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Cincinnati Bell Telephone®

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May 9, 1994

Mr. William F. Caton, Acting Secretary
Federal Communications Commission
1919 M Street, N.W., Room 222
Washington, D.C. 20554

In the Matter of:	)	
	)	
Price Cap Performance Review	)	CC Docket No. 94-1
for Local Exchange Carriers	)	

Dear Mr. Caton:

Enclosed for filing are the original and nine copies of Cincinnati Bell Telephone Company's Comments in CC Docket No. 94-1. Cincinnati Bell also includes its comments on the enclosed diskette as requested in Public Notice DA 94-219.

A duplicate of this letter and the enclosures is enclosed. Please date stamp and return this duplicate as acknowledgement of its receipt.

Questions regarding these comments should be addressed to Mrs. Peggy Peckham at (513) 397-1393 or by mail at the above address.

Sincerely,

Cheryl Campbell

Enclosures

copy to: Tariff Division (2)
ITS

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Before the
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Washington, D.C. 20554

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Price Cap Performance Review	)	CC Docket No. 94-1
for Local Exchange Carriers	)	

COMMENTS OF CINCINNATI BELL TELEPHONE COMPANY

Cincinnati Bell Telephone Company ("CBT") hereby submits comments on certain issues raised by the Commission's February 16, 1994 Notice of Proposed Rulemaking ("NPRM") in the above-captioned proceeding. While CBT is not currently subject to the Commission's price cap rules for local exchange carriers ("LECs"), it does have an interest in this proceeding both to the extent the findings reached herein may apply to CBT as an Optional Incentive Regulation ("OIR") carrier, and to the extent the findings reached herein would impede CBT's ability to advance along the Commission's regulatory continuum.[1]

[1] CBT recently elected OIR. CBT was not able to elect price cap regulation because the current rules are too onerous for CBT to accept. CBT remains hopeful that future changes to the price cap rules will make price cap regulation a viable next step toward the ultimate removal of all regulatory restraints and, therefore, CBT has an interest in not having the current rules made even more onerous.

Exogenous Cost Changes - Baseline Issues 6(a),(b) and (c)

With respect to exogenous cost changes, the NPRM seeks comment on the following issues: (1) whether the number of cost changes currently eligible for exogenous treatment under price cap regulation should be reduced; (2) which cost changes should be eligible for exogenous treatment under price cap regulation; and (3) whether the Commission should adopt an administrative process to allow access customers or other groups to request cost changes eligible for exogenous treatment.[2]

In its June 11, 1993 Report and Order adopting the OIR plan for small and mid-size LECs,[3] the Commission stated:

> We continue to believe that exogenous costs, those listed for price caps in Section 61.45(d) of the Commission's Rules, should be used to adjust the historical costs used in the optional incentive plan. These are basically cost changes associated with Commission programs and rules, or other events outside the control of the LECs. As in the case of price cap LECs, adjustment for these changes should more accurately track costs without distorting the LECs' incentives to become more efficient in areas that are within its control...[4]

Therefore, any change to the price cap rules which reduces the number of cost changes eligible for exogenous treatment would flow through to OIR carriers, and would be too onerous for OIR carriers since the Commission's OIR rules do not provide an inflationary

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[2] NPRM at para. 66.

[3] Regulatory Reform for Local Exchange Carriers Subject to Rate of Return Regulation, CC Docket No. 92-135, Report and Order, released June 11, 1993 (hereinafter, the "OIR Order").

[4] OIR Order, at para. 51 (emphasis added).

indexing mechanism like the price cap GNP-PI. Under OIR regulation, rates are based on historic rather than current data. Without an inflationary indexing mechanism, any reduction in the number of cost changes eligible for exogenous treatment would adversely affect OIR carriers by significantly delaying the recognition of cost changes which are clearly outside their control. Such a result would be contrary to the intent of the Commission's OIR rules which permit OIR carriers to recover exogenous costs as they occur during any rate period. Indeed, the OIR Order emphasizes that OIR carriers need not wait for the biennial filing to recognize exogenous costs.[5]

If the Commission determines that revisions to Section 61.45(d) are warranted for price cap LECs, CBT suggests that the current version of that section be codified in Section 61.50(m) of the Commission's OIR rules. CBT submits that such action by the Commission would be necessary to preserve the status quo vis-a-vis OIR carriers. Furthermore, the prerogative to seek recognition of exogenous cost changes should remain with individual LECs.

Pricing Flexibility / Streamlined Regulation - Transition Issues 1(a) and (b)

The NPRM seeks comment on: (1) the current state of competition for local exchange and interstate access; and (2) what criteria, if any, should be used for determining when reduced or streamlined regulation for price cap LECs should take effect.[6] CBT submits that OIR carriers face a similar level of competition as price cap LECs and, therefore, have the

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[5] See, OIR Order, at para. 55.

[6] NPRM at para. 95.

same need for pricing flexibility and streamlined regulation as price cap LECs. Thus, the need for pricing flexibility and streamlined regulation is not uniquely a price cap issue. OIR carriers should be included in any initiatives taken on behalf of price cap LECs in this regard. Moreover, CBT supports the implementation of access reform for all LECs as soon as possible. At a minimum, CBT supports the initiatives set forth in the United States Telephone Association's ("USTA's") Access Reform Plan, filed September 9, 1993, which provides access reform proposals for all forms of LEC regulation.

Respectfully submitted,

FROST & JACOBS

By

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Dated: May 9, 1994

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