Certain BOC capital investment decisions affect the entire spectrum of telecommunications services.

For example, structural separation could heavily influence BOC investment decisions regarding new technologies such as Common Channel Signalling #7 (CCS7), Integrated Services Digital Network (ISDN), and Advanced Intelligent Network (AIN). Decisions to deploy such desirable new infrastructure technologies will be based upon a BOC's ability to generate sufficient revenue from services supported or enabled by those technologies. If structural separation is required, potential revenues associated with enhanced services probably would not be considered when deployment of these technologies was reviewed, making it more difficult to justify the capital investment than if enhanced services were available to the BOCs as a source of potential revenue. Some regions of the country likely would <u>not</u> benefit from these infrastructure improvements--or at the very least such improvements would be <u>delayed</u> in such regions if structural relief was not forthcoming--because regulated services alone might not provide sufficient incentive for the infrastructure deployment.

Moreover, obviously, to the extent that any desirable new network function potentially available as a result of CCS7, ISDN or AIN were deemed enhanced under Commission rules, structural separation would completely prevent BOCs from giving customers the benefits of such network functions. It is quite possible that there will be such potential enhanced capabilities associated with one or more of these important, new infrastructure improvements (e.g., net code and protocol conversion).

The smothering effect of structural separation upon development of enhanced--and basic--services, and upon overall infrastructure evolution, is a critical factor for the Commission to consider in weighing the costs of structural separation.

B. The Monetary Costs Of Structural Separation Also Act To Inhibit Unnecessarily The Development Of Enhanced Services.

In addition to the public interest "costs" of limited consumer enhanced services and potentially inhibited infrastructure development that are caused by structural separation, there is also the actual monetary cost imposed upon BOCs that attempt to offer enhanced services via structurally separate operations. These costs take the form of higher prices to consumers caused by foregone efficiencies, primarily economies of scope.[13] Furthermore,

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[13]The concept of economies of scope is clearly and concisely defined by Willig, Multiproduct Technology and Market Structure, 69 AM. ECON. REV. 346 (Papers & Proceedings) (1979).

> With economies of scope, joint production of two goods by one enterprise is less costly than the combined costs of production of two speciality firms . . . with economies of scope, the cost of adding the production of [product 2] to the production of [product 1]

(Footnote Continued)

allowing BOCs and their enhanced service customers to benefit from natural BOC scope economies does not mean that BOCs would thus receive any anticompetitive advantages. There is nothing unfair about economies of scope, which represent genuine efficiencies in joint production.

A farmer who produces both a spring crop of lettuce and a fall crop of cabbage can use the same land and some of the same harvesting equipment for both crops--and the consumers of both lettuce and cabbage benefit from the economy of scope. The alternative would be to have wholly separate farms, with separate equipment, that produced just spring lettuce and fall cabbage, respectively. This alternative requires double the investment in land, because scope economies are absent. There are obvious, significant efficiencies to producing both crops on the same farm. BOCs can realize similar efficiencies by using a single set of resources for the more efficient production of both basic and enhanced services. Where there are economies of scope, consumers of both outputs benefit.

As the Commission has recognized, the establishment and maintenance of duplicative organizations and facilities for separately installing, operating, and

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(Footnote Continued)

> is smaller than the costs of producing [product 2] alone. . . . Economies of scope arise from inputs that are shared, or utilized jointly without complete congestion. [p. 346]

repairing basic and enhanced services unnecessarily "imposes costs on consumers who have to pay for separate facilities."[14] Structural separation would eliminate the efficiency gains that could be realized through the joint production of enhanced services and all other telecommunications services offered by BOCs. The potential gains from such economies of scope include a broader array of enhanced service offerings and declining market prices. Indeed, the Commission has determined that "structural separation has resulted in increased prices for enhanced services, the withdrawal of certain enhanced services from the market, and the unavailability of some new forms of enhanced services."[15]

The economies of scope arising from the integration of enhanced services into the BOCs' current production and marketing processes would result, to some extent, from the efficient use of human capital. For example, the costs of obtaining expertise in installing, maintaining, and repairing the physical capital (e.g., switching machines, transmission lines, software, etc.) required to provide basic telecommunications services have already been incurred by the BOCs. To deny application of this human capital to the provision of enhanced services is to increase

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[14]NPRM, para. 12.

