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July 24, 1996

EX PARTE OR LATE FILED

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Mr. William F. Caton  
Acting Secretary  
Federal Communications Commission  
1919 M Street, N.W.  
Room 222  
Washington, D.C. 20554

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JUL 24 1996

FEDERAL COMMUNICATIONS COMMISSION  
OFFICE OF SECRETARY

Re: **Implementation of the Local Competition Provisions in the  
Telecommunications Act of 1996 (CC Docket No. 96-98)**

Dear Mr. Caton:

In accordance with the Commission's rules governing ex parte presentations, please include the attached materials in the official record associated with the above-referenced rulemaking docket. The materials summarize the positions taken by SBC Communications Inc. ("SBC") in this proceeding.

Should you have any questions concerning this filing, please contact me at (202) 326-8888.

Very truly yours,

**Attachments**

cc: The Hon. Reed E. Hundt  
The Hon. James H. Quello  
The Hon. Susan Ness  
The Hon. Rachelle B. Chong  
John Nakahata  
Lauren J. Belvin  
James R. Coltharp  
James L. Casserly  
Daniel Gonzalez

Regina M. Keeney  
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# VERTICAL SERVICES SHOULD BE PRICED AT RETAIL RATES LESS AVOIDED COSTS

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Public Utilities Commission  
Office of Advocacy

- **State regulators have allowed vertical services to be priced at levels well above incremental costs**
- **High contributions from vertical services have traditionally been used by states to assist in minimizing local exchange rates for "Essential" services**
- **Vertical services are not considered "Essential"**
- **"Bottoms Up" approach inherent in LRIC pricing puts significant revenues at risk and does not recover legitimate network and services costs**

**EXAMPLE:**

	<u>Avoided Cost</u>	
	<u>Impact</u>	<u>LRIC Impact</u>
Annual vertical services revenue	\$816 M <sup>1</sup>	\$816 M
Revenue under avoided cost pricing	\$734 M <sup>2</sup>	
Revenue under LRIC pricing		\$ 52 M
Difference - Revenues at risk	(\$ 82 M)	(\$764 M)

- **Ownership of switch is not a barrier to entry**
- **Effective competition will drive prices down**
- **Facility-based carriers will be put at a distinct disadvantage**

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<sup>1</sup> Revenues for vertical services for business and residence, at Company level, based on April 1996 data.

<sup>2</sup> Avoided cost calculated at 10%.

# **VERTICAL SERVICES SHOULD BE PRICED AT RETAIL RATES LESS AVOIDED COSTS**

## **Legal points**

- **Vertical services, which a "carrier provides at retail to subscribers who are not telecommunications carriers," fall under the resale requirements of Section 251(c)(4) and are not unbundled network elements under Section 251(c)(3).**
- **Vertical services are already offered directly to subscribers. They are "telecommunications services" in their own right, not simply "network elements" of other services.**
- **Permitting other entrants to purchase vertical services under the cost-based pricing standards for unbundled elements in Section 252(d)(1) would effectively make a dead letter of the pricing standards for retail services found in Section 252(d)(3).**
- **Pricing vertical services at LRIC will have a significant effect on universal service support.**
- **Since vertical services are retail services, the requesting carrier must purchase them at the wholesale rates of Section 252(d)(3).**
- **The Act defines a "network element" as a facility or function, as opposed to a jurisdictionally distinct "service."**
- **Vertical services should not be required to be made available as unbundled network elements since failure to do so will not "impair the ability of telecommunications carrier seeking to provide the services that it seeks to offer." Section 251 (d)(2)(b)**

# PRICING AT TSLRIC DOES NOT RECOVER NETWORK COSTS

- **EXAMPLE: Relationship of Company costs and TSLRIC for Kansas**

	<u>Total Cost Per Line</u>	<u>Total Approximate Annual Costs<sup>3</sup></u>
SWBT embedded costs	\$51.12 <sup>4</sup>	\$735 M
TSLRIC approach	\$21.71 <sup>5</sup>	\$312 M
Difference - Costs NOT recovered	(\$29.41)	(\$423 M)

