,000 lines from complying with interconnection rules. Rule 1220-4-8-.10.

The burden on a small telephone company to renegotiate EAS Agreements, and possibly go to a reciprocal compensation arrangement, could be enormous. Likewise, the potential impact on small company customers is far reaching. Such an arrangement could frustrate universal service provisions, or upset alternative regulation plans. It is difficult to imagine that the TRA intended such far reaching results. If it did, it surely would have done so in a proceeding to which the independent telephone companies were parties.

The Federal Communications Commission ("FCC"), in its Interconnection Order, required all interconnection agreements between Class A carriers to be filed with the state commissions by July 1, 1997. A Class A carrier is defined as one with revenues from regulated operations of over $100 million. The FCC emphasized that a pre-existing agreement between a Class A carrier and a small telephone company is not subject to the July 1 deadline because of the burden that would be imposed on the small telephone company. First Report and Order ¶171.

Moreover, EAS agreements are not within the scope of the competitive interconnection provisions of sections 251 and 252 of the Telecommunications Act of 1996. It is under these provisions of the Act by which the FCC ordered the filing of the agreements. EAS agreements, which predate the Act, are outside the scope of the Act. The United States Telephone Association and the Rural Telephone Coalition have submitted this issue to the Eighth Circuit Court of Appeals. A decision by the Court is expected within the next two to three months. Assuming that the TRA patterned its Order after the FCC's Order, the logical conclusion is that the TRA did not intend for small LECs to be involved, nor for EAS Agreements to be included in the filing requirement.

Even if the TRA intended for small companies and EAS Agreements to be included in its filing requirement, it does not follow that the TRA intended for BST to cancel these EAS Agreements and require that they be renegotiated. The renegotiation of EAS compensation to conform to terms of sections 251 and 252 would threaten the continuation of existing EAS arrangements with many small telephone companies. EAS involves substantial benefits for hundreds of thousands of Tennesseeans, Tennesseeans who may be severely disadvantaged by renegotiation and/or termination of EAS arrangements.

In its presentation, BST informed the independent telephone companies and cooperatives that if the independents did not cooperate in the renegotiation of EAS arrangements to include reciprocal compensation, BST would file bonafide requests for each independent and request the TRA to terminate the Section 251(f) rural exemptions which exist for the benefit of rural telephone company customers. Again, it is difficult to imagine that the TRA intended for its filing requirement to have such far reaching affect. It simply does not follow that a rural telephone company should be forced to defend its rural exemption before the TRA merely because the Regulatory Authority required BST to file its interconnection agreements.

In light of the foregoing discussion, we have several points for which we seek your affirmation of our understanding.

1. In its Order, the TRA did not intend for BST to file interconnection agreements between it and independent telephone companies and cooperatives which were not entered into for the purpose of facilitating competition.
2. In its Order, the TRA did not intend for EAS agreements to be included in the filing requirements.
3. By issuing its Order, the TRA did not intend for BST to cancel existing EAS Agreements between it and the independent telephone companies and cooperatives. As a corollary, BST does not have the authority to cancel an EAS agreement which was ordered by the Tennessee Public Service Commission.
4. By issuing its Order, the TRA did not intend for the independent telephone companies and cooperatives to be forced to renegotiate EAS arrangements, including a provision for reciprocal compensation , without regard to the revenue impact on the companies, and the rates for Tennesseans.
5. In issuing its Order, the TRA did not intend for BST to file bonafide requests for each independent telephone company to force the independents to negotiate interconnection agreements with BST.

BST, based upon an erroneous understanding of the deadline imposed the TRA, is stressing the need to renegotiate and file EAS agreements. Your affirmation of the Public Service Commission's long-standing policies on large free local calling scopes will enable these services to be enjoyed by Tennesseans well into the future. In order to obviate renegotiation of EAS arrangements, we respectfully request that you affirm our position at your earliest possible convenience. Questions about or replies to this letter may be addressed to the undersigned (423/671-4753) or John Monroe (423/671-4511) at the same address.

Thank you very much for you consideration.

Sincerely,

for

Bruce Mottern
Director - Revenue and Earnings
On behalf of the telephone companies and cooperatives listed on the first page.

