Table 2

Network Marginal Costs By Cost Center

Cost Center	Marginal Cost	Unit	Function	Reference
End Office				
Switching	$5.53	BH Minute	Switching	Part 3, Tab A, Section I.A
Line Termination	$4.41	Line Termination / Month	Access	Part 3, Tab A, Section I.B
Dedicated Line Termination[2]	$2.57	Dedicated Line Termination / Month	Access	Part 3, Tab A, Section IV
Tandem Office	$3.42	BH Minute	Switching	Part 3, Tab A, Section II
Interoffice Facilities				
Line Haul	~~$0.036~~ 0.036	BH Minute / Circuit / Mile	Transport	Part 3, Tab A, Section III.A
Fiber Terminations	$1.11	Termination	Transport	Part 3, Tab A, Section III.B
Other Terminations	$0.24	Termination	Transport	Part 3, Tab A, Section III.C
Dedicated Special Circuit Equipment[1]			Transport	Part 3 Tab A Section III.D
~~Loop~~	$6.90	Per Loop Per Month	Access	Part 3, Tab A, Section IV

1. DCSE comprises many different types of equipment whose marginal costs are expressed per circuit. Please refer to the results section (Part 3 Tab C, Section II) for this detail.

2. Dedicated Line Termination

The Dedicated Line Termination equipment was studied with the Loop Cost Center Details. However, it is displayed here with the End Office Cost Center to more accurately group it with the other end office components.

Aggregation of Marginal Costs

The aggregation of marginal costs allowed the Company to calculate the costs for each network function. This was done by aggregating the costs from each cost center by function, and within each function by appropriate unit. Table 3 shows the aggregation of marginal costs by function and cost center.

The aggregation of costs by function is important in order to be able to calculate the cost of the various products by which the Company offers *network service*. Fundamentally, the Company offers four *network service* components: *subscriber line*, *intraoffice service*, *interoffice service*, and *private line service*. These components are the building blocks which form the various product offerings like local service and toll service.

Table 3

Marginal Costs By Function and Cost Center

Cost Center	Access	Switching	Transport	
	$/Line	$/Minute	$/Minute	$/Minute/Mile
Loop[2]	$6.90			
End Office				
Dedicated Line Termination	$2.57			
Switched Line Termination	$4.41			
Switching		$0.002623		
Tandem Office		$0.001622		
Interoffice Facilities				
Line Haul				$0.000002
Fiber Termination			$0.000526	
Other Termination			$0.000114	
Dedicated Special Circuit Equipment[1]				

1. DCSE comprises many different types of equipment whose marginal costs are expressed per circuit. Please refer to the results section (Part 3, Tab C, Section II) for this detail.

2. Loop

A. For a Switched Subscriber Line the Switch Line Termination cost must be added to the loop (Refer to End Office Line Termination Study for details)

B. For a Dedicated Subscriber Line the Dedicated Line Termination cost must be added to the loop (Refer to Loop Study for details).

Subscriber line consists of the access function, which is the connection from the originator's premises via the loop to the end office. It terminates in the switch or the dedicated special circuit equipment.

Intraoffice service consists of a single switching function. The call goes from the originator's premises through the loop to the switch through the recipient's loop to the recipient's premises. Because the call never leaves the given switching office, no transport is involved.

Interoffice service consists of the switching and transport functions. The call goes from the originator's premises through the loop to the switch, from the switch through the interoffice facilities to at least one other switch[4], and then through the recipient's loop to the recipient's premises. The marginal cost of interoffice service depends on the number of switches and interoffice facilities used to complete the call.

Private line services consist of the access and transport functions. The call goes from the originator's premises through her loop to the dedicated special circuit equipment, in the end office, perhaps through the interoffice facilities, through the recipient's loop to the recipient's premises. The call never is routed through a switch, but instead is the result of a direct connection between the originator and recipient, therefore dedicated.

Adjunct Marginal Costs

Adjunct services support the *network services*. *Adjunct services* are important in that they allow customers to use the fundamental *network service* or to use it better. Without the *network service*, however, *adjunct services* are meaningless.

The Company approached the costing of *adjunct services* using the same five step method used for developing the marginal costs of *network service*. The uniqueness of the *adjunct services*, however, made this approach untenable. For example, bill inquiry and non-recurring marginal costs are labor intensive with investment requirements so small as to render them unmeasurable.

