

Before the
Federal Communications Commission
Washington, D.C. 20554

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Federal Communications Commission
Office of Secretary

In the Matter of)
)
Implementation of the Pay Telephone) CC Docket No. 96-128
Reclassification and Compensation)
Provisions of the Telecommunications)
Act of 1996)

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REPLY COMMENTS
OF THE
UNITED STATES TELEPHONE ASSOCIATION

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July 15, 1996

Secretary

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UNITED STATES TELEPHONE ASSOCIATION

SUMMARY

USTA's reply addresses comments made in regard to the issues USTA raised in its comments.

-There are cases in which the payphone service provider is not compensated because the location provider receives the commission. Payphone owners are entitled to per call compensation for 0+ calls if agreements with the presubscribed interexchange carrier are not in place upon the effective date of the rules adopted in this proceeding.

-Incumbent exchange carriers should not be required to track subscriber 800 calls belonging to interexchange carriers. The Commission should direct interexchange carriers to develop the tracking capability for subscriber 800 calls within one year. In order to ensure that payphone service providers are compensated in the interim, a surrogate should be used.

-There is no need to prescribe a national rate for local coin calls. State efforts to replace regulation with market-based rates should be encouraged. Standards should be developed which the states would follow in overseeing local payphone rates as discussed in USTA's comments to ensure that rates are market-based.

-The Commission should not mandate the use of TSLRIC or other inappropriate costing methodology. TSLRIC is not relevant to the provision of competitive services. TSLRIC does not permit the full recovery of costs. A reasonable costing methodology must permit incumbent exchange carriers to recover their joint and common costs as well as their embedded costs and must be based on the forward-looking costs of an actual network to ensure adequate cost recovery.

-IntraLATA coin toll calls cannot be differentiated from interLATA calls and must be treated in the same manner as access code, subscriber 800 or 0+ calls with fair compensation paid to the payphone provider.

-The carrier for the call should pay the per call compensation to the payphone service provider. A set use fee billed to the end user customer would impose costly administrative burdens, create customer confusion and permit interexchange carriers to reap the benefit of any reductions in rates while the costs to the end user would increase.

-Incumbent exchange carriers do not have the capability to track completed calls and should not be required to do so.

-Incumbent exchange carrier provided payphone line service, features and functions should be tariffed at the state level, not at the federal level.

-The transfer of payphone equipment to an unregulated status should be accomplished in accordance with the asset transfer rules as stated in § 32.27(c) of the Commission's existing rules. The value of contracts should not be included in the assets to be transferred.

-Structural separation should not be mandated and nonstructural safeguards do not apply to independent telephone companies as clearly stated in the statute.

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**REPLY COMMENTS
OF THE
UNITED STATES TELEPHONE ASSOCIATION**

The United States Telephone Association (USTA) respectfully submits its reply to the comments filed July 1, 1996 in the above-referenced proceeding.

In its comments, USTA urged the Commission to implement the provisions of § 276 in a manner so as to reduce the regulatory burdens on incumbent exchange carriers to ensure parity among payphone service providers. USTA believes that such an effort, along with the removal of implicit subsidies to permit payphone compensation and rates to move toward economic costs, is necessary to meet the statutory mandate to promote competition among payphone service providers and the widespread deployment of payphone services.

USTA also commented that all payphone service providers must be fairly compensated for all completed calls; thus, 0+, access code, subscriber 800, other toll free and debit card calls and international calls should be included in a per call compensation plan. Standards should be developed for use by the states in overseeing local coin calls to

ensure that rates for coin calls are market-based, rates for coin calls are not implicitly subsidized, all payphone service costs are removed from regulated accounts and all payphone service providers are treated in the same manner. The carrier for the call should pay the per call compensation to the payphone provider.

