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JAN 30 1992

Federal Communications Commission
Office of the Secretary

Before the
FEDERAL COMMUNICATIONS COMMISSION
Washington, D.C. 20554

In the Matter of	)	
	)	
Petition for Rulemaking to	)	
Modify the Regulatory Treatment of	)	
COMSAT World Systems' Multi-Year	)	RM-____
Fixed-Price Carrier-to-Carrier	)	
Contract-Based Switched-Voice	)	
Services	)	

PETITION FOR RULEMAKING

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COMSAT World Systems

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SUMMARY

The Commission has determined that incentive-based regulation is superior to traditional rate-base regulation, and has modified its treatment of AT&T and the local exchange carriers in accordance with that principle. To date, however, incentive-based regulation has not been extended to COMSAT, even though it exercises much less market power than either AT&T or the LECs, and even though its operations are subject to pervasive competition.

When the Commission last considered COMSAT's regulatory status almost seven years ago, fiber optic cables had not yet been deployed and the Commission's circuit loading policy assured COMSAT a substantial share of the market for international transmission capacity. Today, loading guidelines have been eliminated and COMSAT faces intense competition from fiber cables, as well as from separate satellite systems.

Although COMSAT believes that these developments justify substantial deregulation of its activities, it recognizes that such deregulation could involve a lengthy proceeding. Therefore, in the hope of securing expeditious relief, COMSAT proposes a limited modification of the existing regulatory framework. The suggested modification would establish incentive-based regulation for COMSAT's multi-year fixed-price carrier-to-carrier contract-based switched-voice INTELSAT services. At present, these include 5-, 7-, 9-, 10- and 15-year FM, IDR and TDMA services.

Under the proposed plan, COMSAT's rates for multi-year carrier switched-voice services would be "capped" at the substantially reduced levels that went into effect on January 1, 1992. COMSAT would be free to file lower rates for these services on 14 days' notice, and those rates would be prima facie lawful as long as they covered COMSAT's average variable costs. COMSAT's long-term switched-voice service offerings to carriers would remain subject to the Section 208 complaint process, but would be excluded from annual rate-of-return reviews.

Adoption of this reform would substitute positive economic incentives for the distorted incentives that are inherent in traditional rate-base regulation; would enable COMSAT to offer low, levelized rates in the face of highly cyclical costs; and would preserve the integrity of the market-based relationships between COMSAT and its carrier customers. At the same time, this plan would pose no risk to competitors or to the public, given the experience, sophistication and bargaining power of COMSAT's carrier customers, the presence of effective competition, and the Commission's retention of a significant oversight role. COMSAT therefore urges the Commission to adopt this regulatory reform plan.

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PETITION FOR RULEMAKING

Communications Satellite Corporation, through its COMSAT World Systems division ("COMSAT" or "CWS"), hereby petitions for a rulemaking to modify the Commission's regulatory treatment of its multi-year fixed-price carrier-to-carrier contract-based switched-voice INTELSAT services (hereafter "multi-year carrier switched-voice services"). The incentive-based regulatory program proposed by CWS herein reflects recent changes in the international transmission capacity marketplace. Adoption of this proposal will enable CWS to be more responsive to market conditions and customer needs, without adversely affecting the quality or efficacy of Commission oversight.

I. INTRODUCTION AND SUMMARY OF PROPOSAL

This Commission has recognized on several occasions that the application of traditional rate-base regulation can deter innovation, impose significant and unnecessary costs, impede the ability of carriers to meet their customers' needs, and restrain competition.[1] Accordingly, recent Commission initiatives in the common carrier area have followed the guiding principle that "[g]overnment regulation must adapt to changing market conditions -- providing effective safeguards where necessary, but not retarding efficient operations where markets are working."[2]

The Commission, consistent with this perspective, recently modified its regulation of AT&T's less competitive services and of the local exchange carriers' monopoly offerings by creating incentives that replicate the pressures of a competitive marketplace.[3] The Commission has also streamlined its regulation of AT&T's highly competitive business services and Tariff 12 offerings,[4] and has even proposed to reduce its regulatory oversight of foreign carriers having bottleneck control over essential facilities.[5] To date, however, none of these reforms

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[1] See, e.g., Statement of Alfred C. Sikes before the House Subcommittee on Telecommunications and Finance on Federal Communications Commission Communications Common Carrier Programs (June 19, 1991), at 3.

