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FEDERAL COMMUNICATIONS COMMISSION
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BEFORE THE
FEDERAL COMMUNICATIONS COMMISSION
WASHINGTON, D.C. 20554

In the Matter of)
)
Amendment of the Part 69)
Allocation of General Support)
Facility Costs)

CC Docket No. 92-222

REPLY COMMENTS OF SOUTHWESTERN BELL TELEPHONE COMPANY

Southwestern Bell Telephone Company (SWBT) hereby replies to the comments filed on December 4, 1992, in response to the Notice of Proposed Rulemaking (NPRM), FCC 92-222, in the above-captioned proceeding.

I. THE COMMISSION SHOULD PROCEED WITH IMPLEMENTATION OF ITS GSF REALLOCATION PROPOSAL.

Most parties filing Comments support the Commission's proposed General Support Facilities (GSF) reallocation. These parties recognize that GSF costs are real, overhead costs which were intentionally over-allocated to Special Access and transport at the time of the revision of the Uniform System of Accounts (USOA) in 1988. The Commission has acknowledged that these rate categories should be relieved of the disproportionate allocation of these costs. Although the Commission's proposal would remove mis-allocated portions of overhead costs from Special Access and transport services, LECs' competitive services would continue to recover reasonable amounts of overhead costs, including GSF costs.

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II. POTENTIAL SOLUTIONS TO THE GSF OVER-ALLOCATION DILEMMA.

Basically, the comments suggest that the Commission has the following options to solve the GSF over-allocation dilemma.

First, the Commission could adopt the reallocation, treat these costs as exogenous, and increase End User Common Line Charges (EUCLs) to current limits.¹ In addition, increases to Carrier Common Line (CCL) rates would be required in many companies. However, contrary to some commentors' position,² shifting recovery of a non-traffic sensitive cost to a traffic sensitive element would be counterproductive and inappropriate in the long run, and should only be considered as a short term interim solution.

Second, the Commission could adopt reallocation of GSF costs, treat these costs as exogenous, and increase single line Subscriber Line Charge (SLC) caps.³ Depending on the level of the SLC increases, further recovery from CCL may be needed. However, if the SLC is increased to appropriate levels to recover all reallocated GSF Costs, further recovery from CCL would not be necessary. Ultimately, this would be a more appropriate recovery mechanism. Contrary to comments offered by the D.C. PSC,⁴ SWBT does not believe that increasing the SLC would have any detrimental impact on universal service. There is ample evidence to indicate

¹ See Comments of USTA at p. 3; NYNEX at p. 2; GTE at p. 3; United at p. 3; Bell Atlantic at p. 1; Pacific Bell and Nevada Bell's Comments at p. 3.

² See Comments of John Staurulakis at p. 2.

³ See Comments of GTE at pp. 4-5; Cincinnati at p. 4.

⁴ See Comments of D.C. PSC at p. 2.

otherwise.⁵ Moreover, programs such as Linkup and Lifeline offer assistance to those who may not otherwise be able to afford telephone service. The Lifeline program assists qualified subscribers by reducing or eliminating SLC.⁶

Third, the Commission could adopt its GSF reallocation proposal, treat these costs as exogenous and recover them by establishing a separate public policy rate element paid by all access users; i.e., interexchange carriers (IXCs) and competitive access providers (CAPs). However, public policy support flows should not be attached to LEC services but rather should be recovered from all market participants through a separate rate element.

If the Commission instead decides to adopt a Special Access contribution charge, the disproportionate level of recovery of GSF costs in Special Access will still exist and will continue to be inconsistent with the Commission's goals. If the Commission, on the other hand, decides to adopt an interim Special Access contribution charge until a comprehensive review is completed, this charge should recover all GSF reallocated costs on a flat-rate, non-usage basis from the IXCs and CAPs purchasing Special Access services.

⁵ See Comments of AT&T at pp. 3-7.

⁶ C.F.R. 47, Part 69.204(f) and (g).