[15]<u>Id.</u>

intentionally the costs and prices of those services. Similarly, creation of a separate general management staff to administer the provision of only enhanced services would be duplicative and would inflate needlessly the costs of those services. Furthermore, both the Commission and the Ninth Circuit Court of Appeals have recognized implicitly the benefits to be derived from integrating enhanced services into existing BOC marketing and research and development processes:

> . . . the removal of structural separation requirements allows the BOCs to market and offer customized basic and enhanced service packages. These packages . . . minimize transaction costs and reduce delays in the delivery of such services.[16]

Additionally, knowledge of market demand characteristics, particularly for large market segments like residence and small business customers, is essential to the successful development and implementation of both new services and the appropriate packaging of existing services. BOCs have extensive knowledge in this area, but structural separation would require assembling the information again, regardless of cost. In addition, it would be a regrettable waste to prevent BOCs from conducting research into ideas regarding potential new enhanced services, particularly

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[16]NPRM, para. 12; 905 F.2d 1217, at 1231.

since such research could influence technical innovation in the provision of basic services.[17]

Marketing basic and enhanced services together would not only minimize costs and reduce delivery delays but would also create an opportunity for the rapid expansion of enhanced services throughout telecommunications markets. Information regarding existing varieties of enhanced services could be obtained by individual customers at minimum cost. Joint marketing of enhanced and basic services would be a powerful device to ensure the validity of the Commission's finding that avoidance of structural separation requirements would "increase the development and availability of enhanced services not only to large business customers but to residential and small business customers as well."[18]

Furthermore, it is not "anticompetitive" for any large company to take advantage of its size by realizing economies of scope. Many of the BOCs' established ESP competitors have considerable resources themselves, and thus already take advantage of such economies as a matter of course. The enhanced services industry is occupied by a number of very large, well-established companies, including

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[17]The futility of attempting to structurally separate research activities is discussed by William J. Baumol and Robert D. Willig, "Telephones and Computers--the Costs of Artifical Separation," Reg. 31 (Mar./April 1985).

[18]NPRM, para. 13.

AT&T, IBM, Sears, Dow Jones, General Motors, and General Electric. It cannot seriously be contended that these industry giants are substantially at risk from BOC competition.

Moreover, there is no dispute that the mid-to-large business enhanced service market is quite healthy. It is "a rough-and-tumble industry, marked by easy market access, fluid relationships with distributors, and ample and continuous supply of product, and a healthy and growing demand."[19] In such a market--where the BOCs would begin as de novo entrants in competition with each other and with established giants such as AT&T and IBM--the risk of anticompetitive advantages accruing to BOCs as a result of their efficient production is entirely speculative. If anything, the effect would be procompetitive, since the addition of BOC competitors would further stimulate the efficient investment and lower prices that true competition is expected to foster.

The economies of scope inherent in the integrated provision and marketing of enhanced and basic services by the BOCs would increase the variety of enhanced services available, lower market prices, and create marketing opportunities to expand rapidly the base of enhanced service customers.

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[19] United States v. Syufy Enterprises, 903 F.2d 659, at 667 (9th Cir. 1990).

C. <u>There Are No Proven Advantages of Structural Separation Over Accounting Safeguards In Preventing Cross-Subsidies</u>.

In the preceding sections, SWBT has shown that the benefits of structural relief are considerable. In marked contrast, there are no <u>proven</u> advantages of structural separation over accounting safeguards in terms of preventing cross-subsidization. Opponents of structural relief point repeatedly to the general success of preventing cross-subsidization under structural separation. They fail to acknowledge, however, that this does <u>not</u> mean that nonstructural accounting safeguards are incapable of being just as effective.