In the case of operator handled services and bill production, the existing system investments have already been made. These systems were designed as integrated units. Unlike *network services*, capacity additions of finite units are not often made. Rather, when existing capacity is exceeded, the entire system must either be redesigned, reconfigured, or replaced. Replacement or reconfiguration is not required during the foreseeable future. Thus, new investment and its associated costs are not part of the long-run marginal costs for these services in this study.

The Company will incur no additional investment in the foreseeable future to provide its *adjunct services*; what investments would be required on a *de novo* basis have already been made and will not be made again. Thus, the measure of marginal costs for *adjunct services* required the Company only to calculate the marginal cost of the additional expenses the Company incurs to provide the particular *adjunct service*. The Company's method for calculating these marginal costs comprised two steps.

The first step in the calculation of adjunct marginal costs was to determine the change in expenses associated with the change in output of the *adjunct service*. This was done in one of two ways. The "top down" variation involved calculating the change in expenses and the associated change in output for a given *adjunct service* over time. The "bottom up" variation involved determining how much of each variable input was necessary to provide one more unit of the service, and summing the costs of each variable input required to produce the one more unit.

The second step was to divide the additional expenses by the additional units output to calculate the marginal costs over the given range. In the case of the bottom up variation the additional cost was calculated for only one unit so, in fact, the divisor was one. For the top down variation, the additional units determined in the first step were used as the divisor in the second step. Table 4 lists the marginal costs for each *adjunct service*.

The other switch can be an IEC's.

MCS Results

Table 4 Network Support Adjunct Marginal Costs		
Cost Center	Marginal Cost	Unit
Bill Production		
Residence Line	$0.486333	Line
Business Line	$0.179200	Line
Toll	$0.002432	Message or Minute *
Carrier Access Minute of Use	$0.000032	Message or Minute *
Bill Inquiry		
Residence Line	$0.102336	Line
Business Line	$0.012725	Line
Toll	$0.008112	Message or Minute *
Carrier Access Minute of Use	$0.000161	Message or Minute *
Operator Costs		
Customer Dialed Calling Card	$0.0783	Call
Coin Paid Station - to - Station	$0.4067	Call
Operator Station - to - Station	$0.3590	Call
Person - to - Person	$1.4853	Call
Directory Assistance (Direct Dialed)	$0.1768	Call
Directory Assistance (Operator Dialed)	$0.2968	Call
Intercept	$0.0028	Call

Based upon the network marginal costs several basic conclusions can be drawn.

First, the cost of transport is largely distance insensitive. The fiber optic cable and digital repeaters necessary to carry calls are very inexpensive on a per minute, per mile basis.

Second, the cost of an interoffice call (one that goes through more than one switch to complete) depends primarily on the number of switches required to complete the call. A call should almost never have to go through more than two host switches and one tandem switch.

Third, just as the cost of interoffice facilities has become relatively insensitive to distance, the cost of the subscriber line is becoming less sensitive to distance as the loop technology moves toward a digital and fiber base. On the other hand, density; i.e., the number of subscriber lines in an area, may significantly affect the costs of a subscriber line. Similarly, the subscriber line costs can be significantly increased if the line must be provided to an area where service has not been previously provided.

While investments in telecommunication plant are expensive, the unit cost of capacity associated with telecommunications investments is small. As a result, the marginal cost per unit of service is very low; so low, in fact, that it is impossible for rates to be set close to marginal costs for most services given the level of revenue requirement. Therefore, concerns such as economic development, contribution, equity, and rate impacts are all of greater importance than the precise level of marginal costs.

NET urges the Commission, and the parties, to keep this focus in mind as they review the MCS. The most important issues in developing rates will be what changes should take place to reflect the costs shown by the marginal cost study, and how those changes should be effected. These issues will have far more impact on the Company's customers, and the Company itself, than small differences in the determination of marginal costs.

WORLDWIDE ACCEPTANCE OF LONG RUN INCREMENTAL COSTING:

SAMPLE REFERENCES IN A GOVERNMENTAL CONTEXT

Below is a costing applications summary, which offers samples of the utilization of long run incremental costing worldwide.

The listing is hardly exhaustive given the time constraints for this set of Reply Comments (CC Docket 96-45). Casualties of that limitation are that the examples are all relatively recent (some from April 1996), and that academics have been entirely excluded (unless they are cited in a governmental context).

