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Federal Communications Commission
Office of the Secretary

ALLTEL

ALLTEL SERVICE CORPORATION
1710 Rhode Island Ave. NW • Suite 1000 • Washington, DC 20036
Telephone: 202-331-0113 Facsimile: 202-331-0082

ORIGINAL FILE

August 28, 1992

Ms. Donna R. Searcy
Secretary
Federal Communications Commission
1919 M Street NW, Room 222
Washington, DC 20554

RE: In the Matter of Regulatory Reform for Local Exchange Carriers Subject to Rate of Return Regulation, CC Docket No. 92-135

Dear Ms. Searcy,

Enclosed for filing by ALLTEL Service Corporation on behalf of the affiliated ALLTEL telephone operating companies, are an original and nine copies of its comments in the above referenced proceeding.

Should there be any questions concerning this matter, please contact the undersigned counsel.

Sincerely,

Carolyn C. Hill

Carolyn C. Hill
Federal Regulatory Counsel

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Enclosures

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Federal Communications Commission
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Before the
FEDERAL COMMUNICATIONS COMMISSION
Washington, DC 20554

In the Matter of	)	
	)	
Regulatory Reform for	)	
Local Exchange Carriers	)	CC Docket No. 92-135
Subject to Rate of Return	)	
Regulation	)	

Comments of ALLTEL Service Corporation

ALLTEL Service Corporation (ALLTEL), on behalf of its 32 affiliated telephone operating companies, hereby submits its comments in response to the Commission's Notice of Proposed Rulemaking ("Notice"), FCC 92-258, released July 17, 1992. The ALLTEL companies operate in predominantly rural and suburban areas of 25 states and participate in the National Exchange Carrier Association (NECA) Carrier Common Line (CCL) and Traffic Sensitive (TS) pools except for ALLTEL Illinois, Inc. which has its own access service tariff for TS charges.

ALLTEL welcomes the opportunity to participate in this proceeding and commends the Commission's efforts in proposing rules to extend the benefits of regulatory reform to non-price cap local exchange carriers (LECs) and their customers.

The rate of return companies are diverse. Within the ALLTEL system, the ALLTEL companies serve communities ranging from 25 to over 30,000 households (Cheneyville, IL to Elyria, OH) and they have different patterns of telephone usage, geography, and income. Fifty-two percent (52%) of ALLTEL's central offices serve less than

1,000 access lines. These factors limit the economies of scale and scope associated with larger companies. Because of this, there is an extant need for maximum flexibility and optionality if a regulatory reform program is to succeed.

Based on our review of the Notice, ALLTEL submits that certain proposals are overly restrictive and will not meet the diverse needs of the ALLTEL companies and, perhaps, the needs of other non-price cap carriers. ALLTEL believes that any plan adopted by the Commission should be one that offers viable regulatory options for non-price cap carriers with incentive components to enhance and reward efficient operation. The election of any of those options should not be considered as a transitional step towards price caps. Rather, a carrier's election of an option should be regarded as an alignment with a model that best meets the needs of that particular carrier based on its unique circumstances. Without appropriate options, participation in the optional incentive plan by most of the rate of return carriers may be limited. This result will significantly chill the Commission's goal to extend the benefits of regulatory reform to non-price cap LECs.

ALLTEL believes the Commission could improve the likelihood of LEC participation in an optional incentive plan and achievement of its objective of ratepayer benefits by:

(1) Providing for participation in the optional incentive plan on a pool (CCL or TS) basis rather than the all-or-nothing basis as proposed in the Notice;[1]

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[1] Notice, at page 5.

(2) Recognizing that the selection of a particular option is not tantamount to an election of price cap regulation, but rather, the election of a viable rate of return regulation option; and,

(3) Adopting various facets of the United States Telephone Association (USTA) plan.[2]

I. OPTIONAL INCENTIVE REGULATION PLAN

In the Notice, the Commission correctly recognizes that non-price cap companies are different than price cap companies. However, ALLTEL believes that the Commission has mistakenly assumed that rate of return companies have not elected to be regulated under price caps because they are adverse to the so-called heightened risks of a price cap system.[3] ALLTEL submits that it is not an aversion to heightened risk which precludes the election of price caps by many rate of return companies, but the diversity of size, cost and usage characteristics of many of these companies which precludes an election of price caps. For example, the ALLTEL companies and many other independent rate of return companies are different than price cap companies in that:

(a) The loss of one or two major customers can have a great impact on usage and on our revenue streams.

(b) We generally have a smaller base of customers and services over which to spread our costs.

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[2] USTA's proposal, and a supplement thereto proposing limited pricing flexibility for the NECA pools, was placed on the record in this proceeding by letter dated July 29, 1992, from Linda Kent, Associate General Counsel of USTA, to Donna Searcy, Secretary of the Commission.