[2] Statement of Alfred C. Sikes before the House Subcommittee on Telecommunications and Finance (August 2, 1990), at 5.

[3] See Policy and Rules Concerning Rates for Dominant Carriers, 4 FCC Rcd 2873 (1989) (hereafter "AT&T Price Cap Order"), recon., 6 FCC Rcd 665 (1991); Policy and Rules Concerning Rates for Dominant Carriers, 5 FCC Rcd 6786 (1990) (hereafter "LEC Price Cap Order"), recon., 6 FCC Rcd 2637 (1991).

[4] See Competition in the Interstate Interexchange Marketplace, FCC 91-251 (Sept. 16, 1991) (hereafter "Interexchange Competition Order").

[5] Regulation of International Common Carrier Services, FCC 91-402 (released January 10, 1992).

has been extended to COMSAT, which is now the most heavily regulated of all U.S. common carriers subject to the Commission's jurisdiction, even though it exercises much less market power than either AT&T or the LECs, and even though its operations are subject to pervasive competition.

COMSAT submits that a change in its regulatory status is clearly warranted. When the Commission last considered COMSAT's position in the marketplace almost seven years ago, it decided that COMSAT's INTELSAT business should remain subject to the full panoply of common carrier regulation. It based this decision on two principal factors: first, that high capacity fiber optic cables capable of handling all types of traffic had not yet been deployed; and second, that the Commission's circuit loading policy assured COMSAT a substantial share of the market for international transmission capacity.[6] As shown in Part II below, neither of those factors is operative today. Large amounts of undersea fiber have been laid worldwide, and circuit distribution guidelines have been replaced by negotiated agreements between CWS and its two largest carrier customers, AT&T and MCI. Moreover, CWS also faces increasing competition from separate satellite systems.

Although CWS believes that these developments justify substantial deregulation, it recognizes that such a request could

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[6] International Competitive Carrier Policies, CC Docket No. 85-107, 102 FCC 2d 812 (1985) (hereafter "International Competitive Carrier Order"), <u>recon</u>., FCC 86-339 (Aug. 7, 1986).

lead to a lengthy proceeding. Therefore, in the hope of securing expeditious relief, CWS proposes at this time only a limited modification of the existing regulatory framework, applicable to its multi-year carrier switched-voice services.[7] The Commission has explicitly recognized that COMSAT's provision of INTELSAT services on a long-term contract basis yields substantial public interest benefits by providing carriers with stabilized rates, facilitating COMSAT's planning and investment decisions, and helping to maintain INTELSAT's sound economic foundation.[8] The suggested modification would establish an incentive-based regulatory approach that would enhance the public interest benefits of COMSAT's existing long-term arrangements.

Under the plan proposed here, COMSAT's rates for multi-year carrier switched-voice services would be capped at the negotiated levels in effect as of January 1, 1992. COMSAT would be free to file lower rates for those services on 14 days' notice, and such rates would be considered _prima facie_ lawful as long as they covered average variable costs (AVC). Thus, any party seeking suspension or investigation of a new CWS tariff for multi-year carrier switched-voice services would be required to meet the

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[7] At present, these include 5-, 7-, 9-, 10- and 15-year FM, IDR and TDMA services.

[8] Policy for the Distribution of United States International Carrier Circuits Among Available Facilities During the Post-1988 Period, 3 FCC Rcd 2156, 2160-62 (1988) (hereafter "Circuit Distribution Order"); _see also_ Communications Satellite Corporation (Transmittal No. 674), DA 88-191 (Feb. 17, 1988), _rev. denied_, FCC 90-272 (Aug. 9, 1990).