Contents

I. Utilization in a Legislative Context

TEXAS: Public Utility Regulatory Act of 1995, enacted by S.B. 319, 74th Legislature, 1995, Amended by H.B. No. 2128, Sec. 3.359. Infrastructure Commitment to Certain Entities.

(a)(1)

It is the intent of this section to establish a telecommunications infrastructure that interconnects public entities described in this section. The interconnection of these entities requires ubiquitous, broadband, digital services for voice, video, and data within the local serving area. The ubiquitous

nature of these connections must also allow individual networks of these entities to interconnect and interoperate across the broadband digital service infrastructure. The delivery of these advanced telecommunications services also will require collaborations and partnerships of public, private, and commercial telecommunications service network providers.

(b)(1)

(A) On customer request, the electing company shall provide broadband digital service that is capable of providing transmission speeds of up to 45 megabits per second or better for customer applications and other customized or packaged network services (private network services) to an entity described in this section for their private and sole use except as provided in Subsection (d) of this section: (ii) libraries, as that term is defined in Section 3.606 of this Act. (emphasis added).

(B) Such private network services shall be provided pursuant to customer-specific contracts at a rate that is 105 percent of the long run incremental cost, including installation, of the services. (emphasis added).

(D) An electing company shall file a flat monthly tariff rate for point-to-point intraLATA 1.544 megabits per second service for the entities specified in Subsection (b)(1)(A) of this section which shall be distance insensitive and be no higher than 105 percent of the statewide average long run incremental costs, including installation, of the service. (emphasis added).

(E) An electing company shall provided point-to-point 45 megabits per second intraLATA services when requested by an entity specified in Subsection (b)(1)(A) of this section pursuant to customer specific contracts except that the interoffice portion of the service, if any, will be recovered on a statewide average distance insensitive basis. The rate for this service shall be no higher than 105 percent of the long run incremental cost, including installation, of the service. (emphasis added).

(F) An electing local exchange company shall provide an entity described in this section with broadband digital special access service to interexchange carriers at no higher than 105 percent of the long run incremental cost, including installation, of such service. (emphasis added).

(H) The legislature finds that an entity described in this section warrants preferred rate treatment provided that any rates cover the long run incremental cost of the services provided. (emphasis added).

(I)(2) An entity receiving the services provided under this section may not be assessed special construction or installation charges. (5) On customer request by an educational institution or library in exchanges of an electing company serving more than five million access lines in which toll-free access to the Internet is not available, the local exchange company shall make available a toll-free connection or toll-free dialing arrangement for use by educational institutions or libraries in accessing the Internet in an exchange in which Internet access is available on a toll-free basis. The connection or dialing arrangement shall be provided at no charge to the educational institution or library until Internet access becomes available in the exchange of the requesting educational institution or library. The local exchange company is not required to arrange for Internet access or to pay Internet charges for the requesting educational institution or library

(g) The commission may not consider the cost of implementing Subsection (b), (c), or (d) of this section in determining whether an electing company is entitled to a rate increase under this subtitle or increased universal service funds under Section 3.608 of this Act.

MICHIGAN: Public Act 179, as amended by 1995 PUBLIC ACT 216, MCL 484.2101 et seq. [Michigan Telecommunications Act (amended statute) PA 179; amendments (1995 PA 216) to the Michigan Telecommunications Act (1991 PA 179)]

[Definitions]

(y) "Reasonable rate" or "just and reasonable rate" means a rate that is not inadequate, excessive, or discriminatory. A rate is inadequate if it is less than the total service long run incremental cost of providing the service. (emphasis added).

(ff) "Total service long run incremental cost" means, given current service demand, including associated costs of every component necessary to provide the service, 1 of the following: (I) The total forward-looking cost of a telecommunication service, relevant group of services, or basic network component, using current least cost technology that would be required if the provider had never offered the service. (ii) The total cost that the provider would incur if the provider were to initially offer the service, group of services, or network component. (emphasis added).

Sec. 202.

In addition to the other powers and duties prescribed by this act, the commission shall do all of the following: (a) Establish by order the manner and form in which telecommunication providers of regulated services within the state keep accounts, books of accounts, and records in order to determine the total service long run incremental costs and imputation requirements of this act of providing a service. The commission requirements under this subdivision shall be consistent with any regulations covering the same subject matter made by the federal communications commission. (emphasis added).