In truth, both structural separation and nonstructural accounting safeguards can be effective in preventing cross-subsidization, if properly designed and enforced. As SWBT demonstrates in Section III (A) (2) below, the Commission's Part 64 joint cost rules have been carefully designed to ensure that, in all cases, benefits flow <u>to</u> the regulated ratepayer. As a result, cross-subsidization is possible only by a failure to adhere to the rules (which, as shown in the following section, is most unlikely), not through any laxity of the rules themselves. The Commission's enforcement measures, including the additional audit requirements proposed in the NPRM, are <u>more</u> than adequate to ensure that such hypothetical failures pose no threat to either regulated customers or to SWBT's enhanced service competitors.

Any benefits of structural separation are speculative at best, and do not outweigh the costs of structural separation described above. Thus, in any event, the Commission is clearly correct in its tentative conclusion that "[t]o the extent cost accounting safeguards may involve any diminution in protection against cross-subsidization, the danger of this is outweighed by the benefits of integration."[20]

III. THE COMMISSION'S NONSTRUCTURAL SAFEGUARDS WILL ADEQUATELY PROTECT AGAINST ANY POSSIBLE RISKS OF BOC CROSS-SUBSIDIZATION OR DISCRIMINATION.

A. The Commission's Accounting Safeguards Will Effectively Prevent Enhanced Service Cross-Subsidization.

Regardless of what industry conditions prevailed at the time of the Computer III decisions that were overturned in the California case, at this date conditions are such that the Commission is fully justified in relying upon its accounting safeguards to prevent BOC cross-subsidization of enhanced services.

The integrated provision of enhanced and basic services yields both economies of scope and an increase in

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[20] NPRM, para. 32.

professed concerns that BOCs might be able to somehow secretly attribute some of the costs associated with the production of enhanced services to the provision of basic services. The Commission has responded to these concerns with a rigorous system of accounting, reporting, and auditing standards and practices regarding BOC cost allocation methods.[21] The Commission seeks to further allay concerns of cross-subsidization by imposing additional, more stringent cost accounting and reporting requirements upon the BOCs.[22] These cost allocation methods and reporting requirements, coupled with price caps and the characteristics of the market, effectively limit any incentives and abilities BOCs might have to cross-subsidize enhanced service offerings.

1. Price Cap Regulation, And Other Factors, Have Reduced Any Alleged BOC Incentives To Cross-Subsidize Nonregulated Services.

There are two primary concerns related to cross-subsidization. First, if costs could be shifted undetected from unregulated (i.e., enhanced services) to regulated services, then losses resulting from below cost pricing in the unregulated market could allegedly be recouped dollar-for-dollar by increases in the prices of

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[21] Id., paras. 16-24.

[22] Id., paras. 26-30.

regulated services. Second, anticompetitive pricing behavior could be motivated by the belief that, aside from any ability to shift costs, a predatory pricing strategy could be successful. This presumes that rivals could be driven from the market by below cost pricing and that monopoly prices could then be sustained long enough to more than recoup the losses incurred during the predatory period. An examination of price cap regulation and predatory pricing shows that BOCs will have no incentive to engage in either type of hypothetical cross-subsidization.

As recognized by the Commission, the movement toward price cap regulation greatly diminishes any perceived incentives for cross-subsidization that might have been embedded in a rate of return regulatory system.[23] Under price cap regulation, BOCS will not be entitled to recover operating cost increases by automatically requesting price increases designed to achieve a target rate of return on investment. As a result, any undetected shifting of costs from unregulated (enhanced) to regulated (basic) services will not lead to basic service price increases. Therefore, financial losses in the enhanced services market (whether from inefficient operation or a predatory pricing scheme)

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[23] Id., para. 25.

cannot be directly offset by increasing basic service prices.[24]

Neither are BOCs likely to cross-subsidize enhanced services as part of any sort of predation scheme. Even under traditional rate of return regulation, economic realities and case law demonstrate that concerns that BOCs could carry out a predatory pricing strategy to cross-subsidize regulated services are misplaced.[25]