"substantial cause" test set forth in Section 1.773(a)(1)(iv) of the Commission's Rules.[9]

Consistent with the incentive-based plans adopted for AT&T and the LECs, COMSAT's earnings from multi-year carrier switched-voice services would be excluded from traditional year-by-year rate-base regulation. But unlike the situation with AT&T and the LECs, there would be no need for the Commission to periodically adjust COMSAT's rates, because long-term fixed-price contracts are involved and because COMSAT faces pervasive competition from fiber cables and other satellite systems. CWS would continue to file its carrier-to-carrier agreements with the Commission pursuant to Section 211 of the Communications Act, and its multi-year carrier switched-voice services would remain subject to review in connection with a customer complaint pursuant to Section 208 of the Act.[10] However, those services would not be subject to annual rate-of-return reviews.[11]

As shown in Part III below, adoption of this reform will directly serve the public interest in several respects. It will

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[9] See AT&T Price Cap Order at 3095-3100; LEC Price Cap Order at 6822.

[10] See LEC Price Cap Order at 6835-36. See also FPC v. Sierra Pacific Power Co., 350 U.S. 348 (1956), which sets forth the legal standard pertinent to carrier-to-carrier contracts.

[11] Regulation of COMSAT's other INTELSAT services (including business services, video, and month-to-month switched-voice services) would remain unchanged under this limited reform proposal.

substitute positive economic incentives for the distorted incentives that are inherent in traditional rate-base regulation; it will enable CWS to offer low, levelized rates in the face of highly cyclical costs; and it will preserve the integrity of the market-based relationships between COMSAT and its carrier customers. At the same time, this plan will pose no risk to competitors or the public, given the limited relief sought, the experience, sophistication and bargaining power of COMSAT's customers, the use of AVC as a price floor, the presence of effective competition, and the protections afforded by the Communications Act.

I. AS A RESULT OF RECENT MARKET CHANGES, THE REGULATORY APPROACH APPLIED TO COMSAT'S INTELSAT SERVICES IS NO LONGER IN THE PUBLIC INTEREST.

The FCC last examined its regulatory treatment of COMSAT in 1985, in the International Competitive Carrier proceeding. In that docket, the Commission decided, "for the purposes of this initial deregulatory effort," to make "the conservative assumption that [international] space segment is a relevant submarket."[12] It decided at that time to subject COMSAT to full Title II regulation based on two aspects of then-current market conditions. First, the Commission explained that, although satellites and cables are "generally fungible for most uses and routes," satellites remained necessary to carry broadband data and television transmissions and

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[12] International Competitive Carrier Order at 838-39.

to provide restoration capacity until fiber optic cables were actually deployed.[13] Second, the Commission noted that its circuit distribution or "loading" guidelines, then still in effect, "guarantee[d] Comsat a definite share of IMTS traffic."[14]

In the seven years since the International Competitive Carrier decision, the two principal conditions underlying the Commission's conservative approach have been removed. Fiber optic cables are now deployed on all major traffic routes, and as the Commission predicted in 1985,[15] this has substantially increased competition in the provision of international transmission capacity. In addition, as a result of the Commission's 1988 action ending the imposition of circuit distribution guidelines, there is no longer any regulatory requirement that carriers route any amount of traffic over satellite facilities.[16] The overall result, in terms of its impact on COMSAT, is a far different market than the one that existed seven years ago.

A. Fiber Optic Cables Now Cover All the Major Routes, and Are Expanding Rapidly Throughout the World.

As the following data indicate, there is sufficient fiber cable capacity already deployed to ensure vigorous intermodal

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[13] Id. at 838 & n.63.

[14] Id. at 838 n.64.

[15] Id. at 838 n.63, 839-40.