JRM:kmp

BELLSOUTH

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Charles L. Howorth, Jr.
Regulatory Vice President

April 22, 1997

Mr. David Waddell
Executive Secretary
Tennessee Regulatory Authority
480 James Robertson Parkway
Nashville, TN 37843

Re: Requirement to file Contracts with Non Class A Independents

Dear Mr. Waddell:

The purpose of this letter is to respond to the April 9, 1997, letter from a number of Tennessee independent telephone companies requesting that the TRA affirm certain positions held by those independent companies. The independent telephone companies have expressed concern over BellSouth's cancellation of existing agreements with them.

As you know, the FCC, in its August 8, 1996, First Order and Report required the incumbent local exchange companies to file all preexisting agreements with Class A carriers with the appropriate state commissions not later than June 30, 1997. In the AT&T and MCImetro arbitration proceedings, the TRA extended the FCC requirement to include all Tennessee incumbent local exchange companies, including non-class A companies. Specifically, the TRA required that BellSouth "file all of its interconnection agreements, including those with other incumbent local exchange companies and including those executed before February 8, 1996, with the Authority by June 30, 1997. . . ." [1] (Second and Final Order of Arbitration Awards, in Dockets 96-01152 and 96-01271, dated January 23, 1997.) The June 30 filing requirement mandated by the FCC and the TRA allows the companies a reasonable opportunity to renegotiate the terms of those agreements. Once these agreements are filed, BellSouth is required, under Section 252(i) of the Telecommunications Act of 1996, to make an agreement available to any competitive local exchange carrier

[1] Whether the TRA intended to follow the FCC First Order and Report and limit the requirement of filing pre-existing agreements to Class A companies or expand the FCC's Order to all companies is a determination for the Authority to make.

("CLEC") that requests it. To begin the process of renegotiation of the agreements with the non-class A independent companies, in February of this year, BellSouth sent a notice of cancellation of the existing agreements in Tennessee and Kentucky. BellSouth advised the independent companies that it was providing notice of cancellation pursuant to the terms of the existing agreement and that the companies should continue to operate under the existing agreements during the renegotiation period.

The independents have focused on the cancellation of the EAS contracts.[2] They do not believe EAS agreements were intended to be included among those to be filed by June 30,1997. BellSouth views the exchange of local traffic between incumbent companies as local interconnection. Consequently, to the extent the TRA has requested that interconnection agreements be filed on or before June 30, BellSouth views EAS agreements as falling within the category of agreements that must be filed by that date.

The independents have also expressed concern about their rural exemption under 251(f) of the Telecommunications Act of 1996. BellSouth is sensitive to this issue and has attempted to structure its proposed agreements in a manner that would not jeopardize any company's exemption. Arguably, if BellSouth requested interconnection with the independents pursuant to Section 251(c) of the Act, the TRA would be required to conduct an inquiry regarding termination of the rural telephone company's exemption. However, BellSouth is not seeking interconnection with any rural telephone company under 251(c). Rather, BellSouth is requesting interconnection pursuant to section 251(a) of the Act. Section 251(a) imposes upon all telecommunications carriers the duty to interconnect with other telecommunications carriers. This obligation does not just apply to RBOCs and other Class A carriers, it applies to "all telecommunications carriers." Without this requirement, neighboring, non-competing carriers could not be required to carry each other's traffic. The rural exemption does not relieve a rural telephone company of this obligation to interconnect with other carriers under section 251(a). For all these reasons, BellSouth has stressed that its request for interconnection is under 251(a), and in fact has entitled the proposed Agreement as follows: "Interconnection Agreement pursuant to Section 251(a)

[2] To our knowledge the TRA has not made any determination whether EAS agreements fall within the category of agreements to be filed by June 30, 1997. BellSouth, unless receiving different direction from the TRA, views EAS as local interconnection.

of the Act." The rural telephone company exemption does not extend to section 251(a) requirements, only to the requirements of 251(c).

As a final point, the FCC in its Interconnection Order only required interconnection agreements between Class A carriers to be filed no later than June 30, 1997. Besides Tennessee, Kentucky is the only other state in BellSouth's region to have gone beyond the FCC and to require that all interconnection agreements with existing ILECs be filed by June 30, 1997.

Sincerely,

Charlie Howorth

Charles L Howorth, Jr.

cc: Bruce Mottern
Leo Shoemaker
Eddie Roberson

bcc: David Dickey