[3] Notice, at page 2.

(c) Costs vary considerably because we serve such a wide geographic area (25 states in ALLTEL's case). In this regard, the ALLTEL companies participate in the NECA CCL pool for two reasons; first, the Commission's rules require all or nothing participation by LEC affiliates and, second, pool participation allows ALLTEL access customers in certain rural areas to receive the benefits of CCL rates at the national average.

Because of the diversity in size, cost and usage characteristics, ALLTEL believes that viable rate of return regulatory options are necessary to accomplish the Commission's stated objectives in this proceeding. Certainly the proposals for longer tariff filing periods, use of historical costs, broader earnings bands and greater pricing flexibility appear to have favorable attributes under appropriate operating conditions. The key is the ability of each carrier to evaluate these based on its unique circumstances and then to be able to select a suitable regulatory option that is not synonymous with an election of price caps or that results in automatic expulsion from the NECA pools.

(a) Frequency of Tariff Filings - The Commission's proposal regarding tariff filings every two years for rate of return carriers is a positive step toward simplification and reduction of unnecessary regulatory burdens. We also believe that a company must have the option of filing revisions within the two year period if costs or usage changes affect earnings.

(b) Earnings Band - Although the Commission concludes that the rate of return reform proposals entail less risk than price

caps,[4] the lower earnings band proposed by the Commission is the same as that in the price cap plan, and the upper band is 200 basis points below the effective minimum return for a price cap company choosing the 3.3% productivity offset. We believe that the Commission-proposed bands are overly restrictive and need to be adjusted consistent with the USTA proposal.

(c) Cost Basis for Incentive Plan Tariffs - ALLTEL concurs that companies participating in the optional incentive plan should base their first tariff filing on the most recent 12 month period of costs.[5] Furthermore, ALLTEL believes that exogenous cost changes, as defined under price caps, should be reflected prospectively in access rates. Known and measurable changes should be permitted without the necessity of targeting rates to the low end of the permissible earnings band. Targeting to the authorized interstate rate of return is appropriate in order to provide the company the opportunity to earn the authorized return. Further, ALLTEL believes that known and measurable changes should include both cost and demand changes. In this regard, ALLTEL urges the Commission to adopt the definition of "known and measurable changes" proposed in the USTA comments being filed today.[6]

(d) New Services - For new services offered by incentive plan carriers, the Commission has proposed a presumption of lawfulness if the carrier's anticipated earnings are de minimis (2 percent or

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[4] Notice, page 6.

[5] Notice, page 7.

[6] See USTA comments at page 15, footnote 37.

less of a company's total annual operating revenues) and if the rate does not exceed the rate charged by the geographically closest price cap LEC offering the same or similar service.[7] Because the ALLTEL companies are widely dispersed, utilization of the nearest price cap company rate may cause inappropriate anomalies. To remedy this, ALLTEL proposes that the use of an equivalent, existing cost-based tariff rate, such as that proposed in the USTA plan, be adopted.

(e) Pricing Flexibility - Non-price cap LECs require pricing flexibility in order to respond to competitive pressures as well as to respond to connecting company rates. The basket proposals contained in the Notice and the 14-day notice period with a presumption of lawfulness upon a showing of revenue neutrality are appropriate. ALLTEL believes that a ten (10) percent adjustment upwards makes sense, but a lower limitation does not.[8]

(f) Infrastructure and Service Quality Reporting - In keeping with the Commission's stated goals of simplification and reduction of unnecessary regulatory burdens, ALLTEL believes the Commission should consider a more streamlined, less burdensome system of reporting infrastructure and service quality for the small and mid-sized carriers than that proposed in the Notice. The ALLTEL companies and other rate of return carriers value their customer

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[7] Notice, pages 7-8.

[8] If we assume a hypothetical, but realistic traffic sensitive rate of 4 cents, a thirty (30) percent reduction would set the new rate at 2.8 cents. This would still be significantly above that of the price cap LECs.

relationships and believe they would be ill-served by allowing service quality and network plant to deteriorate. A more balanced approach of reporting at a level less than that required of the mandatory price cap or voluntary price cap companies will ensure quality service to ratepayers but without imposing undue administrative reporting burdens on small and mid-sized LECs.

(g) Eligibility and Optional Basis - A fundamental flaw in the Commission's incentive plan is the proposed requirement that to participate in the incentive option plan a company must depool all of its cost companies from both the CCL and TS pools. This requirement would effectively preclude ALLTEL's participation in the proposed incentive option plan. Moreover, it denies the benefits of bifurcation to all access service users. While the Commission has always required all the affiliates of a LEC to participate in the NECA CCL pool or to exit it en masse, it has never required this with respect to TS pool participation or sought to impose such linkage between CCL and TS participation. To do so now is contrary to the ratepayer benefits the Commission seeks to achieve through its incentive regulatory reform proposal.

