CC Docket No. 96-262

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Ameritech

Anthony M. Alessi
Director
Federal Relations

DOCKET FILE COPY ORIGINAL

December 6, 1996

Mr. William F. Caton
Acting Secretary
Federal Communications Commission
1919 M Street, NW
Room 222
Washington, DC 20554

Re: **Ex Parte Statement**
Access Reform

Dear Mr. Caton:

The attached letter addressed to Ms. Regina Keeney, Chief, Common Carrier Bureau from Mr. Gary Lytle, Vice President - Federal Relations should be incorporated in the record of the forthcoming Notice of Proposed Rulemaking on Access Reform at the time the docket is initiated. The letter was provided to Ms. Keeney by Mr. Lytle at a meeting on access reform that occurred on December 5, 1996.

Sincerely,

Anthony M Alessi

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Ameritech.

Gary R. Lytle
Vice President
Federal Relations

December 5, 1996

Ms. Regina Keeney
Chief, Common Carrier Bureau
Federal Communications Commission
1919 M Street, NW
Room 500
Washington, DC 20554

Dear Ms. Keeney:

In recent months, Chairman Hundt and the other Commissioners have spoken about the importance of access reform and the Commission's intent to address it. Ameritech, too, strongly believes that access reform is essential and has given serious consideration to developing a proposal that can meet critical public policy objectives, such as promoting a competitive marketplace and maintaining affordable and reasonable rates for telecommunications services. Ameritech requests that the attached Ameritech proposal be given full consideration in the forthcoming notice of proposed rulemaking on access reform.

Although Ameritech expects to elaborate fully on the need for access reform when the Commission issues its notice, Ameritech would like to note at this time that current pricing restrictions and subsidy mechanisms were predicated on an environment devoid of access competition -- one that, especially in light of the Telecommunications Act of 1996, no longer exists. Thus, access reform must, at a minimum, result in acceptable and competitively neutral ways for all incumbent LECs to continue any public policy subsidies that are determined to be necessary and appropriate. In addition, reform must address restrictions on LEC pricing of access and interexchange services that are unnecessary and counter-productive in a competitive environment.

Failure to achieve either (or both) of these ends could result in a significant disincentive for the incumbent LECs to continue to invest in the nation's telecommunications infrastructure and maintain low basic exchange rates in their role as the current providers of universal service. The ILECs today invest approximately 20 billion dollars annually in maintaining and improving the telecommunications "infrastructure" -- three to four times as much as interexchange carriers and cable companies combined. Impairing ILEC's ability to recoup their costs and to provide a reasonable return to their investors would create a natural incentive for the incumbents to invest their money elsewhere.

Ameritech believes that its access reform proposal is a balanced approach that can be utilized by the industry as a whole, and will bring needed certainty to the marketplace. Additionally, it has the advantage of being adaptable so as to accommodate decisions that are made by the Commission with respect to interconnection, universal service, and other related matters. Finally, it is not a make-whole proposal. There is full recognition by Ameritech that the dynamics of the marketplace will greatly affect access charge levels as 1+ intraLATA presubscription and unbundled network elements are introduced. Furthermore, it contemplates a transition towards the elimination of the transport interconnection charge (TIC). At the same time, it calls for substantial changes to price caps and proposes pricing flexibilities that would enable the industry to move forward into a new competitive marketplace.

The competitive environment is changing drastically and with great speed. As the Commission well knows, it is important that its regulations be modified in response to those changes so as not to create any inappropriate distortions. Ameritech submits that the attached proposal would achieve that result.

Sincerely,

Gary R Lytle

Attachment

AMERITECH ACCESS REFORM PROPOSAL

I. Introduction

Dramatic and rapid changes in the telecommunications market accelerated by the Telecommunications Act of 1996 (the Act), coupled with historical distortions in the current access charge structure create an urgent need for the Federal Communications Commission to reform access charges. Current prices for access are burdened by implicit subsidies, based on the now-archaic assumption that rates did not have to reflect the costs of providing service. In today's quickly evolving environment, these implicit subsidies and pricing restrictions are no longer a viable means of achieving the public policy goal of maintaining affordable local service rates. Access reform and the universal service review now underway are inextricably linked and must be dealt with together to ensure the preservation and proper collection of the subsidies that are necessary to maintain, affordable basic exchange rates. Access reform and universal service must not discourage investment in the nation's telecommunications infrastructure. And finally, access reform and universal service must permit customers to realize the benefits of competition, in pricing and services.

Ameritech's Access Reform proposal builds upon the proposal which Ameritech submitted to the Commission in the Universal Service proceeding (Dkt. 96-45). Recognizing the desire of regulators to avoid significant rate increase for consumers, to continue the historical recovery of interstate loop and line port cost recovery directly from interstate providers of telecommunications services and not disturb rates paid by consumers. The access reform proposal presented in this paper provides additional detail on how to implement Ameritech's original proposal through access reform and provides a framework for additional access pricing flexibility.

The starting point for our proposal is the recognition that the Act expressly continues policies that have been in place over the past 60 years to create and distribute subsidies to rural, residential and other designated customers. The Act does not eliminate these policies but continues them with specific mandates. Specifically, the Act requires that:

- basic services should be made available at affordable rates, without the reference to the cost of providing such services (Section 254 (b)(1));
- in general, rates for all telecommunications services, including advanced services, should be comparable between rural and urban areas (Section 254 (b)(3));
- specifically, interexchange providers must charge rates in rural and high cost areas that are no higher than rates charged in urban areas (Section 254 (g));
- there must be specific, predictable and sufficient federal and state mechanisms to preserve and advance universal service (Section 254 (b)(5)); and
- every telecommunications carrier that provides interstate telecommunications services shall contribute, on an equitable and nondiscriminatory basis, to the specific, predictable, and sufficient mechanisms established by the Commission to preserve and advance universal service (Section 254 (d)).