Assuming arguendo that a BOC wanted to drive rivals from the enhanced services market, it would have to establish market prices below all rivals' costs of production (and perhaps below even their own costs). These

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[24]Some may argue that, since price caps are interstate only and since many states still rely on rate of return regulation, price caps provide little overall protection against cross-subsidization. With rate of return regulation still governing the majority of the BOCs' business (intrastate operations generally constitute 75 percent of total BOC costs), so the argument goes, it would be possible for a BOC to recover most shifted costs through regulated rates. This argument, however, is mitigated by the fact that all nonregulated costs--not just interstate costs--are removed through the Part 64 process, prior to separations, and are subsequently subject to independent audit. Thus, even though price caps apply only to the interstate jurisdiction, their protective effects extend to both jurisdictions.

[25]A survey of predatory pricing cases over the 1975-1986 period was conductd by Liebeler, Whither Predatory Pricing? From Areeda and Turner to Matsushita, 61 NOTRE DAME L. REV. 1052 (1986). Liebeler found:

> . . . most of the cases are insubstantial. Almost all could have been decided for the defendant on summary motions . . . . Not one of the cases is a real predatory pricing case. Id., at 1052.

below cost prices and the resulting financial losses would have to be maintained long enough to cause all competitors to exit the market. The surviving monopolist would have to be the only firm financially capable of withstanding the extended period of losses necessary for successful predation. Having established its monopoly position, a successful predator must be able to maintain a monopoly price long enough to more than recoup losses incurred during the predatory period. This requires protecting monopoly profits by effectively barring entry into the enhanced services market by all firms--both new entrants and potential re-entry by firms previously supplying enhanced services.

The Commission's accounting safeguards alone would significantly limit the BOCs' ability to offset the losses incurred during any such hypothetical period of predation through cross-subsidization. Beyond these safeguards, regulation itself, whether rate of return or price caps, will serve to prevent predatory pricing by inhibiting a BOC's ability to recoup losses incurred in a predatory pricing campaign.

Assuming that a BOC subject to either rate of return or price cap regulation would choose to engage in a classical "long purse" predation campaign (if it faced a competitive "fringe" of smaller firms), it would choose to set some of its prices below marginal operating costs to drive out this fringe. Once this fringe had exited the market, the firm would attempt to raise prices to levels that allowed it to recoup its short run losses due to the predation campaign, plus extract monopoly profits from the market.

Due to regulatory lag in the rate-setting process and the implicit price ceilings regulation imposes, this strategy involves a risky economic scenario. First, the firm probably must price at levels below marginal operating costs, which stimulates demand and requires an expansion of capacity, but provides no contribution to overhead. Second, the firm must somehow raise prices above competitive levels after all other firms have exited the industry. This is difficult for several reasons. The firm still faces the upper limits on pricing due to regulation which would be binding in the firm's attempt to enjoy monopoly profits.[26] In addition, the firm has excess capacity in the post-predation period, since it over-invested to meet the demand generated by prices that were lower than marginal operating cost. Thus, in the post-predation period, not only does the firm face the regulation-induced upper limit on pricing, it also must recover all of its capital

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[26]Under traditional rate of return regulation, the regulatory process may not arrive at prices that will offset any losses incurred pursuing a predation campaign, but whatever these prices are, they are rigid and cannot be changed very easily for a potentially significant period of time. Under price caps, the upper price limits are explicitly limited by the price cap formula.

investment (including the excess capacity that the predation strategy required). Under regulation, predation leads most likely to an underrecovery of invested capital, not monopoly profits.

Moreover, since BOCs cannot realistically expect to offset losses resulting from a predatory assault upon competitors, the BOCs would have to be financially stronger than incumbents in order to survive a predatory pricing campaign. However, many enhanced service providers are, or are owned by, corporations at least as large and financially strong as any of the BOCs. It is not likely that a BOC believes it could drive firms such as IBM or General Electric from profitable markets. BOCs would not only have to overcome the substantial internal resources of such corporate giants, but also, as new entrants with small or zero market shares, BOCs would have to conquer a market in which incumbents already had significant market shares.

