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

In the Matter of	)	
	)	
NATIONAL EXCHANGE CARRIER ASSOCIATION, INC.	)	
	)	RM-8389
Proposed Revision to Part 69 of the Commission's Rules to Allow for Incentive Settlement Options for NECA Pool Companies	)	

AT&T REPLY COMMENTS

Pursuant to Section 1.415 of the Commission's Rules, 47 C.F.R. § 1.415, American Telephone and Telegraph Company ("AT&T") hereby replies to the comments of other parties on the petition of the National Exchange Carrier Association, Inc. ("NECA") for a rulemaking to establish "incentive settlement options" for local exchange carriers ("LECs") in NECA's pools.[1]

AT&T demonstrated in its Comments that NECA's proposals (the "profit sharing" and "pool small company"

[1] In addition to AT&T, comments were filed by Cathey, Hutton & Associates, Inc. ("CHA"); Century Telephone Enterprises, Inc. ("Century"); John Staurulakis, Inc. ("JSI"); MCI Telecommunications Corporation ("MCI"); the National Telephone Cooperative Association ("NTCA"); the National Rural Telecom Coalition ("NRTA"); the Organization for the Protection and Advancement of Small Telephone Companies ("OPASTCO"); PTI Telecommunications, Inc. ("PTI"); Puerto Rico Telephone Company ("PRTC"); Union Telephone Company ("Union"); and the United States Telephone Association ("USTA").

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options) are not calculated to achieve the Commission's dual incentive regulation goals of benefiting access ratepayers and increasing LEC efficiency and productivity. Specifically, under NECA's "profit sharing" option, LECs whose earnings exceed the authorized upper threshold would first share their excess earnings not with access customers, but instead with other LECs whose earnings are below the lower earnings threshold.[2] Even more fundamentally, NECA's petition fails to show that either of its options would lead to greater efficiency by stimulating access demand, or that pool LECs would elect these options in the absence of already anticipated productivity gains on those carriers' part.[3]

The comments of other parties do nothing to dispel these serious concerns regarding the efficacy of NECA's proposal. The LECs and their supporters who endorse NECA's plan simply reiterate the same conclusory arguments already advanced in NECA's petition.[4] This

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[2] AT&T Comments, pp. 4-5. Moreover, as AT&T showed (id., pp. 2-4), NECA's profit sharing option attempts to emulate the Commission's recently-adopted optional incentive regulation ("OIR") plan for larger LECs, even though there is at yet no actual experience with operation of the OIR plan.

[3] AT&T Comments, pp. 5-6.

[4] See, e.g., Union at 1-2; JSI at 2; PRTC, pp. 2-6; USTA, pp. 2-3.

record is insufficient to justify initiating immediately the rulemaking NECA requests.[5]

MCI, the only other party to comment, confirms many of the deficiencies in NECA's plan described by AT&T in its filing. As, MCI points out (pp. 2-4) significant customer benefits are absent under both the profit sharing option and the small company option of NECA's plan, due to the carriers' opportunities to opt out of these alternatives prematurely. Like AT&T, MCI also recognizes (pp. 5-8) that NECA's proposed sharing of overearnings with other pool LECs, rather than with access customers, is contrary to the objectives of the Commission's incentive regulation.

MCI suggests various modifications to correct the deficiencies described above in NECA's plan, to better assure that customers would share in any purported benefits of that proposal. Even if these changes were implemented, however, they would not address the fundamental defect in NECA's proposal: namely, that there is no assurance pool LECs will be more efficient or

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[5] Indeed, the relatively insubstantial volume of comments by pool LECs in favor of NECA's plan draws into serious question the need for the Commission to expend its limited resources in a rulemaking on the instant proposal. As AT&T has noted (Comments, p. 4 n.6), the Commission's lengthy OIR rulemaking has to date resulted in only a single LEC adopting that plan; there is no basis to believe that NECA's proposal may be any more popular with members of its pools.

productive under NECA's proposed form of incentive regulation. Absent resolution of this key problem, there is no reason for the Commission to undertake a rulemaking on that proposal at this time.

WHEREFORE, for the reasons stated above and in AT&T's Comments, the Commission should decline to initiate a rulemaking on the incentive settlement options described in NECA's petition.

Respectfully submitted,

AMERICAN TELEPHONE AND TELEGRAPH COMPANY

By Mark C. Rosenblum PHJ

Mark C. Rosenblum
Robert J. McKee
Peter H. Jacoby

Its Attorneys

295 North Maple Avenue
Room 3252G1
Basking Ridge, New Jersey 07920

January 3, 1994

CERTIFICATE OF SERVICE

I, Ann Marie Abrahamson, do hereby certify that on this 3rd day of January, 1994, a copy of the foregoing "AT&T Reply Comments" was mailed by U.S. first class mail, postage prepaid, to the parties listed below.

Joanne S. Bochis
National Exchange Carrier
Association, Inc.
100 South Jefferson Road
Whippany, NJ 07981

Lawrence P. Keller
Director-Federal Regulatory
Services
Cathey, Hutton & Assoc., Inc.
Suite 286
3300 Holcomb Bridge Road
Norcross, GA 30092

Jerry M. Allen
Director, Revenue
Planning & Pricing
Century Telephone
Enterprises, Inc.
100 Century Park Drive
Monroe, LA 71203

Thomas J. Moorman
General Counsel
Regulatory and Industry
Affairs
John Staurulakis, Inc.
6315 Seabrook Road
Seabrook, MD 20706

Randy R. Klaus
Sr. Staff Member
MCI Telecommunications Corp.
701 Brazos Street, Suite 600
Austin, TX 78701

Margot Smiley Humphrey
Koteen & Naftalin
Suite 1000
1150 Connecticut Ave., N.W.
Washington, D.C. 20036
Attorneys for National Rural
Telecom Association

David Cosson
National Telephone
Cooperative Association
2626 Pennsylvania Ave., N.W.
Washington, D.C. 20037

Lisa M. Zaina
General Counsel
OPASTCO
Suite 700
2100 Dupont Circle, N.W.
Washington, D.C. 20036

Christopher J. Watkins
PTI Communications
805 Broadway
P.O. Box 9901
Vancouver, WA 98668-8701

Joe D. Edge
Elizabeth A. Marshall
Hopkins & Sutter
888 Sixteenth Street, N.W.
Washington, D.C. 20006
Counsel for Puerto Rico
Telephone Company

James A. Sanborn
Controller
Union Telephone Company
P.O. Box 577
Farmington, NH 03835

Martin T. McCue
Linda Kent
United States Telephone
Association
Suite 600
1401 H Street, N.W.
Washington, D.C. 20005

Ann Marie Abrahamson

Ann Marie Abrahamson