[16] Circuit Distribution Order, supra.

competition on the busiest overseas traffic routes. Moreover, enough additional cables have been planned, or are in the process of deployment, to ensure intermodal competition on all major traffic routes before mid-decade.

Trans-Atlantic Routes. There are 24,570 64 Kb bearer circuits currently available on trans-Atlantic fiber optic cables, with 30,240 more circuits coming on line within the next year. This total of 54,810 cable circuits compares with 66,000 trans-Atlantic circuits expected to be available on the INTELSAT system by year-end 1992.[17]

Trans-Pacific Routes. There are 24,570 64 Kb bearer circuits currently available on trans-Pacific fiber optic cables, with 15,120 more circuits being deployed in the next year. This total of 39,690 cable circuits compares to 33,500 trans-Pacific circuits expected to be available on the INTELSAT system by year-end 1992.

Caribbean/South American Routes. There are 19,530 64 Kb bearer circuits now available on fiber optic cables in the Caribbean and South America, with 45,360 more planned for deployment in 1993. This total of 64,890 cable circuits compares

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[17] This total includes INTELSAT capacity used for all trans-Atlantic services (including switched-voice, TV, broadband and restoration services), and assumes the successful launch of the INTELSAT-K satellite and the successful relaunch of the INTELSAT VI (F-3).

to 32,725 circuits expected to be available on the INTELSAT system by year-end 1993.

Taking into account countries that interconnect through other fiber optic cables to the foreign terminal points of U.S. cables, 21 nations, which in 1990 constituted the points of destination for 60 percent of U.S.-overseas traffic, are now reachable by fiber. These countries include virtually all of the U.S.'s major overseas trading partners. Moreover, this tally is expected to rise to 36 nations and 70 percent of traffic by 1994 (assuming comparable traffic levels and country mix), and several of those 36 countries will be served by two, three or even more cable systems.

B. There Is No Longer Any Regulatory Barrier Preventing COMSAT's Major Customers from Using Their Own Cable Facilities, and They Have Every Incentive To Do So.

COMSAT is in a unique position among communications carriers in that its major customers, such as AT&T, MCI and US Sprint, have enormous bargaining power due to their sunk investment in competing transmission facilities (fiber optic cables). As demonstrated above, these cables are capable of handling large amounts of traffic that the carriers currently place on the INTELSAT system. This existing investment creates a powerful incentive to use fiber rather than satellites wherever possible. As the Commission's staff acknowledged in 1986:

> From the viewpoint of an owner of an idle cable circuit, the cost of using the circuit is approximately zero, while the cost of leasing a satellite circuit is the rental payment that can be saved by terminating the satellite lease. Given free choice, carriers would drop most leased satellite circuits in favor of idle cable circuits they already own. They would keep only the minimum number of satellite circuits necessary to serve routes not connected by cable and to meet the concerns they and foreign telecommunications authorities have about diversity of routes.[18]

Since the elimination of circuit distribution guidelines in 1988, the carriers have been free of any regulatory requirement that they allocate traffic to satellite facilities. Under its agreement with COMSAT, AT&T committed to allocate only about 34 percent of its growth traffic to satellite facilities through mid-1995, and MCI's commitment was cast in terms of a specified numbers of circuits rather than a percentage of growth. As a result, COMSAT's market share for switched-voice traffic, which was approximately sixty percent in the mid-1980s, is expected to approach fifty percent in 1992.

It is worth noting that, with a market share approaching fifty percent, CWS has about the same portion of the relevant market that AT&T has for its business services, which the Commission found to be subject to enough competition to merit

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[18] E. Kwerel and J. McNally, Jr., Promoting Competition Between International Telecommunication Cables and Satellites, OPP Working Paper No. 19 (January 1986), at 20.

considerable deregulation.[19] As the Commission found with respect to AT&T, a market share of "about 50 percent . . . is not incompatible with a highly competitive market."[20] This is especially true where, as in COMSAT's case, a carrier's customers own alternative transmission facilities.