The importance and validity of economic factors such as those described above have been affirmed by several recent court decisions. For example, in the well-known Matsushita case, plaintiffs were required to show that the alleged predation scheme was economically rational.[27] Several other cases have dispensed entirely with consideration of price-cost relationships when market

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[27]Matsushita Electric Indus. Co., Ltd. v. Zenith Radio Corp., 475 U.S. 574 (1986).

structure factors indicated that the predator would be unable to recoup its investment in executing the exclusionary pricing strategy.[28] Finally, recent antitrust decisions have begun to repudiate cross-subsidization arguments that, in regulation, are frequently raised against "dominant" telecommunications carriers.[29]

In addition to these obvious disincentives for a BOC to attempt a predatory pricing strategy in the enhanced services market, it is almost certain that such an attempt would be readily detected. Today's large, well-established ESPs have the sophistication and resources to detect and prevent any competitively significant misconduct.[30] These ESPs are keenly aware of the remedies embodied in the antitrust laws.

Incumbent enhanced service firms include technologically sophisticated corporations that are extremely knowledgeable not only regarding the enhanced services market but regarding telecommunications networks in general. Such firms, with the incentive of treble damages

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[28]The recent case of A.A. Poultry Farms, Inc. v. Rose Acre Farms, Inc. is an excellent example of this reasoning. 881 F.2d 1396 (7th Cir. 1989).

[29]The standard cross-subsidization argument was formally rejected in the Matsushita case and in Clamp-All Corp. v. Cast Iron Soil Pipe Institute, 851 F.2d 478 (1st Cir. 1988).

[30]See Matsushita, 475 U.S. at 591-592 and nn. 15-16 (rejecting predation theories where the market is occupied by large, well-established competitors).

from successful antitrust litigation, are unlikely to be fooled by a BOC predatory pricing strategy. Furthermore, given BOCs' willingness to compete against one another (e.g., directory publishing, cellular, and CPE markets), any BOC implementing a predatory pricing strategy would have to do so undetected by other BOCs offering enhanced services in the same market. This would be extraordinarily unlikely.

The movement toward price cap regulation, the nature of competitive markets, the sophistication of incumbent firms, and the potential application of antitrust laws constitute strong discouragement of BOC attempts to cross-subsidize enhanced service offerings.

2. Finalization, Implementation and Execution Of BOC CAMs Has Shown That Accounting Safeguards Can Effectively Deter And Detect Cross-Subsidies.

Aside from the disincentives that BOCs now have to engage in enhanced service cross-subsidization, even if a BOC were inclined to engage in such conduct the Commission's cost accounting safeguards would ensure that such conduct was uncovered and remedied. None of those safeguards had even been designed when the original Computer III Orders were issued. Much has changed in this regard since those Orders were issued, and thus the Commission now is justified in relying upon these finalized, fully implemented safeguards in removing the structural separation requirement.

First, the BOCs' CAMs were drafted under the general principles established in CC Docket No. 86-111.[31] Under the 86-111 rules, all costs directly attributable to nonregulated operations are identified and removed from regulated accounts. This step alone ensures that nonregulated operations will bear their incremental costs. In addition, fully distributed costing (FDC) assigns to nonregulated services a portion of joint costs and common overheads which would otherwise be borne by regulated operations. Finally, the use of asymmetrical rules for both (1) asset transfers between regulated and nonregulated affiliates, and (2) forecasted apportionment of shared network investment, ensures that in all cases any benefit flows _to the regulated ratepayer_. Thus, uncertainties inherent in the cost allocation process are always resolved so that any benefits flow to ratepayers. Likewise, any opportunities for cross-subsidization through manipulation of asset transfers are precluded by an arbitrary rule that always gives the regulated entity the benefit of the most favorable pricing criterion.