Companies have remained in the CCL pool because the ability to gain efficiencies in non-traffic sensitive and/or loop is severely limited. This coupled with relatively high loop costs makes depooling of CCL untenable. In order to extend the benefits of any potential efficiency gains to access customers, companies must be allowed to retain CCL pool membership on an all or nothing basis while being allowed to elect an incentive regulation scheme for TS

where true efficiency gains and the resultant overall access rate reductions can be realized. In the case of the ALLTEL companies, the benefits of bifurcation are projected to be such that they could result in a significant reductions in access charges for ALLTEL's access customers.

II. BASELINE RATE OF RETURN REGULATION BASED ON PROSPECTIVE COSTS (SECTION 61.38 AND PART 69)

ALLTEL supports the Commission's proposal to modify its current "baseline requirements" for rate of return companies. A baseline tariff filing every two years for those companies whose cost and demand characteristics are stable would significantly ease the administrative costs associated with the annual filing process. These companies should be permitted, however, to make mid-course corrections where appropriate. Also, for some companies cost and demand may vary considerably from year to year, and ALLTEL believes that it is important that LECs retain the ability to make annual filings.

Because of the diversity of cost and demand characteristics among non-price cap companies, small and mid-sized carriers should be allowed to choose different methods in projecting cost and demand. While simplified extrapolative approaches for cost and demand may prove appropriate for certain LECs, more sophisticated methods for producing prospective rates should not be foreclosed where the use of such a method is warranted. This flexibility should apply to both CCL and TS.

The application of streamlined procedures (14-day notice period and a presumption of lawfulness) for new services is appropriate for small and mid-sized carriers, such as the ALLTEL companies. The proposed streamlined procedures will provide the opportunity for the ALLTEL companies and other LECs to offer some of the same or similar new services in suburban and rural areas as those of the RBOCs. However, ALLTEL believes that one proposed qualifying parameter needs to be adjusted. While ALLTEL supports the proposed requirement that the anticipated revenues from the new service be less than 2 percent of the company's annual operating revenues, the proposed requirement that the rate level be no higher than that of the neighboring LEC should be changed. In this regard, ALLTEL believes that the parameter should be the same as that in the USTA proposal for new services under an optional incentive plan. Thus, carriers under baseline rate of return regulation should also be allowed to use an equivalent, existing cost-based tariff rate for new services. This would eliminate the artificial rate boundaries which would result if the Commission's proposal is adopted.

III. MERGERS AND ACQUISITIONS

ALLTEL believes that the acquisition by an incentive plan carrier of a non-incentive plan carrier or the reverse situation should not trigger any requirement to convert that carrier to a different plan. As earlier discussed, for ratepayer benefits to be realized, it is important that each carrier have the ability to elect a regulatory option that best meets the needs of that

particular carrier based on its own unique circumstances. Automatic conversion as a result of a merger or acquisition can foreclose this opportunity.

IV. INCENTIVE REGULATION AND REGULATORY REFORM WITHIN NECA

ALLTEL believes that NECA should be given the flexibility to propose incentive options within the pooling environment. A properly designed plan should encourage increased efficiency and not necessarily work to the disadvantage of other pooling entities nor encourage any weakening of incentives to operate efficiently.

Conclusion:

In the aforesaid ALLTEL has proposed changes on a limited basis to the Commission's regulatory reform proposal that we believe will result in achievement of the Commission's commendable goals of regulatory reform for small and mid-sized LECs and ratepayer benefits. Accordingly, ALLTEL urges the Commission to adopt the requested changes.

Respectfully submitted,

ALLTEL Service Corporation,
on behalf of its affiliated
telephone operating companies

By Carolyn C. Hill

Carolyn C. Hill
ALLTEL Service Corporation
1710 Rhode Island Ave NW Suite 1000
Washington, DC 20036

Its Attorney

August 28, 1992

Certificate of Service

I, Rita P. Ferrando, do hereby certify that on this 28th day of August 1992 copies of the foregoing comments of ALLTEL Service Corporation have been served by hand on the following:

Cheryl A. Tritt
Chief, Common Carrier Bureau
Federal Communications Commission
1919 M Street NW, Room 500
Washington, DC 20554

Gregory J. Vogt
Chief, Tariff Division
Federal Communications Commission
1919 M Street NW, Room 518
Washington, DC 20554

Mary L. Brown
Federal Communications Commission
1919 M Street NW, Room 518
Washington, DC 20554

Andrew Mulitz
Federal Communications Commission
1919 M Street NW, Room 518
Washington, DC 20554

Ann H. Stevens
Federal Communications Commission
1919 M Street NW, Room 518
Washington, DC 20554

Rita P. Ferrando

Rita P. Ferrando

August 28, 1992