In 1988, the Commission concluded that "[t]he introduction of fiber optic submarine cables [will] place INTELSAT and Comsat under pressure to find ways of cutting costs and reducing rates in the long run in order to remain competitive on the high density routes that will be served by the cables."[21] Less than four years later, that market prediction has been amply borne out. From 1988 through 1990, CWS reduced its standard monthly rate for 10-year IDR circuits from $875 to $770 on a 64 Kb equivalent basis, and also had three promotional (three- to six-month) rate reductions for digital services ranging from 25 to 65 percent. And last year, in further response to competitive pressures from fiber cables, CWS filed a "growth incentive" tariff for digital switched-voice services that offers reductions of up to 55 percent on 10-year commitments and up to 58 percent on 15-year commitments.[22] That tariff filing, which was in large part the

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[19] See Interexchange Competition Order at ¶ 50 (AT&T's market share for business services is 50-55 percent).

[20] Id. at ¶ 51.

[21] Circuit Distribution Order at 2162.

[22] Comsat Transmittal No. 908, supra.

product of extended negotiations between CWS and its major carrier customers, was unopposed by any party and went into effect on January 1, 1992.

C. COMSAT Also Faces Substantial Competition from Separate Satellite Systems.

Not only is the amount of fiber optic cable capacity increasing dramatically, but the number of international satellite providers is increasing as a result of U.S. separate systems policy.[23] While Pan American Satellite began service only in 1988, its existing satellite, with 24 36 MHz equivalent C-band transponders and twelve 36 MHz equivalent Ku-band transponders, is now at or near full capacity. Moreover, PanAmSat has recently announced plans to launch three more satellites in 1994. Another separate system, Orion, is scheduled to launch its first satellite (with 48 36 MHz equivalent Ku-band transponders) in 1994. And a third new entrant, Columbia Communications Corporation, is currently introducing service using two existing TDRSS satellites, each with 12 36 MHz equivalent C-band transponders.

These separate systems exert significant competitive pressures on CWS. They are already authorized to carry private line traffic (which is by far the fastest growing segment of

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[23] Establishment of Satellite Systems Providing International Communications, 101 F.C.C. 2d 1046 (1985), _recon_., 61 R.R. 2d 649 (1986), _further recon_., 1 FCC Rcd 429 (1986).

international communications), as well as video, emergency restoration traffic, and up to 100 circuits per system of traffic interconnected with the public switched network.[24] Moreover, after the Executive Branch's recent modifications to U.S. policy are implemented,[25] separate systems will also be able to carry private line traffic (as defined in Section 43.61(a)(6) of the Commission's Rules) that is interconnected with the public switched telephone network. Finally, it is an Executive Branch goal that, by January 1997, separate systems will be totally free of all restrictions.[26] Accordingly, separate satellite systems offer actual and potential competition to CWS, even though they do not pose as serious a challenge as do fiber optic cables.

In sum, by any measure, including market share, pricing trends, demand substitutability, the strength of its competitors, and the sophistication and bargaining power of its customers, COMSAT operates in an intensely competitive marketplace. For over 25 years, satellites have played an important part in providing communications service throughout the world, and COMSAT is confident that they will continue to do so in the decades to come.

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[24] Letter from George P. Shultz and Malcolm Baldrige to Mark S. Fowler (Nov. 28, 1984); Letter from Thomas J. Murrin and Lawrence S. Eagleburger to Alfred C. Sikes (Dec. 14, 1990).

[25] See Letter from James A. Baker, III and Robert Mosbacher to Alfred C. Sikes (Nov. 27, 1991) (hereafter "Baker-Mosbacher Letter"). See also FCC Public Notice, Report No. I-6651 (January 22, 1992).

[26] Baker-Mosbacher Letter, supra.

However, the regulatory relief described herein is critical to ensuring that users of communications services continue to receive the benefit of vigorous and fair competition in the international transmission capacity marketplace.