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[31] _In the Matter of Separation of Costs of Regulated Telephone Service from Costs of Nonregulated Activities_, _Report and Order_ in CC Docket No. 86-111, 2 FCC Rcd 1298 (1987); _modified on recon._, 2 FCC Rcd 6283 (1987); _modified on further recon._, 3 FCC Rcd 6701 (1988); _aff'd_, _Southwestern Bell Corporation v. FCC_, 896 F.2d 1378 (D.C. Cir. 1990).

The process of establishing the Docket 86-111 principles was lengthy and laborious. Sixty parties filed comments and thirty-six parties filed reply comments. Thereafter, the BOCs were required to file their actual proposed CAMs, which also were the subject of public review and comment. Including the original CAM submissions and subsequent revisions, over 100 CAM filings have been made to date, each of which was subject to public review. This process--from the time the NPRM was adopted in Docket 86-111 (April 1986) until the first CAMs were deemed finally approved (December 1988)--spanned a period of thirty-two months. A great deal of effort has been expended by Commission staff and by the industry to finalize the CAMs, very little of which had transpired at the time of the Computer III Orders that were reversed in California, and none of which was before the Court in that appeal.

Second, the BOCs' CAMs were implemented and put to use with regard to a large number of different nonregulated BOC activities, including CEI plan enhanced services, CPE, inside wire, and many others, all with no signs of anticompetitive effects in those markets. The CAMs have been in effect for over three years, and that is enough experience for the Commission now to conclude that such accounting safeguards can indeed effectively prevent enhanced service cross-subsidization. Furthermore, there is no rational or legal basis for concluding that the current CAM rules are effective for some nonregulated lines of business, but not for enhanced services. Nor is there any sound basis for concluding that the same rules are effective for other Tier 1 telephone companies, but not for the BOCs.

Third, the CAMs have been fully executed. To date, thirty independent CAM-related audits have been performed. In addition, each BOC's annual independent audit has been reviewed by Commission auditors for the past two years. Moreover, the Automated Reporting and Management Information System (ARMIS) now provides detailed cost and revenue information from which the Commission can generate clear benchmark comparisons among the BOCs, and against past trends. This tool allows the Commission to identify potential discrepancies that might warrant closer Commission attention. As the Chief of the Common Carrier Bureau recently noted:

> Disallowances by the Commission based on disparities in individual BOC's cost allocations during the tariff review process have already saved consumers hundreds of millions of dollars.[32]

None of the above things could be said about the development of the Commission's cost accounting safeguards at the time of the Computer III Orders that were reversed by the Ninth Circuit in California. Cumulatively, these efforts by the Commission and the industry show that cost

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[32]Remarks by Richard M. Firestone before the ComNet Conference, Washington, D.C., January 29, 1991, p. 2.

accounting safeguards can, have and will protect against enhanced service cross-subsidization.

As further support for the position that the Commission's accounting safeguards are effective, see the attached affidavit of Mr. James E. Farmer, an acknowledged industry expert in this area. Mr. Farmer's affidavit expands upon and augments the points made herein, and his affidavit is incorporated herein by this reference. Of particular significance in Mr. Farmer's affidavit is the explanation of how the Commission's cost allocation rules always act to favor the regulated ratepayer, thus greatly limiting any doubt that these rules will achieve their intended purpose.

3. <u>SWBT Generally Does Not Oppose, With Appropriate Clarifications/Modifications, The Additional CAM Enforcement Measures Proposed By The Commission In This Proceeding</u>.

In the NPRM, the Commission proposes four additional enforcement measures designed to strengthen the current cost accounting safeguards.[33] Specifically, the Commission proposes to require: (1) that independent auditors be directed to provide the same level of assurance in their required audits as that undertaken in a financial statement audit engagement; (2) that the Common Carrier

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[33]NPRM, para. 26.

Bureau study means of achieving greater uniformity in the carriers' CAMs, and if appropriate, take steps necessary to accomplish this goal; (3) that carriers quantify the effect of cost allocation manual changes when such changes are submitted to the Commission; and (4) that the Bureau study whether to establish a reasonable threshold for determining the materiality of errors and omissions discovered in the independent audits of carrier filings, and, if appropriate, take the steps necessary to implement such a threshold.