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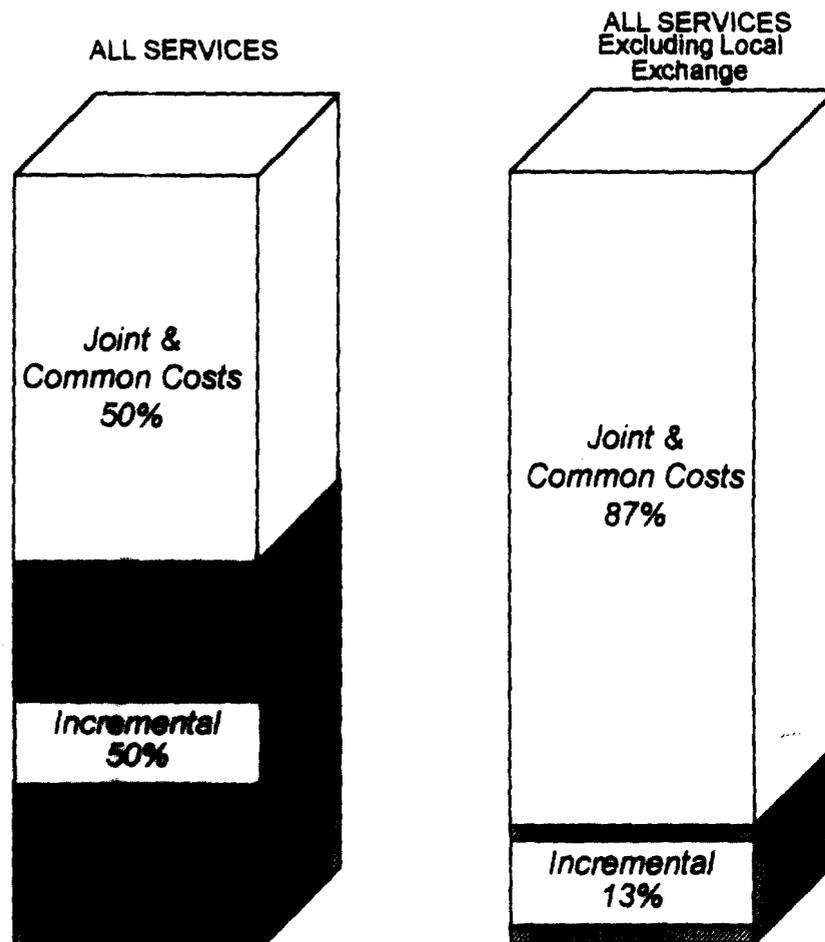
<sup>3</sup> Total switched lines in Kansas equal 1,198,831.

<sup>4</sup> Total annual cost for switched network and services for State of Kansas, SWBT 1993 embedded cost study.

<sup>5</sup> Hatfield Model Version 2.2. Release 1.

# PRICING AT TSLRIC DOES NOT RECOVER NETWORK COSTS

- **EXAMPLE: Texas Costs**



## ACCESS CHARGES SHOULD APPLY TO UNBUNDLED NETWORK ELEMENTS

- **Applying access charges, pending access reform, does not create a barrier to entry**

- **Unbundled loop example:**

<b>Average SWBT Revenue</b>		
<b>Per Line, Per Month</b>		<b>\$52.23<sup>6</sup></b>
<b>LECG LRIC per loop</b>		
<b>Plus Reasonable Profit</b>		<b>\$15.19<sup>7</sup></b>
<b>CCL Per Line<sup>8</sup>:</b>		
<b>Interstate</b>	<b>\$1.98</b>	
<b>Intrastate</b>	<b><u>\$3.12</u></b>	<b>\$ 5.10</b>

- **SWBT Access Revenues At Risk**

- **CCL<sup>9</sup>:**

<b>Interstate</b>	<b>\$325 M</b>
<b>Intrastate</b>	<b><u>\$515 M</u></b>
<b>Total</b>	<b>\$840 M</b>

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<sup>6</sup> 1995 total company revenues divided by average access lines. This represents a conservative number since competitors will seek those access lines which have significantly greater revenues than the average.

<sup>7</sup> Law and Economics Groups' paper attached to USTA's Supplemental Comments filed on July 8, 1996 in CC Docket No. 96-98. This number represents the unbundled loop price, which considers cost plus a reasonable profit, (developed by INDETEC and Pacific Bell) per an average density access line based on 1997 unbundled loops. Includes recovery of interstate end user charges.

<sup>8</sup> Per line CCL is calculated based on 1995 total company billed CCL revenues divided by average access lines.

<sup>9</sup> Based on 1995 total company billed CCL revenues.

# **ACCESS CHARGES SHOULD APPLY TO UNBUNDLED NETWORK ELEMENTS**

## **Legal points**

- **The NPRM is correct that Section 251 imposes certain limits on the purpose for which requesting telecommunications carriers, including interexchange carriers, may request interconnection or access to unbundled network elements under the Act.**
- **Section 251(g) requires local carriers to continue to provide exchange access service to interexchange carriers under the Commission's existing rules...until such rules are expressly superseded. This provision is further evidence that Section 251 does not automatically displace the Commission's access charge regime.**
- **An incumbent LEC is not obligated to provide access to unbundled elements solely to allow IXCs to originate and terminate interexchange traffic.**
- **The fact that neither Section 251(c)(2) nor 251(c)(3) requires the Commission to circumvent the present access charge structure does not mean that access charge reform is unimportant.**

# **INTERCONNECTION TOP 10 ISSUES**

## **NATIONAL RULES AND STANDARDS**

**Concern:** Setting forth specific standards for service quality, provisioning, etc.

**Resolution:** Provide broad language which allows industry standards committees to develop specific standards or allows for existing standards required by State regulators.

## **TECHNICAL FEASIBILITY**

**Concern:** Setting forth technical feasibility definition which ignores current network technologies and economic realities.

