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

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FEDERAL COMMUNICATIONS COMMISSION
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CC Docket No. 94-1

In the Matter of)
)
Price Cap Performance Review)
For Local Exchange Carriers;)
Treatment Of Video Dialtone)
Services Under Price Cap)
Regulation)

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AT&T REPLY COMMENTS

Pursuant to Section 1.415(c) of the Commission's Rules, 47 C.F.R. § 1.415(c), AT&T Corp. ("AT&T") hereby replies to the comments filed in response to the Commission's Further Notice of Proposed Rulemaking.¹

In its Comments, AT&T showed that the Commission: (1) should establish a new price cap service

¹ Price Cap Performance Review for Local Exchange Carriers: Treatment of Video Dialtone Services Under Price Cap Regulation, CC Docket No. 94-1, Further Notice of Proposed Rulemaking, FCC 95-49, released Feb. 15, 1995. In addition to AT&T, comments were filed by Ad Hoc Telecommunications Users Committee ("Ad Hoc"), Bell Atlantic, BellSouth Telecommunications, Inc. ("BellSouth"), California Cable Television Association ("CCTA"), General Services Administration ("GSA"), GTE Service Corporation ("GTE"), MCI Telecommunications Corporation ("MCI"), The National Cable Television Association, Inc. ("NCTA"), The NYNEX Telephone Companies ("NYNEX"), Pacific Bell ("Pacific"), Rochester Telephone Corp. ("Rochester"), Southwestern Bell Telephone Company ("SWBT"), United and Central Telephone Companies ("United"), United States Telephone Association ("USTA"), and U S WEST Communications, Inc. ("U S WEST").

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basket for video dialtone service; (2) should apply the rules for "new services" to establish the initial rates for the video dialtone basket; and (3) should exclude costs and revenues associated with the video dialtone basket from the local exchange carriers' ("LECs'") interstate earnings for purposes of calculating those carriers' sharing obligation. These proposed rules are designed to prevent the LECs from cross-subsidizing their video dialtone offers through increases in rates in the LEC's other regulated interstate service offerings.

The overwhelming majority of commentators agree that if the LEC's video dialtone service is regulated under price caps (as the Commission has already found it should be), then a new service basket should be created.² As U S WEST notes (pp. 12-13), a separate video dialtone service basket should be created, because it "will 'wall-off' competitive [video dialtone] services from all other LEC telecommunications services."

The majority of commentators also confirm the Commission's tentative conclusion that video dialtone is a

² Ad Hoc, p. 6; CCTA, p. 6; GSA, p. 3; MCI, p. 5; NCTA, p. 6; and United, p. 1. Virtually all local exchange carriers argue that video dialtone should not be included in price cap regulation. However, the majority of them do agree that a new price cap basket should be created if video dialtone is regulated under price caps. GTE, p. 13; NYNEX, pp. 2, 4; Pacific, p. 7; Rochester, p. 6; SWBT, p. 3 (on a temporary basis); USTA, p. 4, and U S WEST, pp. 12-13.

"new service" under the Commission's price cap rules.³ Because there is no serious disagreement among the commenting parties, the Commission should set initial rates for these offerings through the new service rule process.

In its initial Comments, AT&T also urged (pp. 5-7) the Commission not to include costs and revenues associated with video dialtone in calculating the LEC's interstate rate of return. As Ad Hoc notes (p. 20), it is likely that in the early years "LECs will either lose money or at least not realize substantial positive returns on their video investments, [and] consolidation of the video and narrowband earnings into a single company-wide composite will have the effect of depressing overall LEC earnings." This view is also shared by other commentators.⁴

³ Ad Hoc, pp. 16-17 (Commission should impose a "rigorous tariff review process"); CCTA, pp. 7-9 (Commission should perform "a thorough review of the LECs' video dialtone cost studies"); GSA, p. 5; MCI, p. 11; and United, p. 2. The majority of the LECs also argue that if video dialtone is regulated under price caps, then it should be treated as a new service. BellSouth, p. 11; GTE, pp. 17-18; NYNEX, pp. 8-9; SWBT, p. 6 (with minor modifications); USTA, p. 5; and U S WEST, pp. 16-18 (with minor modifications).

⁴ CCTA, pp. 13-14; GSA, pp. 6-7; MCI, p. 13; NCTA, p. 8 (video dialtone should be exempt from sharing); NYNEX, p. 10; Rochester, p. 9 (video dialtone should be completely excluded from a sharing obligation); SWBT, p. 8 (sharing provides the ability and incentive for price cap LECs to cross-subsidize; therefore, sharing should be eliminated); and United p. 3 (companies not out of sharing should be subject to strict allocations).

The only commentators seeking to have costs and revenues included in total interstate earnings are certain LECs.⁵ However, even some LECs acknowledge the dangers to the Commission's policy goals that would be posed by including these amounts in their overall earnings calculations. For example, NYNEX notes that including costs and revenues in the interstate rate of return raises concerns of potential cross-subsidy by LEC video dialtone providers.⁶ Therefore, NYNEX argues (p. 10) that video dialtone "direct costs and revenues [should] not be included in the calculation of a LEC's interstate rate of return for purposes of the sharing and low end adjustment mechanism." Accordingly, only when the video dialtone rate of return equals the interstate rate of return, excluding the video dialtone rate of return, should the video dialtone basket be part of the sharing process.

⁵ BellSouth, p. 14 and Pacific, p. 9.

⁶ U S WEST (pp. 14-15) also notes that "excluding the VDT basket from sharing calculations would avoid the inevitable charges of earnings manipulation and cross-subsidization that arise in sharing discussions."

CONCLUSION

For the reasons stated above and in AT&T's Comments, the Commission should establish a new price cap basket, including the necessary related service categories for video dialtone service to prevent LECs from subsidizing their video dialtone services through other regulated services.

Respectfully submitted,

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CERTIFICATE OF SERVICE

I, Ann Marie Abrahamson, do hereby certify that on this 17th day of May, 1995, a copy of the foregoing "AT&T Reply Comments" was mailed by U.S. first class mail, postage prepaid, to the parties listed on the attached Service List.


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