The current attestation audit requirements provide a reasonable degree of assurance regarding the subject carrier's compliance with the Commission's Joint Cost Allocation rules. However, the "fairly presents" audit proposed by the Commission would result in a greater degree of assurance, by virtue of the substantial additional audit work required. Although SWBT sees limited benefits from this costly enhancement, we do not oppose the requirement.

The Commission also proposes to improve the joint cost allocation process by achieving greater uniformity in the carriers' CAMs. SWBT welcomes the opportunity to participate in a Common Carrier Bureau-directed effort to achieve greater uniformity, which should yield positive results by allowing the Commission to better utilize its resources.

However, the Commission, in footnote 68 of the NPRM, has already noted the most important fact to consider in this uniformity process: "we expect that certain differences in the manuals will remain due to the differences in the carriers' operations." SWBT agrees with this observation, and stresses that these differences should not be compromised in the uniformity process.

As time passes each carrier makes it own decisions regarding (a) integrated versus nonintegrated forms of organization, (b) offering of certain nonregulated products, and (c) types of strategic costs relevant to its business operations.[34] SWBT would be greatly concerned about a requirement that the same set of cost pools and allocators be used by all carriers. Even if this were possible--and SWBT strongly argues that it would not be--SWBT believes, due to the operational differences among carriers noted above, that this type of change may not produce the results that the Commission expects to see.

With a requirement for absolute uniformity, the quarterly filings of the carriers could become an administrative nightmare. Each carrier might have to constantly coordinate with others to ensure that all changes were made at the same time. This would impose significant costs upon carriers. In addition, some carriers might include cost pools/allocators in their CAM filings that were

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[34]The Commission should take note that, for example, BellSouth integrated CPE back into its telephone companies, and Bell Atlantic integrated a portion of its CPE sales function. These differences have significant impacts on the cost pool structure and allocators of those companies.

meaningless since they did not offer the associated nonregulated activities.

Finally, the first carrier to offer a specific, new nonregulated product should have freedom to establish, at least initially, that activity's cost pool/allocated structure. Requiring an industry consensus prior to the submission of quarterly CAM filings would prevent the carriers from capitalizing on new business ventures in a timely manner. This would not serve the public interest. Because of these far-reaching effects, the Commission should not institute any specific rule changes without a full examination through a separate rulemaking proceeding.

Furthermore, SWBT is concerned that any proposed adoption of a standard set of cost pools and cost pool allocators would most likely cause carriers to depart from an important principle contained in the Joint Cost proceedings--the principle of cost causation. It is not in the public interest for carriers to adopt a proposal which might compromise the essential link between accurate cost allocations and the decision to offer enhanced services. The Commission and the Tier 1 carriers should work together on a voluntary basis to determine where uniformity may be adopted.

The Commission also proposes to require that carriers quantify the revisions made in each CAM filing. The Commission advances this proposal on the belief that this information will assist the Commission's review of the most important revisions.

SWBT understands that in order to properly review quarterly CAM filings the Commission's staff needs to have information on substantive changes and must be able to discern the impact on joint cost allocation results. SWBT appreciates the Commission's desire for quantification of changes, but urges the Commission to adopt a reasonable threshold. Because the Commission issued a $1 million threshold in Responsible Accounting Officer (RAO) letter No. 12, SWBT urges the Commission to be consistent and apply that threshold to CAM revisions.

SWBT also believes that these quantifications of CAM changes will involve use of estimates and assumptions. Some types of changes (e.g., certain types of time reporting changes) may be difficult to analyze and to quantify. As such, SWBT believes that predetermined ranges of costs should be established for use in reporting the quantification of CAM changes. Each CAM change could then be presented as falling within one of these predetermined cost ranges. This would provide the Commission staff a useful order-of-magnitude quantification while still recognizing the fact that these quantifications in many instances will be broad-based estimates. The industry should work with the Bureau to develop these ranges.

The Commission also proposes "to direct the Bureau to examine whether to establish a specific standard or