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

ORIGINAL
FILE

In the Matter of	)	
	)	
Amendment of the Part 69	)	CC Docket No. 92-222
Allocation of General Support	)	
Facility Costs	)	

COMMENTS OF THE NYNEX TELEPHONE COMPANIES

The NYNEX Telephone Companies ("NTCs") hereby comment on the Commission's proposal to amend its Part 69 Rules regarding allocation of General Support Facility ("GSF") costs.[1]

I. THE COMMISSION SHOULD ADOPT THE PROPOSED AMENDMENT

Section 69.307 of the Rules requires local exchange carriers ("LECs") to allocate GSF costs among the access categories based on investment in central office equipment, information origination/termination equipment, and cable and wire facilities "excluding Category 1.3" (i.e., the investment in subscriber loops). By excluding Category 1.3 investment

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1 See Report and Order and Notice of Proposed Rulemaking ("NPRM"), FCC 92-440, released October 19, 1992. GSF includes such items as motor vehicles, buildings, office equipment and general purpose computers.

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from the GSF allocation, the Rules substantially underallocate GSF costs to the Common Line category and overallocate these costs to other categories, including the Special Access and Switched Transport categories.[2]

The Commission now proposes to amend Section 69.307 by deleting the words "excluding Category 1.3." The NTCs support the Commission's proposal. It is appropriate to allocate GSF costs to Common Line since the facilities (i.e., land, buildings, computers, etc.) are used to support the provision of the local loop to end users. This Rule change would eliminate one of the factors that causes the LEC Switched Transport and Special Access rates to be above cost, and thus would help the NTCs to compete against competitive access providers ("CAPs") in the market for transport services once expanded interconnection becomes available.[3]

II. THE COMMISSION SHOULD TREAT THE REALLOCATION OF GSF COSTS AS AN EXOGENOUS CHANGE UNDER THE PRICE CAP RULES

The Commission should also allow the NTCs to treat the reallocation of GSF costs as an exogenous change under Section 61.45(d) of the price cap rules.[4] A Commission-prescribed

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2 NPRM, ¶ 267.

3 The reallocation of the GSF costs will result in a $30.3 million decrease in the NTCs' revenue requirement for Special Access, a $95.9 million decrease in the revenue requirement for Switched Transport, and a $.5 million decrease in the revenue requirement for Interexchange Services.

4 "Exogenous costs are in general those costs that are triggered by administrative, legislative or judicial

(Footnote Continued On Next Page)

change in the Part 69 cost allocation Rules will have the same effect on underlying service costs as do those exogenous changes specifically enumerated in the Rules (e.g., revisions to the jurisdictional separations manual, changes to the Uniform System of Accounts, and reallocations of investment from regulated to non-regulated). The proposed reallocation fits squarely within the definition of "exogenous," and its treatment as such is entirely consistent with the Commission's stated objective in providing for an exogenous cost adjustment -- namely, to ensure that price cap regulation does not lead to unreasonably high or low rates.[5]

III. THE LECS SHOULD NOT RECOVER THE MISALLOCATED GSF COSTS EXCLUSIVELY THROUGH THE EXISTING COMMON LINE CHARGES

If the Commission amends Section 69.307 of the Rules, the NTCs' revenue requirement for Special Access, Switched Transport and Interexchange Services will decrease, and the revenue requirement for Common Line will correspondingly increase, by approximately $127 million. Under existing Rules, about $29 million of the Common Line increase will be recovered from multi-line business customers by increasing the End User

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4 (Footnote Continued From Previous Page)

action beyond the control of the carriers." See Policy and Rules Concerning Rates for Dominant Carriers, Second Report and Order, CC Docket No. 87-313, 5 FCC Rcd 6786, 6807 (1990) (Price Cap Order).

5 "[Exogenous] costs . . . should result in an adjustment to the cap in order to ensure that the price cap formula does not lead to unreasonably high or unreasonably low rates." Price Cap Order, 5 FCC Rcd at 6807.

Common Line (EUCL) charge in those states where the multi-line business rate is below the $6.00 cap.[6]

Although GSF costs are non-traffic sensitive, the remaining $98 million would be recovered under the current Rules through an increase in the Carrier Common Line (CCL) charge, which is usage sensitive. This will give interexchange carriers and large volume end users an additional economic incentive to bypass the public switched network and utilize the LECs' Special Access services and the CAPs' flat-rated transport services.

