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

In the Matter	)	
	)	CC Docket No. 96-5
1995 Annual Access Tariffs	)	
	)	Transmittal No. 963
GTE Telephone Operating Companies	)	Transmittal No. 146
GTE System Telephone Companies	)	

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AT&T CORP.'S COMMENTS
ON GTE'S DIRECT CASE

Pursuant to the Bureau's Designation Order in this proceeding, AT&T Corp. ("AT&T") respectfully submits these comments on the GTE Telephone Operating Companies' and the GTE System Telephone Companies' (collectively "GTE") Direct Case.[1] In the Designation Order, the Bureau established an investigation of exogenous cost adjustments to Price Cap Indexes ("PCIs") proposed by GTE with regard to the sale of telephone exchanges.

AT&T supports GTE's decision to identify the exogenous costs attributable to the sale of high cost telephone exchanges using the method proposed by U S WEST.

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[1] 1995 Annual Access Tariffs GTE Telephone Operating Companies, GTE System Telephone Companies, Order Designating Issues for Investigation, CC Docket No. 96-5, Transmittal Nos. 963 and 146, released January 23, 1996 ("Designation Order").

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However, AT&T requests that the Commission further investigate the proposed exogenous cost adjustments, because, contrary to Commission findings, the sale of certain other exchanges have not resulted in exogenous reductions to GTE's PCIs.

In the First Report and Order in the local exchange carrier ("LEC") price cap performance review proceeding, the Commission found that sales or swaps of telephone exchanges should result in an exogenous adjustment to the carrier's PCIs.[2] Without an adjustment to a LEC's PCIs when it sells above-average cost telephone exchanges, the LEC would realize unwarranted higher earnings on their remaining investment. Therefore, LECs are required by the Commission to lower their PCIs to reflect the effects of a sale or swap of above-average cost local telephone exchanges.[3]

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[2] Price Cap Performance Review for Local Exchange Carriers, First Report and Order, 10 FCC Rcd 8962 (1995) ("First Report and Order").

[3] First Report and Order at 9104. The Commission has identified certain cost changes triggered by administrative, legislative, or judicial action that because they are beyond the control of carriers, should result in an adjustment to the PCI. These types of cost changes are treated as "exogenous" changes in order to ensure that price cap regulation did not lead to unreasonably high or unreasonably low rates. See Policy and Rules Concerning Rates for Dominant Carriers, 5 FCC Rcd 6786, 6807 (1990) ("LEC Price Cap Order"), recon., 6 FCC Rcd 2637 (1991) ("LEC Price Cap Reconsideration

(footnote continued on following page)

GTE, as a LEC subject to price cap regulation, filed with its 1995 annual access tariff filing documentation that it sold several local exchanges and, therefore, removed the costs and revenues related to these sales from the calculation of its proposed PCIs through an exogenous cost adjustment. AT&T filed a petition against the GTE annual access tariff filings, demonstrating that those filings failed to include any cost information to support the PCI adjustments relating to the sale of telephone exchanges. Without that cost information, interested parties could not review GTE's adjustment calculations. Moreover, AT&T also challenged GTE's proposed exogenous cost adjustments that would have increased its PCIs as contrary to the Commission's findings in the First Report and Order.[4]

The Bureau found in the Price Cap Carriers' 1995 Access Order that "the manner in which GTE calculated its exogenous cost adjustments for the sale of telephone exchanges, particularly in view of GTE's proposed increase

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Order"), aff'd sub. nom. National Rural Telecom Assoc. v. FCC, 988 F.2d 174 (D.C. Cir. 1993).

[4] See 1995 Annual Access Tariff Filings of Price Cap Carriers, Memorandum Opinion and Order Suspending Rates, DA 95-1631, para. 40, released, July 21, 1995 ("Price Cap Carriers' 1995 Access Order").

to its PCIs, raised substantial questions of lawfulness that warranted an investigation."[5] Consequently, the Bureau initiated this investigation requiring GTE to (1) ensure that a reasonable methodology is used to determine the downward exogenous adjustment to its PCIs attributable to the sale of exchanges and (2) provide adequate support for exogenous cost adjustments related to the sale of telephone exchanges.

As to the first issue, GTE "now agrees that it would be more appropriate to identify the exogenous costs attributable to the sale of exchanges using the method proposed by U S WEST."[6] AT&T supports GTE's decision to use the methodology proposed by U S WEST, which is designed to calculate the increase in net revenue resulting from the sale of high cost exchanges.[7] However, as to the second

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[5] Designation Order, at para. 6 (emphasis added). See Price Cap Carriers' 1995 Access Order, at para. 43.

