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

FEDERAL COMMUNICATIONS COMMISSION
OFFICE OF THE SECRETARY

In the Matter of)
)
Price Cap Performance Review)
for AT&T)
)

CC Docket No. 92-134

ORIGINAL
FILE

REPLY COMMENTS OF THE AMERITECH OPERATING COMPANIES

The Ameritech Operating Companies¹ submit these reply comments pursuant to the Commission's Notice of Inquiry in the above-captioned docket.² The Companies agree with the Commission that the performance of price caps -- especially the "purer" form applicable to AT&T -- has been a positive one. In this filing, however, the Companies ask the Commission to make one change to AT&T's price cap regulation -- eliminate exogenous treatment of local exchange carrier ("LEC") access charge changes in AT&T's price cap formula.

As US West and Southwestern Bell pointed out in their comments, AT&T's price cap formula factors changes in LEC access charges into AT&T's price cap, thus creating a bias against the use of LEC access services. If LECs reduce their access charges, AT&T's price cap must be lowered. If however, AT&T reduces its LEC access bill by routing traffic over the facilities of alternative local transport providers ("ALTs"), that decrease is not reflected in AT&T's formula, leaving AT&T with more pricing flexibility.

¹ The Ameritech Operating Companies are: Illinois Bell Telephone Company, Indiana Bell Telephone, Incorporated, Michigan Bell Telephone Company, The Ohio Bell Telephone Company, and Wisconsin Bell, Inc.

² *In the Matter of Price Cap Performance Review for AT&T*, CC Docket No. 92-134, Notice of Inquiry, FCC 92-257 (released July 17, 1992)("Notice of Inquiry").

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Both US West and Southwestern Bell ask the Commission to correct this bias. US West does not propose any particular change. Southwestern Bell, on the other hand, supports a correction proposed previously by Bell Atlantic -- freezing the access volume attributable to AT&T in computing the access charge adjustment to AT&T's PCI.

However, the Commission should critically reexamine exogenous treatment itself. Careful examination shows that elimination of the access charge adjustment from AT&T's price cap formula would be appropriate. That adjustment will have two benefits. First, it will simplify AT&T's price cap formula and conform it to current economic conditions. Second, it will eliminate the bias that exists against the use of LEC access services.

Regarding the first point, when the Commission ordered price caps for AT&T, it permitted exogenous adjustments for factors that were beyond carriers' control. Specifically, access charges were deemed beyond AT&T's control.³ Hence, the theory went, AT&T should not be penalized for price changes that it has no way of avoiding. However, since the inception of price caps for AT&T, much has happened in the world of access. For quite a while now, ALTs -- Metropolitan Fiber Systems, Teleport, *et. al.* -- have provided means of completely bypassing LEC access services. That AT&T utilizes these services is no secret. In fact, AT&T tariffed a private line arrangement that specifically requires the use of non-LEC access.⁴ Moreover, the Commission has recently compelled LEC interconnection for special access and begun an investigation into interconnection for switched access that has greatly accelerated the time in which access competition will be

³ *In the Matter of Policy and Rules Concerning Rates for Dominant Carriers*, CC Docket No. 87-313, Report and Order, FCC 89-91, (released April 17, 1989) at ¶ 260.

⁴ See AT&T's Tariff 9, Financial Services Arrangement, AT&T Communications Tariff F.C.C. No. 9, § 16.3.2, pg. 247.13.

even more pervasive.⁵ As the largest purchaser of access services in this country, AT&T has a myriad of options available to it in this environment. AT&T, therefore, has significant control over its access-related costs. That being the case, it would be proper to treat AT&T's access expense as endogenous -- just as its other business costs.

Clearly, AT&T's purchasing practices will have a significant impact on the competitive nature of the access business. AT&T's price cap formula, therefore, should entail no peculiar penalty or reward⁶ for using LEC access services. Unless the flowthrough factor is eliminated, the competitive process itself will be distorted. Therefore, the Commission should revise AT&T's price cap formula by eliminating the exogenous treatment of LEC access charge changes.

Respectfully submitted,



Floyd S. Keene
Michael S. Pabian
Attorneys for the
Ameritech Operating Companies
Room 4H76
2000 West Ameritech Center Drive
Hoffman Estates, IL 60196-1025
(708) 248-6044

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⁵ *In the Matter of Expanded Interconnection with Local Telephone Company Facilities*, CC Docket No. 91-141, Report and Order and Second Notice of Proposed Rulemaking, adopted September 17, 1992.

⁶ While LEC access rates are decreasing, AT&T's formula would require it to lower its cap, thus limiting AT&T's pricing flexibility. When LEC access rates start to rise again, however, the formula will permit AT&T to raise its cap thus increasing its pricing flexibility.

CERTIFICATE OF SERVICE

I, Jenell Thompson, do hereby certify that copies of the foregoing Reply Comments of the Ameritech Operating Companies have been mailed this 5th day of October, 1992, by first-class mail, postage prepaid, to the parties on the attached service list.

By: Jenell Thompson
Jenell Thompson

Francine J. Berry
Robert J. McKee
Michael C. Lamb
American Telephone and
Telegraph Company
295 North Maple Avenue
Basking Ridge, NJ 07920

Michael F. Hydock
MCI Telecommunications Corporation
1801 Pennsylvania Ave., NW
Washington, DC 20006

William C. Sullivan
Richard C. Hartgrove
Patricia J. Nobles
Southwestern Bell
Telephone Company
1010 Pine Street, Room 2305
St. Louis, MO 63101

Leon M. Kestenbaum
Michael B. Fingerhut
Sprint Communications Company LP
Suite 1110
1850 M Street, N.W.
Washington, DC 20036

John L. Bartlett
Robert J. Butler
Kurt E. DeSoto
Attorneys for Aeronautical Radio, Inc.
Wiley, Reinn & Fielding
1776 K Street, NW
Washington, DC 20006

CWA was not served because they
did not provide an address on their filing.

Spencer L. Perry, Jr.
Interexchange Resellers Association
and Telecommunications Marketing
Association
P.O. Box 5090
Hoboken, NJ 07030

Lawrence E. Sarjeant
James T. Hannon
U S West Communications, Inc.
Suite 700
1020 19th Street, N.W.
Washington, DC 20036