In addition to recovering misallocated GSF costs through an increase in the Common Line charges, the NTCs recommend that the Commission consider the following as interim measures:

First: The Commission should grant a waiver of Section 69.204 of the Rules to allow the LECs to impose a $.35 surcharge on the EUCL charge.[7] This surcharge should be limited to residence and single line business customers. The rates paid by these customers are typically far below the LECs' cost of providing service to them. The LECs have historically been required to overprice other services, including interstate access charges and toll rates, to make up the underrecovery of

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6 In the NYNEX region, the multi-line EUCL rate for New York, Massachusetts and Rhode Island is $5.15, $4.25 and $4.19 respectively. If all GSF costs are reallocated, the new multi-line EUCL rates are estimated to be $5.93, $4.75 and $4.54, respectively.

7 The current $3.50 EUCL rate has been in effect since April 1, 1989 even though inflation and local competition have significantly increased over the last four years.

their revenue requirement for residential and small business customers. Such cross-subsidization among services cannot be continued in a competitive marketplace. Imposing a EUCL surcharge is a step in the direction of developing a cost-based rate structure for the Common Line category.

Second: The Commission should consider adopting different CCL and other usage-based access charges for business and residential customers. The Part 69 Rules require rate averaging at the study area level, in most cases on a state-wide basis, even though the costs are typically much lower on high volume routes and in urban areas where most large volume business customers are located. CAPs such as Teleport, MFS and LOCATE are concentrating their marketing efforts on business customers in these areas since the economic cost of providing service in these areas is well below the LECs' averaged rates. This uneconomic pricing advantage is leading to the loss of large numbers of circuits from the LECs' network. The introduction of differentiated access rates for low volume residential customers and high volume business customers would enable the LECs to compete effectively against the CAPs for large business customers, while at the same time allow the LECs to continue to meet their obligation to serve residential customers.

These interim measures should remain in effect pending the Commission's initiation and completion of a comprehensive proceeding to restructure access charges to allow LECs to charge rates that reflect only the economic costs of providing service. Among other things, the Commission should consider eliminating or substantially increasing the cap on the EUCL charge paid by residence and single line business customers. If the LECs are to compete on an equal footing with the CAPs in the local transport marketplace, they cannot continue to recover the costs of providing the local loop to residential and single line business customers through the CCL charge.

IV. THE MISALLOCATED GSF COSTS IN SPECIAL ACCESS COULD BE RECOVERED THROUGH A CONTRIBUTION CHARGE

There is no need to develop a contribution charge to recover the misallocated GSF costs in Special Access.[8] Recovery of these costs can be more readily accomplished through the proposed Rule amendment. However, if the Commission chooses not to amend Section 69.307 of the Rules, then the NTCs propose that the misallocated GSF costs in Special Access be recovered through a contribution charge calculated by dividing the misallocated GSF costs in Special Access by the historical demand for equivalent DS0 services. The resulting contribution charge per equivalent DS0 circuit would then be paid by all purchasers of Special Access services. In order to calculate the contribution charge for DS1 and DS3 services, appropriate fill factors would have to be developed. This methodology could result in either an overrecovery or underrecovery of the GSF costs, depending on actual demand. A true-up would have to be made at the end of each year and either added to or subtracted from the next

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8 It should be noted that the misallocation of GSF costs also exists in the Local Transport service category.

year's expense. A new contribution charge would then have to be developed.

V. CONCLUSION

For the reasons set forth herein, the Commission should adopt its proposal to revise its Part 69 Rules to eliminate the overallocation of GSF costs to Special Access and Switched Transport as part of the April 1993 filings. The Commission should also allow price cap LECs to treat the reallocation of GSF costs as an exogenous change under the price cap rules. The Commission should allow the LECs to impose a $.35 surcharge on the residence and single line business EUCL rate. The Commission should also adopt differentiated CCL charges for business and residential customers and initiate a comprehensive proceeding to restructure access charges. Finally, if the Commission does not revise its Part 69 Rules, it should allow the NTCs to recover the overallocated GSF costs in Special Access through a contribution charge.

Respectfully submitted,

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