Sec. 304.

(7) In reviewing a rate alteration under subsection (6), the commission shall consider only 1 or more of the following factors if relevant to the rate alteration as specified by the provider: (a) Total service long run incremental cost of basic local exchange services. (emphasis added).

Sec. 304a.

(1) Upon filing with and approval of the commission, a basic local exchange provider shall restructure its for basic local exchange, toll, and access services to ensure that the are not less than the total service long run incremental cost of providing each service. (emphasis added).

(2) The provider may determine when each rate is restructured and may phase in the rate restructuring until January 1, 2000. After January 1, 2000, the provider's rates for basic local exchange, toll, and access services shall not be less than the total service long run incremental cost for each service. (emphasis added).

(4) The commission shall have 45 days from the date of a filing under this section to review the proposed rate restructuring to ensure that rates are not less than the total service long run incremental costs of the service, or that the rate restructuring brings rates that are below such costs closer to the costs. If the commission is unable to make a determination within the allowed 45 days under this subsection, the commission shall have an additional 45 days to review the rate restructuring. (emphasis added).

(6) For purposes of this section and the act, providers who, together with any affiliated

providers, provide basic local exchange service or basic local exchange and toll service to less than 250,000 end-users in this state may determine total service long run incremental cost through preparation of a cost study or may determine that their total service long run incremental cost is the same as that of a provider with more than 250,000 end-users. (emphasis added).

Sec. 307.

(6) Except for a state institution of higher education, if an educational institution has excess capacity, it may sell the excess capacity subject to subsection (3) and to both of the following: (a) The amount of capacity sold shall not exceed 25% of the institution's total capacity. (b) The capacity shall not be sold below the total service long run incremental cost of the provider of basic local exchange service in the service area of the educational institution. If there is more than 1 provider in the service area, the educational institution shall use the lowest total service long run incremental cost. (emphasis added).

Sec. 308.

(1) Basic local exchange or access rates or proceeds from the sale, lease, or transfer of rate acquired assets shall not be used, directly or indirectly, to subsidize or offset the costs of other products or services offered by the provider or an affiliate of the provider by providing such other products or services at less than the total service long-run incremental cost. (emphasis added).

Sec. 319.

(1) The commission shall determine the rate that a provider of toll service is to compensate a provider of service for calls made on a payphone of the provider that utilizes the toll service and avoids customer direct compensation to the provider of the payphone service. (2) The rate of compensation determined under subsection (1) shall be based on a per-call basis and shall be at the total service long run incremental cost of providing the payphone service. (emphasis added).

(4) A provider of payphone service with less than 10,000 payphones may determine total service long run incremental cost through preparation of a cost study or may determine that their total service long run incremental cost is the same as that of a provider with more than 10,000 payphones. (emphasis added).

GERMANY: Telecommunications Act of 1996, draft, WIK April 1996 analysis, Doll & Nett.

The regulatory authority will grant a compensation to enterprises obliged to provide universal service if the obliged enterprise proves that the long-run-incremental costs of an efficient provision including a reasonable return on the capital investment exceed the revenues from the service provided. Compensations (deficits) calculated on this basis will be financed by a universal service fund (§ 20 of the draft Act). All licensees active on the relevant product market of the respective licensed telecommunications service and having a market share of at least 5% of the aggregate turnover in the Federal Republic of Germany in this market have to pay into the fund. {Pages 9-10, emphasis added}.

II. Acceptance\Application by Telecommunications Industry Entities

MAINE: Public Utilities Commission

Submission of NYNEX (New England Telephone), Docket No. 91-200, Maine Marginal Cost Study, April 6, 1992

MCS Overview {Page 1}.

> The role of the marginal cost study (MCS), from the Company's viewpoint, is to inform the development of rates. The Company believes that its rates should reflect its long-run costs; not only does this send the proper price signals to customers about the cost of various services so that they can choose correctly, but it is also a prerequisite to an efficient and fair competitive marketplace. Consequently, the Company views its MCS as a significant document that will assist in the development of rates which reflect future costs. (emphasis added).

Marginal Cost Study Description - Introduction {Page 5}.