[6] GTE's Direct Case, filed February 20, 1995, p. 4. GTE contends (p. 2) that because only the exchanges in California, Iowa and Oklahoma were actually involved in a sale prior to January 1995, it is permitted to reverse out the impact of exchange sales for the other study areas. See Transmittal No. 1017. AT&T's petition to suspend and investigate that transmittal, filed on February 20, 1996, demonstrated that GTE's attempt to exclude those other study areas from its PCI calculations is improper.

[7] GTE, pursuant to Bureau directive, also calculated the downward exogenous adjustment to its PCI using an alternative methodology -- "cost causation." AT&T finds this to be an acceptable methodology if the Bureau

(footnote continued on following page)

issue -- adequate support of exogenous cost adjustments -- GTE does not appear to provide the required support and, therefore, the Bureau should continue its investigation into this matter.

Specifically, it appears from GTE's exhibits submitted with its Direct Case that GTE may have used erroneous data to calculate the exogenous costs for the sale of exchanges in Oklahoma. AT&T calculates that GTE's Common Line ("CL") net revenue requirement for the sold exchanges is 8 percent of the total Common Line net revenue requirement. However, GTE inexplicably reports that the number of end user common lines ("EUCL") for the sold exchanges is approximately 40 percent of the total end user common lines for GTE's entire Oklahoma study area.[8] The effect of GTE's apparent incorrect reporting of the EUCL volumes is that the net revenues and exogenous cost calculations for the sold Oklahoma exchanges are materially misstated. For example, assuming that the EUCL and Carrier

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decides not to require GTE to use the U S WEST methodology.

[8] The Common Line net revenue requirement for the sold exchanges is $1,332,000 and the total Common Line net revenue requirement for the entire study area is $16,024,000. See Attachment A. The comparison of EUCL volumes for the sold exchanges to the total EUCL volumes for the entire GTE study area is shown at Attachment B.

Common Line ("CCL") volumes for the sold exchanges are both eight percent[9] of the total volumes, AT&T estimates that the exogenous costs would be reduced from $672,082 to ($689,620), a reduction of $1,361,702 from what was reported by GTE in its Direct Case.[10]

Moreover, GTE is selling some exchanges that have costs below GTE's average costs, which it claims results in a positive exogenous adjustment to its PCI.[11] This result contradicts the Commission's conclusion that if LECs are not required to adjust their PCIs to account for the sale of above-average cost telephone exchanges, LECs would realize unwarranted higher earnings on their remaining investment. In the case where a LEC is selling telephone exchanges with below-average costs, there is no concern that LECs would

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9 The eight percent figure is based on the CL revenue requirement of the sold exchanges shown above.

10 AT&T is including a chart (at Attachment C) showing the impact on exogenous costs based on EUCL and Carrier Common Line charges of 8 percent. As Attachments A and C show, the exogenous costs are reduced because net revenue is reduced to $642,380 from $2,004,253.

11 See GTE Direct Case, Exhibit 8. For example, the net revenue for GTE's Oklahoma Common Line Category for Total Interstate CL is approximately 84 percent of the net revenue requirement. (See Attachment A, page 2 of 2, for net revenue requirement calculation.) On the other hand, for the exchanges GTE sold, the net revenue is approximately 150 percent of the net revenue requirement. (See Attachment A, page 1 of 2.) Consequently, GTE appears to be selling off its profitable exchanges.

realize such earnings. Consequently, GTE should not be permitted to raise its PCIs when it sells a below-average cost local telephone exchange. Otherwise, customers of the remaining exchanges will be harmed by the LEC's ability to increase its rates.

Furthermore, the Commission decided to permit an exogenous adjustment to a price cap carrier's PCI as a "limited departure" from the general standard for determining exogenous cost changes when an exchange is sold. This departure is necessary to maintain consistency with the concept of the price cap plan overall.[12] It is clear from the Commission's discussion of exogenous cost adjustments from the sale of telephone exchanges that only exogenous cost reductions will be considered.[13] As explained above, exogenous costs are typically those costs over which a LEC has no control. In this case, by contrast, GTE clearly has control of its costs when it is selling profitable exchanges. Therefore, those costs are endogenous and should not be allowed to affect a LEC's (in this case, GTE's) PCI.

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[12] First Report and Order at 9104.

[13] See id.

WHEREAS, for the above reasons, the Commission should accept GTE's use of the U S WEST methodology, but should further investigate its sales of profitable exchanges that have not resulted in exogenous reductions to GTE's PCIs.

Respectfully submitted,

AT&T Corp.