Incumbent exchange carrier payphones should be classified as unregulated, detariffed CPE and transferred from regulated to unregulated status. There is no need to require structural separation and no federally-imposed cost support is required. The assets to be transferred should include all public telephone terminal equipment, including the associated taxes and depreciation. The loops connecting the payphones to the network and the central office coin-service or operator service facilities should not be transferred. The assets should be transferred at net book value in accordance with Part 64 rules. The transfer should not include an interest charge to reflect the time value of money. Price cap incumbent exchange carriers should remove the costs attributable to payphone operations through an exogenous cost adjustment to the Common Line price cap basket PCI. A transition period is not necessary. Rate of return carriers should adjust their regulated rates for the changes in assets and operating costs based on Part 64. The Commission should permit the states to formulate the appropriate mechanism to remove intrastate subsidies. Any such adjustment must coincide with the implementation of per call compensation.

Public interest payphones should only be provided if the requesting entity agrees to compensate the payphone provider consistent with § 276 and pursuant to the standards listed above.

USTA will address comments made regarding these issues in its reply.

I. SCOPE OF PAYPHONE CALLS COVERED BY THE NPRM.

The majority of commenters agree that the Commission need not require per call compensation for calls that go directly to the presubscribed carrier.¹ However, there are cases in which the payphone service provider is not compensated because the location provider receives the commission. USTA agrees with GTE that "the Commission should clarify that payphone owners are entitled to per call compensation for 0+ calls if agreements with the presubscribed interexchange carrier are not in place upon the effective date of the rules adopted in this proceeding."²

Several parties noted that they were unable to track subscriber 800 calls and that it would take a year to develop the necessary tracking capability.³ USTA does not believe

¹AT&T at 4, Sprint at 5, Cable and Wireless at 4, CompTel at 4, One Call at 3, and MCI at 2.

²GTE at 3.

³AT&T at 14-15, and Paging Network at 20.

that incumbent exchange carriers should be required to track subscriber 800 calls belonging to interexchange carriers. The Commission should direct interexchange carriers to develop the tracking capability for subscriber 800 calls within one year. In order to ensure that payphone service providers are compensated in the interim, a surrogate should be used.

USTA does not agree with those parties recommending that the Commission preempt the state commissions and prescribe a national rate for local coin calls.⁴ State oversight of local coin calls is appropriate given the fact that costs and revenues vary widely among different payphone equipment and locations.⁵ Some states are well ahead of the Commission in permitting market-based rates for local coin calls. The Iowa Utilities Board deregulated the provision of payphone service in 1985.⁶ Such efforts at the state level to replace regulation with market-based rates should be encouraged.

However, some state commissions have capped payphone service rates at levels which require subsidization to recover costs. Therefore, standards should be developed which the states would follow in overseeing local payphone rates as discussed in USTA's

⁴New Jersey Payphone Association at 6, Communications Central at 8, Peoples Telephone at 3, and American Public Communications Council (APCC) at 13.

⁵Virginia SCC at 2, and Indiana Utility Regulatory Commission at 3.

⁶Iowa Utilities Board at 2.

comments to ensure that rates are market-based. The use of these standards will also ensure that there is no "step backwards that would replace current market control with regulation".⁷

Likewise, the Commission should not mandate the use of TSLRIC and other inappropriate costing methodologies as suggested by some parties.⁸ TSLRIC is not relevant to the provision of competitive services where rates will be guided by the marketplace. In addition, TSLRIC does not permit full recovery of costs.⁹ A reasonable costing methodology must permit incumbent exchange carriers to recover their joint and common costs as well as their embedded costs and must be based on the forward-looking costs of an actual network to ensure adequate cost recovery.

Finally, several commenters noted that states should be permitted to regulate intraLATA coin toll calls.¹⁰ Since these calls cannot be differentiated from interLATA calls, they must be treated in the same manner as access code, subscriber 800 or 0+ calls with fair compensation paid to the payphone provider.

⁷Id.

⁸AT&T at 3, and MCI at 13.

⁹See, Reply Affidavit of Professor Jerry A. Hausman, USTA Reply Comments, Implementation of the Local Competition Provisions in the Telecommunications Act of 1996, CC Docket No. 96-98, May 30, 1996.