> The Company considered a variety of approaches for the methods used in the study. The Company weighed the alternatives with two major points in mind.
>
> The first point the Company kept in mind when selecting marginal cost methods was that its marginal costs are determined by the network it has in place today and the one it expects to have in the future. This led to the criterion that the marginal cost method selected should reflect the marginal costs of the Company's Maine network. Some marginal cost methodologies presume that a company should construct a network *de novo*. This presumption may or may not result in a lower marginal cost for a particular segment of the telecommunications network, but it likely does not reflect the Company's marginal costs. Therefore, the Company favored methods that reflected the Company's cost to increase its capacity to provide additional units of service using the technologies it is installing now to provide service in the future.
>
> Second, the Company favored simplicity in method over complexity when there is no significant loss of precision in the results.

CALIFORNIA : Public Utilities Commission

Docket Nos. R. 95-01-020 and R. 95-01-021; January 24, 1995

Comments of Parties {Page 33, emphasis added}.

> The Coalition proposes that before a new universal service plan is implemented, the LECs first demonstrate the need for subsidized basic exchange services through appropriate total service long run incremental cost (TSLRIC) studies. [13] Second, the LECs must demonstrate that, if the need for a basic service subsidy does exist, the level of competition for basic service must pose a significant threat to the LEC's ability to fund the identified subsidy requirements. If after such a demonstration it is determined that a significant need for a basic exchange subsidy does exist, the Coalition believes that a competitively neutral universal service funding mechanism is required for the development of effective local exchange competition.

[13] The Coalition defines TSLRIC as follows: "TSLRIC means the forward-looking (economic) incremental cost to the LEC caused by providing the entire quantity of the service, network building block/component or group of network building blocks/components in question, using the most efficient technology deployed most efficiently. The long run means a period long enough so that the cost estimates are based on the assumption that all inputs are variable." (Coalition's Comments, p. 3, fn. 4.)

[The Coalition was made up of a broad spectrum of parties, including consumers, interexchange carriers and alternative access providers. These included AT&T Communications of California, Inc., California Association of Long Distance Telephone Companies, California Cable Television Association, California Association of Long Distance, ICG Access Services, Inc., MCI Telecommunications, Metropolitan Fiber Systems Communications Company, Inc., Sprint, Teleport Communications Group, Time Warner AxS of California, and Toward Utility Rate Normalization (TURN).].

Proposed Universal Service Rules {Appendix A, page 109, emphasis added}.

3. Total Service Long Run Incremental Cost (TSLRIC) will serve as the measure of costs for providing basic service to residential customers. The methodology for determining the TSLRIC will be developed as part of this proceeding and the OANAD proceeding.

NORTH CAROLINA: Utilities Commission

Staff/BellSouth Telecommunications Price Regulation Stipulation, Docket No. P-55, Sub 1013, January 17, 1996

II. Definitions

E. Long Run Incremental Cost (LRIC) - The cost the Company would incur (save) if it increases (decreases) the level of production of an existing or new service or group of services. LRIC consists of costs associated with adjusting future production capacity that are causally related to the rate elements being studied. These costs reflect forward-looking technology and operational methods.

V. Pricing Rules

A. General, 7. The price for any individual rate element for any service offered by the Company shall equal or exceed its LRIC unless: (1) specifically exempted by the Commission based upon public interest considerations, or (2) BellSouth in good faith prices the service to meet the equally low price of a competitor for an equivalent service. (emphasis added).

E. New Services, 1. Prior to offering a new service, . . . the Company will file a tariff with the Commission setting forth the terms, conditions, and rates of the new service. Appropriate documentation and support related to the service category classification will be provided. Supporting documentation shall include detailed information stating the reason for assigning the new service to a particular category, detailed information concerning the LRIC of each rate element and information concerning any applicable public interest concerns. (emphasis added).

Staff/Carolina Telephone and Telegraph Company and Central Telephone Company Price Regulation Stipulation, Docket No. P-7, Sub 825, and P-10, Sub 479 , January 31, 1996

Definitions

E. Long Run Incremental Cost (LRIC) - The cost the Company would incur (save) if it increases (decreases) the level of production of an existing or new service or group of services. LRIC consists of costs associated with adjusting future production capacity that are causally related to the rate elements being studied. These costs reflect forward-looking technology and operational methods

Section 6. Pricing Rules

A. General, 6. The price for any individual rate element for any service offered by the Companies shall equal or exceed its LRIC unless: (1) specifically exempted by the Commission based upon public interest considerations, or (2) the Companies in good faith prices the service to meet the equally low price of a competitor for an equivalent service. (emphasis added).