By ______________________

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Date: March 5, 1996

:OMPARISON OF NET REVENUES/NET REVENUE REQUIREMENT RELATIONSHIP
'OR GTE OKLAHOMA (GTOK) COMMON LINE CATEGORY
'OR TOTAL INTERSTATE AND SOLD RURAL EXCHANGES
US WEST METHOD]
Dollars in 000]

\: For Total Interstate Common Line

1 Net Revenue Requirement	$16,024	From Attachment A page 2, line 17
2 Net Revenues	$13,451	GTOK 1994 ARMIS 43-01 Report, Line 1090, Column M
3 Net Revenues to Net Revenue Requirement	**83.94%**	Line 2/Line 1

B: For Sold Rural Exchanges

1 Net Revenue Requirement	$1,332	GTE Direct Case, Exhibit 4, Page 9 of 9
2 Net Revenues	$2,004	GTE Direct Case, Exhibit 4, Page 9 of 9
3 Net Revenues to Net Revenue Requirement	**150.45%**	Line 2/Line 1

REVENUE REQUIREMENT CALCULATION
FOR GTE OKLAHOMA (GTOK) INTERSTATE COMMON LINE CATEGORY
PER 1994 ARMIS 43-01 REPORT

[dollars in 000]

		ARMIS 4301, Col. M Line No.	CL	Calculations
1	Average Net Investment	1910	$21,929	
2	Fixed Charges	1510	$535	
3	IRS Adjustments	1520	$47	
4	FCC Adjustments	1530	$4	
5	Investment Tax Credit	1540	$155	
6	Total Operating Expenses	1190	$12,110	
7	Other Operating Income Losses	1290	($8)	
8	Non-Operating	1390	$2	
9	Other Taxes	1490	$608	
10	Uncollectibles	1060	$255	
11	Miscellaneous Revenues	1040	$124	
12	Total Plant	1690	$42,710	
13	General Support Facilities	1620	$4,660	
14	Return		$2,467	L1*.1125
15	Federal Income Tax		$829	[(L14-L2+L3+L4-L5)*.35/.65)]-L5
16	Expenses and Other Taxes		$12,720	L6+L8+L9
17	Net Revenue Requirement		**$16,024**	L14+L15+L16-L7

ATTACHMENT B

COMPARISON OF COMMON LINE VOLUMES
FOR GTE OKLAHOMA (GTOK) COMMON LINE CATEGORY
FOR TOTAL INTERSTATE AND SOLD RURAL EXCHANGES

	Rate Element	Total Interstate* (A)	For Sold Exchanges ** (B)	% of Sold Exchanges C=(B/A)
1	Multiline Business EUCL	176,844	72,780	41.15%
2	Res & Single Line Bus EUCL	843,144	333,384	39.54%
3	Lifeline EUCL	0	0	N/A
4	Special Access Surcharge	0	0	N/A
5	Terminating CCL Prem.	134,655,638	11,370,524	8.44%
6	Terminating CCL Non-Prem.	5,415,890	3,974,405	73.38%
7	Originating CCL Prem.	105,499,208	10,960,377	10.39%
8	Originating CCL Non-Prem.	1,519,490	1,645,354	108.28%

* Total Interstate Base Period Volumes as reported in GTOK 1995 TRP

** Volumes for Sold Exchanges as reported in GTE's Direct Case Exhibit 1, Page 7 of 9.

ATTACHMENT C

RECALCULATION OF NET REVENUES AND EXOGENOUS COSTS
FOR ILLUSTRATIVE PURPOSES
FOR GTE OKLAHOMA (GTOK) COMMON LINE CATEGORY
[US WEST METHOD]

		Base Period Demand			
	Rate Element	Total Interstate * (A)	For Sold Exchanges B=A*.08	Base Period Rates C	Base Period Revenues D=C*B
1	Multiline Business EUCL	176,844	14,148	$6.00	84,885
2	Res & Single Line Bus EUCL	843,144	67,452	$3.50	236,080
3	Lifeline EUCL	0	0	N/A	N/A
4	Special Access Surcharge	0	0	N/A	N/A
5	Terminating CCL Prem.	134,655,638	10,772,451	0.02156100	232,265
6	Terminating CCL Non-Prem.	5,415,890	433,271	0.00970250	4,204
7	Originating CCL Prem.	105,499,208	8,439,937	0.01000000	84,399
8	Originating CCL Non-Prem.	1,519,490	121,559	0.00450000	547
9	Total: Net Revenues				642,380
11	Net Revenue Requirement [GTE Direct Case, Exhibit 4, Page 9 of 9]				1,332,000
12	Exogenous Cost [Line 9 - Line 11]				(689,620)

* As reported in GTOK's 1995 Annual Filing TRP.

MAR- 5-96 TUE 16:19 AT&T LAW DIVISION FAX NO. 9082216405 P.01

CERTIFICATE OF SERVICE

I, Ann Marie Abrahamson, do hereby certify that on this 5th day of March, 1996, a copy of the foregoing "AT&T Corp.'s Comments on GTE's Direct Case" was mailed by U.S. first class mail, postage prepaid, to the parties listed below.

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