¹⁰Virginia SCC at 2, New York DPS at 5, Texas PUC at 3, and Florida PSC at 4.

II. ENTITIES REQUIRED TO PAY COMPENSATION.

As stated in its comments, USTA agrees with the Commission that the carrier for the call pay the per call compensation to the payphone service provider. This method is the most efficient and least costly means to ensure that the carrier who receives the primary economic benefit from the call be responsible for compensating the payphone service provider. USTA opposes the set use fee billed to the end user customer recommended by several commenting parties.¹¹ Such a method would impose costly administrative burdens since it would require that individual call records be maintained. In addition, it would increase customer confusion since customers would be required to deposit coins for calls for which coins have not been required, such as on calling card calls. Finally, it would permit the interexchange carrier to reap the benefit of any reductions in rates while the costs to the end user would increase.

III. ABILITY OF CARRIERS TO TRACK CALLS FROM PAYPHONES.

A few parties suggest that incumbent exchange carriers be required to track calls from payphones.¹² Incumbent exchange carriers do not have the capability to track

¹¹APCC at 23, Sprint at 12, and One Call at 5.

¹²MCI at 8, Excel at 7, and Cable and Wireless at 11.

"completed" calls and should not be required to do so. The costs to develop such a capability would be prohibitive. Tracking should be undertaken in the same manner as a billing and collection service and, if offered, provided on a nondiscriminatory basis.

IV. PER CALL COMPENSATION AMOUNT.

As explained above, the use of TSLRIC to establish the per call compensation amount is unjustified and should not be used. A reasonable methodology must ensure that joint and common costs and embedded costs can also be recovered and that the costs are forward-looking costs of an actual network.

V. CLASSIFICATION OF LEC PAYPHONES AS CPE.

Incumbent exchange carrier-provided payphone line service, features and functions should be tarified at the state level, not at the federal level.¹³ USTA agrees with the majority of states that the payphone line is a common line and therefore should be tarified at the state level.¹⁴

¹³Georgia Public Communications Association at 8.

¹⁴Virginia SCC at 3.

VI. TRANSFER OF PAYPHONE EQUIPMENT TO AN UNREGULATED STATUS.

The transfer of payphone equipment to an unregulated status should be accomplished in accordance with the asset transfer rules as stated in § 32.27(c) of the Commission's existing rules. Any proposals which are not included in the Commission's rules should not be adopted. For example, the value of contracts should not be included in the assets to be transferred.

VII. NONSTRUCTURAL SAFEGUARDS FOR BOC PROVISION OF PAYPHONE SERVICE.

The statute clearly states that nonstructural safeguards should apply to Bell Operating company payphone service.¹⁵ Therefore, structural separation should not be mandated and nonstructural safeguards do not apply to independent telephone companies. The suggestions of the Public Utilities Commission of Ohio (PUCO), that safeguards should apply to all Tier 1 LECs, and of the California Public Utilities Commission, that additional safeguards are needed, should be rejected as contrary to the statute.¹⁶

¹⁵§ 276(b)(1)(C).

¹⁶PUCO at 9, and California Payphone Association at 19.

VIII. CONCLUSION.

USTA urges the Commission to adopt rules implementing § 276 as specified in its comments to ensure that competition in the payphone industry is fair.

Respectfully submitted,

UNITED STATES TELEPHONE ASSOCIATION

By:  _____

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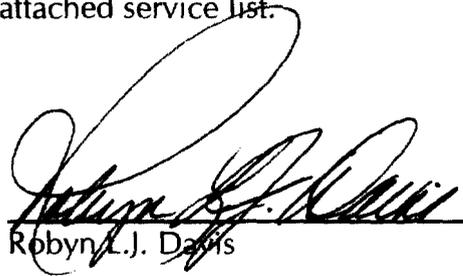
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July 15, 1996

CERTIFICATE OF SERVICE

I, Robyn L.J. Davis, do certify that on July 15, 1996 reply 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.



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