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Before the
FEDERAL COMMUNICATIONS COMMISSION
Washington, DC 20554

FEDERAL COMMUNICATIONS COMMISSION
OFFICE OF SECRETARY

In the Matter of:)
)
National Exchange Carrier Association) RM 8389
Proposed Revision of Part 69 of the)
Commission's Rules to Allow for)
Incentive Settlement Options for NECA)
Pool Companies)
)

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Comments of the United States Telephone Association
on Supplemental Comments

The United States Telephone Association (USTA) submits these comments in response to the Supplemental Comments of the National Exchange Carrier Association (NECA) in the above-captioned docket. USTA is the principal trade association of the local exchange carrier (LEC) industry.

NECA's Supplemental Comments describe revisions to its prior optional incentive regulation plan for pool companies which recognize important policy decisions regarding the efficiency disincentives created by the inclusion of sharing mechanisms in price cap regulation. Pooling LECs would benefit from having the option to elect price cap regulation, while retaining the administrative efficiencies associated with the pooling process. Accordingly, the Commission should follow NECA's suggestion to adopt a Notice of Proposed Rulemaking to develop incentive regulation options for pooling companies.

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DISCUSSION

In the recent Price Cap Review Order,¹ the Commission properly concluded that the inclusion of sharing mechanisms in price cap or other incentive regulation plans deprives LECs and their customers of the full benefits of lower prices and improved efficiency that a pure price cap scheme can offer. Price Cap Review Order, para. 191 (emphasis added).

In its Supplemental Comments, NECA states that its revised plan replaces the earlier "Pool Profit Sharing Incentive Option" with a new "Customer Dividend Option," which removes profit sharing and adds an explicit customer dividend which leads to reductions in NECA tariff rates through lower settlement rates for companies electing the option. NECA notes that this change is consistent with the Commission's determination in the Price Cap Review Order that the sharing and low-end adjustment mechanisms should be eliminated in a permanent price cap plan for exchange carriers. NECA Supplemental Comments at 2.

NECA's modification is a step in the right direction. NECA's proposal properly recognizes that profit sharing caps create disincentives contrary to the goals of price cap regulation. NECA's Small Company Option, see NECA Supplemental Comments at 8, whereby settlement rates are frozen for two years, also incorporates this policy.

Of course, retaining optional rate-of-return regulation for some pooling companies makes sense. Prudent evaluation of a pooling company's business circumstances, including cost and demand levels, may reveal that incentive regulation, within or outside of the pool, does not best promote the efficient provision of high-quality service to the public. Appropriately, therefore, NECA proposes an optional incentive regulation plan which is, like average schedules, designed to be compatible with existing pooling procedures. See NECA Supplemental Comments at 9.

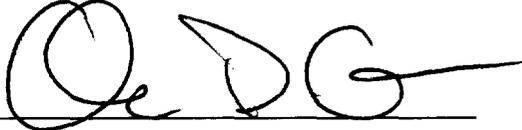
¹ Price Cap Performance Review for Local Exchange Carriers, First Report and Order, CC Docket 94-1, FCC 95-32 (released April 7, 1995)("Price Cap Review Order").

CONCLUSION

Adoption of a incentive regulation option for telephone companies who would also like to retain the benefit of the administrative cost savings permitted through the pooling process would serve the public interest. Accordingly, the Commission should initiate a rulemaking proceeding to consider NECA's proposal, evaluate the issues, and implement the necessary changes to Part 69 of its rules.

Respectfully submitted,

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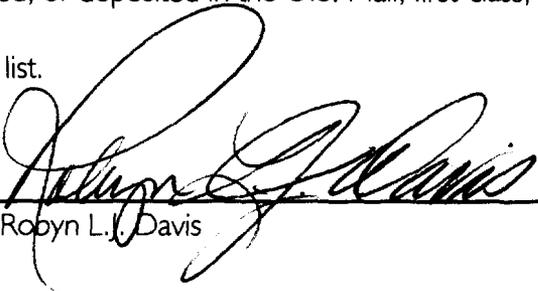
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CERTIFICATE OF SERVICE

I, Robyn L.J. Davis, do certify that on June 19, 1995 copies of the Comments of the United States Telephone Association were either hand-delivered, or deposited in the U.S. Mail, first-class, postage prepaid to the persons on the attached service list.


Robyn L.J. Davis