III. INCENTIVE-BASED REGULATION OF COMSAT'S MULTI-YEAR CARRIER SWITCHED-VOICE SERVICES WILL PERMIT CWS TO ENHANCE EFFICIENCY AND REDUCE RATES WHILE ENSURING THAT THOSE RATES REMAIN JUST AND REASONABLE.

In its 1988 Circuit Distribution Order, the Commission determined that permitting COMSAT to provide service to its customers pursuant to long-term arrangements would serve the public interest by promoting a more competitive IMTS marketplace, and by positioning COMSAT and INTELSAT to meet growing competition from fiber optic cables.[27] COMSAT believes that these arrangements have indeed been highly beneficial, and have met the public interest goals articulated by the Commission.

As carriers have been freed to make their own traffic allocation decisions, COMSAT has been market-driven to provide service in an ever more efficient and cost-effective manner. In addition, as the Commission recognized, the very nature of a long-term commitment promotes lower rates and more prudent investment. Because its customers have made commitments to keep traffic on the INTELSAT system over long periods of time, COMSAT has been able to

[27] Circuit Distribution Order at 2160-62; see also Communications Satellite Corporation (Transmittal No. 674), DA 88-191 (Feb. 17, 1988), rev. denied, FCC 90-272 (Aug. 9, 1990).

plan its investment with less risk of unused capacity, and has also been able to streamline its administrative and overhead costs. As shown below, the modified regulatory approach proposed herein would further enhance the public interest benefits of COMSAT's long-term arrangements with carrier customers, and would further promote competition while still ensuring significant Commission oversight. Accordingly, COMSAT submits that adoption of this reform plan is in the public interest.

A. Adoption of This Reform Plan Will Provide CWS with Positive Economic Incentives.

As the Commission has recognized previously in its AT&T and local exchange carrier (LEC) price cap proceedings,[28] traditional rate-based regulation provides distorted incentives for carriers that are highly inappropriate in an increasingly competitive environment.[29] In contrast, under incentive-based regulation, carriers are encouraged to control expenses and to tailor capital investments to meet user requirements. Users benefit under such regulation as cost reductions are translated into rate reductions.

The Commission has properly found that the public interest will benefit as the result of its providing positive incentives to AT&T and the LECs. Among the benefits of incentive-based

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[28] Supra n.3.

[29] AT&T Price Cap Order at 2889-2991; LEC Price Cap Order at 6790.

regulation that the Commission has identified in those proceedings are that such regulation: (1) promotes efficiency, rather than inefficiency; (2) sharpens competitiveness; (3) promotes innovation by encouraging carriers to be more productive; (4) allows new services to be brought to market faster; (5) makes tariffing less complicated and more flexible; and (6) reduces burdens on strained regulatory resources.[30]

These are also compelling reasons to apply incentive-based regulation to COMSAT's multi-year carrier switched-voice services. Moreover, incentive-based regulation would be much simpler to apply to COMSAT than to either AT&T or the LECs. In both of those cases, much of the Commission's attention had to be focused on devising complicated productivity and exogenous cost formulae that would replicate market forces and ensure continual downward pressure on rates, in light of the relative lack of competition in the relevant markets. In COMSAT's case, however, no such exercise will be necessary. As shown above, COMSAT faces pervasive competition from fiber cables and other satellite systems, and the rates involved here are levelized long-term fixed prices agreed to in carrier-to-carrier contracts.

The imposition of an absolute ceiling at prices in effect as of January 1, 1992, will ensure that COMSAT's rates do not

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[30] See, e.g., LEC Price Cap Order at ¶¶ 21-37.

increase and that its real-dollar rates will actually fall with the rate of inflation. Moreover, as recent trends show, the market itself will provide additional downward pressure on COMSAT's rates without the need for any artificial mechanisms. Finally, the new, more flexible tariffing procedures described in Part I above will allow COMSAT to file beneficial rate reductions on shorter notice. In short, incentive-based regulation will sharpen the productivity and efficiency incentives on which COMSAT must act in order to remain competitive.