GEORGIA: Public Service Commission

Universal Access Fund, Wood Testimony (CATV Assoc.), Docket No. 5825-U, April 5, 1996

Q. How should the "reasonable actual costs" of providing basic local exchange service be calculated?

A. In order to determine whether a subsidy exists (and to quantify any such subsidy), a Total Service Long Run Incremental Cost ("TSLRIC") should be calculated. A TSLRIC study includes all costs that are caused by the decision (or requirement) to offer the service being studied. Alternatively stated, a TSLRIC is a measure of the costs that are avoided if the service being studied is not offered. TSLRIC studies are based on forward-looking assumptions, including the assumption that the most efficient available technologies will be used. In this regard, TSLRIC is a measure of the costs that would be incurred by a firm operating in an effectively competitive marketplace to provide the service in question. In order to quantify the amount of universal service funding necessary to protect Georgia ratepayers and maintain affordable rates, the Commission should seek an answer to the question "What cost would be incurred by an *efficient* firm to provide basic local exchange service?" A TSLRIC study, if properly conducted, provides an answer to this question. {Page 9, emphasis added}.

Q. What is the relevant cost to BST and other incumbent LECs to serve as a carrier of last resort [COLR]?

A. Serving as a COLR only represents a burden to an incumbent LEC when it must serve a customer or geographic area at rates that are not fully compensatory (i.e., the rates for basic local exchange service are less than the TSLRIC of providing the service). For all other customers or geographic areas, there is no cost to serve as a COLR. {Page 18, emphasis added}.

Southern Bell, DR Response, LAR 3-8, Docket No. 5258-U, September 9, 1994

The long run incremental cost is a forward looking cost that includes all costs that are directly attributable to the service. the LRIC includes all costs that could be avoided if a service were not provided. The procedure for testing a price is to compare the price to LRIC. This test is

widely accepted in the economic literature . . . . If the service is priced above LRIC then it is covering all of the costs that are directly attributable to the service and is making a contribution to the shared costs of the firm. (emphasis added).

MARYLAND: Public Service Commission

MCI "Competition Plus" Petition, Cornell Testimony (MCI), November 20, 1995 {Page 34}.

Q. Does setting the price for BA-MD's [Bell Atlantic-Maryland] essential monopoly input functions at their direct economic (TSLRIC) costs, without any markups toward recovery of indirect costs, mean that BA-MD would not be earning a competitive rate of return on its investments for these functions?

A. No. Direct economic costs, as measured by the TSLRIC methodology, explicitly include a competitive return - - a competitive rate of profit - - on the capital invested to provide these functions. (emphasis added).

EUROPEAN COMMISSION (EC)

Bell South Europe Comments, EC Liberalisaton Green Paper, March 15, 1995

II. The Need for Economically Efficient Interconnection Charges
A. Development of a Framework for Interconnection

This framework should include the setting of objectives that promote economic efficiency through effective competition. In other words, interconnection charges should:

- Reflect cost causation
- Stimulate efficiency
- Promote effective competition

BellSouth Europe supports the concept that the cost causation principle is inherent in long-run incremental costs (LRIC). Both the WIK/EAC and Arthur Anderson interconnection studies prepared for the Commission, support the cost causation nature of LRIC. {Page 4, emphasis added}.

III. Comments of Regulatory Commissions

WASHINGTON: Utilities and Transportation Commission

Docket No. UT-950200, April 11, 1996 {Page 82}

The Commission finds, consistent with the presentations of most parties that addressed cost issues,

that the appropriate measure of costs is Total Service Long Run Incremental Cost (TSLRIC). the Commission has found this measure of costs to be appropriate in prior cases. [footnote 43 omitted] Incremental costs are appropriate because they measure the additional costs that are incurred by providing an additional service. TSLRIC therefore represents the economic price floor. If the revenues from a service exceed the TSLRIC of that service, then that service is not being cross-subsidized. If the firm were to stop providing that unit, its revenues would fall by more than its costs. [44]

---

[44] Having prices exceed their respective TSLRICs is a necessary but not sufficient condition in determining whether those prices are fair, just, reasonable, and sufficient. That determination requires consideration of a much broader set of factors than the TSLRIC of the service. (emphasis added).