Considering "services trialed" by various LECs as technically feasible for all LECs.

**Resolution:** Provide broad language which accounts for LECs' current network technologies as well as economic realities.

Require "bona fide request" process.

## **COLLOCATION**

**Concern:** Expanding physical collocation beyond its existing definition or requiring tariffing.

**Resolution:** Provide broad language which maintains the existing definition of physical collocation and acknowledges that physical collocation need not be tariffed.

## **PRICING STANDARDS FOR COMPENSATION**

**Concern:** Setting forth specific rates for compensation or ordering bill-and-keep.

**Resolution:** Provide broad language that encourages ILECs and CLECs to negotiate compensation rates.

## **RESALE**

**Concern:** Expanding the definition of resale intended by the Congress to include non-telecommunications services.

Setting forth arbitrary specific discounts applicable to resale based on historical accounting costs.

Applying resale discounts to "product packages", "promotional offerings", and / or "volume and term arrangements."

**Resolution:** Provide broad language on resale of only telecommunications services offered at retail, under existing terms and conditions.

Allow resale rates to be set according to the formula prescribed by the Act, i.e., retail prices less only actually avoided costs and based on method consistent with other interconnection costs.

### **ACCESS ARBITRAGE**

- Concern: Allowing access bypass by allowing IXCs to use unbundled network elements to substitute for access services.
- Resolution: Provide language which recognizes the intent of the Act and prohibits IXCs from using unbundled network elements to bypass access services.

### **UNBUNDLING**

- Concern: Requiring expanded unbundling beyond the intent of the Act such as requiring switch partitioning (e.g., vertical services considered network elements) or sub-loop unbundling.
- Setting rates for unbundled network elements at TSLRIC or LRIC, ignoring recovery of joint and common costs, embedded costs and inclusion of reasonable profits.
- Resolution: Require limited number of unbundled network elements to include: loop, switching, local transport, and access to signaling and databases.
- Allow rates for unbundled elements to recover costs (including joint and common costs and embedded costs) and reasonable profits.
- Allow SWBT proposed "zone of reasonableness" for rates.

### **ACCESS TO SUPPORT SYSTEMS AND FUNCTIONS**

- Concern: Requiring specific electronic interface methods such as EDI or Electronic Bonding with unreasonable time frames, ignoring industry standards and implementation costs.
- Resolution: Provide broad language which allows ILECs and CLECs to reach mutually acceptable solutions working through industry standards committees. Acknowledge costs and time-frames associated with the implementation of EDI and Electronic Bonding.

### **POLE ATTACHMENT AND CONDUIT**

- Concern: Requiring ILECs to construct new pole and conduit facilities solely to meet CLECs' needs, or prohibiting ILECS from reserving spare capacity for their own future growth and use.
- Resolution: Provide broad language that recognizes ILECs' need for reserving spare capacity to meet ILECs' future growth demands. Do not require ILECs to construct new facilities solely to meet CLEC demands.

### **JURISDICTIONAL ISSUES**

- Concern: Preempting State commissions by establishing specific detailed rules to govern intrastate competition, services and rates.
- Resolution: Provide broad language which recognizes the intent of the Congress, establishes broad guidelines for the States and avoids preemptive measures.

# **Electronic Bonding**

## **VS**

# **Electronic Interface**

### **WHAT IS ELECTRONIC BONDING?**

- Electronic Bonding is an electronic, computer-to-computer method of retrieving and transmitting data on a real-time, instantaneous basis.**
- Data access is via a secure data gateway arrangement.**
- Allows real-time, interactive order capabilities.**
- Allows changes to individual data elements.**
- Data may be reconciled on-line.**

### **HOW IS ELECTRONIC BONDING DIFFERENT THAN ELECTRONIC DATA INTERCHANGE (EDI)?**

- EDI is also an electronic method of retrieving and transmitting data.**
- EDI is a batch file interface rather than a real-time interface.**
- National EDI standards for ordering and provisioning could be completed by the end of 1996.**

### **STATUS OF ELECTRONIC BONDING STANDARDS**

- There is NO national standard for Electronic Bonding for pre-order and order processing yet.**
- National Electronic Bonding standards have been developed and implemented by the industry for Trouble Administration.**

# **Electronic Bonding VS Electronic Interface**

## **WHY NATIONAL STANDARDS FOR ELECTRONIC BONDING ARE IMPORTANT?**

- National standards are critical because the industry should not bear the cost of implementing unique standards for each local service provider.
- Early estimates indicate that the EDI phase alone will cost SWBT several million dollars.
- To achieve the mature product phase of Electronic Bonding will cost an additional several million dollars.

## **ELECTRONIC INTERFACE ENHANCEMENTS SHOULD BE A PHASED APPROACH.**

- Phase I will address EDI for order processing.
- Phase I will also facilitate real-time access to pre-ordering information contained in SWBT systems including:
  - telephone number administration and address verification data;
  - facility information;
  - service/feature availability information.
  - due date information
  - customer service record information
- Phase II will address Electronic Bonding for order processing.