III. THE COMMISSION SHOULD CONDUCT A COMPREHENSIVE REVIEW.

The Commission should not pursue a piecemeal approach to increases in SLC/EUCL. There are many other issues which may affect the level of EUCL rates which should be addressed in a comprehensive review.⁷

SWBT agrees with commentators that increasing the caps on EUCLs should be investigated. However, to deal with the issue only in the context of GSF reallocation would not adequately address the overall issues that should be addressed in such a review. Addressing the GSF over-allocation for special access is simply "a short term settlement for a complicated issue."⁸ SWBT strongly suggests, as have others,⁹ that the many issues facing the access service market require a comprehensive review of the access charge plan, including the recovery of GSF costs. The Commission must also investigate how to maintain, in the face of expanded interconnection, public policy objectives such as universal service at reasonable prices.

IV. THE ARGUMENTS OF MFS ARE MISGUIDED AND SELF-SERVING.

MFS incorrectly states that altering the methods used to allocate GSF costs will maximize profits derived from "those elements that are still effectively monopoly services."¹⁰ MFS'

⁷ Id., at p. 8; BellSouth at p. 3.

⁸ See Comments of MCI at p. 2.

⁹ See Comments of NYNEX at p. 4, SNET at p. 4, Cincinnati at p. 4, GTE at pp. 5-6.

¹⁰ See Comments of MFS at p. 4.

self-serving concern is based on the fact that this action will lower the umbrella used by MFS to price its own services and thereby will reduce the inappropriate regulatory protection from true competition that MFS now enjoys.

MFS' assertion that the Commission should require each service element to bear a portion of the common costs that could be recovered in a competitive market¹¹ ignores the fact that individual suppliers operating in a competitive market accept the price established by the interaction of aggregate supply and market demand. Cost allocation methods have little, if anything, to do with determining competitive market prices. Thus, contribution levels will be determined by comparing the market price to each individual supplier's marginal (or incremental) cost.¹² As a result, contribution margins could vary substantially across suppliers and individual services. The Commission, despite MFS' recommendation, should not attempt to prescribe the levels of overhead recovery for access services.

A Commission decision to remove the over-allocation of GSF costs from Special Access services is consistent with the objective of stimulating a competitive market. Contrary to MFS' claim that it would be anti-competitive for the LECs to offer competitive services without including *any* common overhead costs in

¹¹ Id.

¹² Contrary to Teleport's allegations, at page 3 of its Comments, the Rate Adjustment Factor (RAF) is not applicable to Special Access Services.

the rates charged for those services,¹³ the Commission's proposal does not relieve LECs' competitive services from recovering a portion of overhead costs. In fact, even with the proposed GSF reallocation, LECs' competitive services will continue to recover significant amounts of overhead costs, including GSF costs.

If MFS considers its prices to be a product of competitive market forces, then permitting LECs to match those prices should result in true price competition. Indeed, such price competition could be expected to produce maximum consumer benefit. It would be extraordinarily difficult for the Commission to base prices on changing cost allocation procedures and still arrive at a solution which coincides with the prices that would be determined in a competitive market.

V. CONCLUSION

SWBT supports the Commission's proposal to correct the over-allocation of GSF costs to Special Access. However, the Commission cannot achieve its competitive goals for Special Access without allowing exogenous-type changes to those rates, and to the rates of those access elements that may bear the burden of the redistributed GSF costs. The Common Line GSF costs are not usage-sensitive and should be recovered on a flat-rate basis from end users. A change in the EUCL or, alternately, the creation of a public policy rate element, should be considered in conjunction with the concerns being investigated in related proceedings.

¹³ Comments of MFS at p. 5.

Along with the exogenous-type treatment of GSF cost reallocation, SWBT supports increasing the multi-line EUCLs up to the cap already established in the Commission's Rules, and a corresponding adjustment to the CCL rates, as an interim, short term solution. An acceptable alternative would be the recovery of the GSF over-allocation by a flat-rate public policy element.

Respectfully submitted,

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CERTIFICATE OF SERVICE

I, Kelly Brickey, hereby certify that the foregoing "Reply Comments of Southwestern Bell Telephone Company" in Docket CC 92-222 has been served this 21st day of December, 1992 to the Parties of Record.


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