B. Adoption of This Reform Plan Will Promote Competitive Rates and Preserve the Integrity of COMSAT's Market-Based Customer Relationships.

COMSAT's rates for multi-year switched voice services are in large part the product of negotiations between CWS and its largest carrier customers. These customers (as well as most of COMSAT's other customers) are highly knowledgeable and experienced, and do not need assistance in order to negotiate favorable terms and conditions. In these circumstances, any intrusion by the Commission into the bargaining process is at odds with marketplace outcomes.

As discussed in Section II above, COMSAT's carrier customers have a powerful incentive to use cable rather than satellite facilities and, thus, have tremendous leverage over COMSAT. in light of this, it is clear that allowing COMSAT to negotiate multi-year carrier-to-carrier contract rates for switched-voice services without regard to annual "cost plus" earnings regulation will not result in unjust or unreasonable rates. Given their ownership of fiber optic cables, COMSAT's customers would respond to such rates simply by shifting an ever-increasing portion of traffic to their own facilities. Therefore, any attempt at overcharging by COMSAT would be self-defeating.

In fact, the current system of regulation actually impedes COMSAT's ability to offer its customers the lowest possible rates, because of the cyclical nature of satellite costs and investment. Satellites are typically procured and constructed in series at intervals of several years, with the heaviest costs being incurred at the front end of each construction cycle. Consequently, a rate structure that offers levelized prices over long periods will yield revenues that are not evenly matched with costs year-by-year.

When costs are high, COMSAT cannot raise rates because its customers have competitive alternatives. But when costs are low, COMSAT may have to institute temporary rate reductions. COMSAT's customers have made it clear that they do not like these temporary reductions; they prefer lower long-term prices. In sum, annual "cost plus" earnings regulation is inconsistent with the very nature of long-term fixed-price contracts, which the Commission has found to be in the public interest. The Commission therefore should apply incentive-based regulation to COMSAT's multi-year carrier switched-voice offerings so that customers, end users and COMSAT itself can all benefit from COMSAT's provision of service at the lowest possible rates.

C. The Reform Plan Includes Safeguards That Will Protect Competitors and the Public.

Although it is reasonable to expect that most of the downward pressure on COMSAT's switched-voice rates will continue to come from the major carriers, those rates will continue to be made available under this reform plan to all of COMSAT's similarly situated customers, as is required by Section 202(a) of the Communications Act. And because COMSAT's rates will still be required to cover average variable costs, the regulatory reform plan outlined herein will ensure that customers for other COMSAT services do not bear any costs that should be assigned to multi-year carrier switched-voice services.

Such cross-subsidization could not occur in any case, because switched-voice services still comprise by far the largest element of COMSAT's total traffic, and the remaining categories of service offered by COMSAT (such as IBS and TV) are fully competitive. As noted above, those services will remain subject to traditional regulation under COMSAT's proposed plan. Moreover, users will be safeguarded from cost shifting by the accounting system and cost allocation procedures which the Commission has crafted for COMSAT. Finally, and as noted above, COMSAT will still be subject to Section 208 complaint procedures.

Accordingly, none of its customers will be harmed by adoption of this incentive-based reform plan.

IV. CONCLUSION

The regulatory reform package set forth herein will enhance competition in the international transmission capacity marketplace by reducing unnecessary regulatory burdens and allowing COMSAT to meet its customers' needs in a more timely and efficient fashion, while enabling the Commission to maintain an appropriate level of regulatory oversight. Moreover, adoption of the plan will be a significant first step toward aligning COMSAT's mode of regulation with the competitive challenges it faces in the marketplace.

As demonstrated above, there are compelling reasons to provide COMSAT with the same positive economic incentives that now apply to every other U.S. carrier subject to the Commission's jurisdiction. Accordingly, COMSAT urges the Commission to adopt expeditiously the plan described herein.

Respectfully submitted,

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