ILLINOIS: Illinois Commerce Commission

Implementation of Section 13-507 of the Public Utilities Act, as amended by P.A. 87-856, Docket No. 92-0211, August 17, 1994 {Page 4}

The rule adopts the definition of a new term, "long-run service incremental cost" ("LRSIC") as opposed to the term "long-run marginal cost" which was used in the previous version of the statute. LRSIC is defined as:

> the forward-looking additional cost(s) incurred by the telecommunications carrier ("Carrier") to provide the entire output of a service, including additional resources such as labor, plant, and equipment. LRSIC does not include any costs, including common expenses, that would not be avoided if the entire output of the service were not produced.

LRSIC utilizes the concept of forward-looking costs in an effort to assure that incumbent carriers' costs are reflective of the costs that would be incurred by an efficient new entrant into the market. The underlying assumption is that a carrier's non-competitive services are not subsidizing its competitive services as long as its competitive services are priced at or above the level that a new entrant into the non-competitive market would price its services in order to cover its costs. (emphasis added).

CONNECTICUT : Department of Public Utility Control

Docket No. 94-10-0194-10-01, June 15, 1995 :

In past proceedings, the Department analyzed SNET performance data and cost studies and found that they generally represented the real cost for installed services and major service categories. In each instance, SNET constructed its representations to this Department using Long Run Incremental Cost (LRIC) and Fully Distributed Cost (FDC) techniques in accordance with the Department's directions. However, the Department also found that the data and studies submitted to it could be enhanced and, accordingly, their value to the ratemaking process improved. Notwithstanding that potential for improvement, LRIC studies have been the principal tool available to the Department to determine SNET's cost of providing telephone services and to price the services. {Page 9, emphasis added}.

[The Department's findings include:]
5. The TSLRIC(SNET) method can be used to examine the incremental cost of providing the total

service demand that the supplier will incur using overall least cost technology using the existing network as a starting point.
6. SNET has modified its LRIC approach to include costs it did not consider prior to the Department's order to move toward a sound economic application long run marginal costs (where all costs are considered variable). {Page 31}

Docket No. 95-06-1795-06-17, December 7, 1995:

[The DPUC has] expressed its preference, in light of Public Act 94-83, for the Total Service Long Run Incremental Cost (TSLRIC) methodology over both LRIC and FDC methodologies whenever possible in the belief that TSLRIC better demonstrates the relative impact of technological progress and competitive proficiency on current financial commitments of the sponsor. The TSLRIC methodology represents a modification of the LRIC approach by utilizing total demand for a service as the base for calculating the incremental cost of addition, replacement or enhancement to the service. This produces a forward-looking cost similar to the LRIC methodology, but reduces some of the economic distortions that might otherwise emerge using a narrower base of analysis. {Page 12, emphasis added}.

AUSTRALIA: Australian Telecommunications Authority (Austel)

Annual Report 1991-1992, Chapter Two: Competition Issues

We are in the process of acquiring econometric modeling tools to be used to derive costs associated with different parts of the Australian telecommunications network. The acquisition of the models follows an identified need to have the ability to undertake econometric analysis when examining . . . the floor price of telecommunications products or services in cases where we are investigating alleged cross-subsidisation . . .. The econometric modes acquired have been developed over many years by Bell Communications Research (Bellcore). . . . The Network Cost Analysis Tool (NCAT) model will take into account both the capital and operating costs of delivering services. The NCAT model has a forward-looking orientation. It examines the long-run costs of service provision, including the cost of future investments resulting from increases in demand for services. . . . The models will also be invaluable in assisting our work in performance monitoring and assessment of the carriers' activities against international best practice. {Page 16, emphasis added}.

*The Honorable Reed E. Hundt, Chairman
Federal Communications Commission
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*The Honorable Andrew C. Barrett, Commissioner
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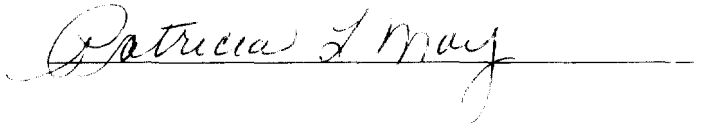
CERTIFICATE OF SERVICE

I hereby certify that on this 7th day of May, 1996 a copy of the foregoing "Reply Comments of the American Library Association" was sent via first class mail, postage prepaid, to the parties on the attached list.



Patricia L. May

*Via hand delivery