Congress did not direct that subsidies be eliminated, but that they be removed from rates where they implicitly exist today, made explicit and collected on a competitively neutral basis. Just as the Joint Board has reviewed the subsidies required to support high-cost areas and low-income subscribers, so too must the Commission deal with the implicit subsidies built into access charges to support affordable consumer rates. The calls of long distance carriers to immediately bring their access charges down to cost and eliminate the support those carriers currently provide to maintain affordable basic exchange rates is directly in conflict with this congressional mandate.

Fundamentally, as stated in Ameritech's universal service proposal, a straight forward option for maintaining end user rates where they are would be for the Commission to continue the historical recovery of at least 25% of basic exchange service (loop and line port) costs from interstate providers of telecommunications service. But, in so doing, the Commission must develop a collection mechanism which is competitively neutral and does not distort the natural workings of a competitive market place. Ameritech's access reform proposal comprehensively addresses these needs and by recommending the following:

1) Subsidies should be removed from switched access rates and collected in a competitively neutral manner.

2) Switched access rate elements are realigned to recover non-traffic sensitive costs on a flat rated basis, and usage sensitive costs on a usage rated basis.

3) Identifiable costs are removed from the Transport Interconnection Charge (TIC) and moved to the proper rate elements.

4) Price cap regulation is simplified.

5) Access pricing is made more flexible for the competitive market.

The remainder of this paper provides the details and justification for Ameritech's Access Reform proposal.

II. Switched Access Rates Today Are Distorted By Subsidies.

Today, access rates are burdened by subsidies in two ways. First, subsidies result from collecting the costs specifically associated with the provision of one service, such as basic exchange, in the pricing of another service, such as interstate access[1]. Second, subsidies arise generally when access revenues have contributed to fill the gap between basic exchange revenues and the costs of providing basic local exchange service.

[1]Similarly, subsidies are created when the costs of small LECs are collected from the rates a different LEC charges for access.

Within switched access, the Carrier Common Line ("CCL") charge, the Information Surcharge, the Local Switching charge and the TIC all have identifiable subsidy components. Ameritech's proposal identifies those components and proposes a mechanism to remove them from access rates while continuing to recover the costs from interstate telecommunications providers. Sections A and B, of this proposal, will first identify the subsidies embedded in each switched access rate element and then propose new mechanisms to collect these subsidies.

A. Access Subsidies

Carrier Common Line charge

The most critical subsidy vehicle for reform is the CCL charge. The sole purpose of the CCL is to serve as a vehicle to collect subsidies from interstate toll services to keep basic exchange rates affordable. However, the CCL charge does not operate in a competitively neutral manner since it is assessed as a surcharge on the ILECs' switched access -- a service to which it bears no cost relationship whatsoever. The CCL is exactly the type of implicit subsidy that must be reformed under section 254 of the Act.

Today, the CCL charge is comprised of four components, each of which is a subsidy. The first component is NECA long-term support ("LTS") that subsidizes high-cost carriers' interstate loop cost recovery. These costs are not directly related to the cost structure of the LEC collecting the subsidy. Nonetheless, the LTS increases the price of the ILECs' local switching services, amounting to an incentive for interexchange carriers ("IXCs") to seek alternative access sources[2]. For Ameritech alone, the LTS is approximately $60 million per year.

The second component of the CCL charge is the base factor portion overflow ("BFPO"). The BFPO is directly related to loop costs that are assigned to the interstate jurisdiction but

[2]The Commission has already tentatively concluded that including LTS cost recovery in the CCL charge is inconsistent with the requirements of the Telecommunications Act of 1996. See, CC Docket 96-45 Notice of Proposed Rulemaking @ 113

not recovered from end users via the Interstate End User Common Line ("EUCL") charge. This is assessed to purchasers of ILEC switched access services and directly subsidizes basic local exchange rates (primarily residential and single-line business subscribers). Ameritech collects $165 million each year from the BFPO.

The third component of the CCL is the recovery of payphone service costs allocated to the interstate jurisdiction. Ameritech recently removed these costs from the CCL charge and implemented a separate "set use fee" assessable on interstate calls originating from its payphones. This action has recently been ratified by the Commission in CC Docket 96-128, in which the Commission directed all LECs to remove the interstate costs of their payphone sets from the CCL charge. A separate compensation mechanism will be implemented to recover these costs.

The last component of the CCL charge recovers the costs associated with the ILECs' inside wire amortization. The Commission determined that these costs should be recovered through the CCL so as not to burden end users who benefit from and use this wire[3]. Conceptually, these are identical to the loop costs included in the BFPO.

<u>The Information Surcharge</u>

The Information Surcharge is also assessed to purchasers of switched access on a per minute of use ("MOU) basis, and is a subsidy paid from interstate access service. It recovers the costs of white pages directory production. These costs, however, are caused by the provision of exchange service to the end user subscriber, not as a result of the provision of switched access. Ameritech receives $10 million annually from the Information Surcharge.

[3]In the case of Ameritech, a small amount of inside wire cost recovery still remains in the CCL charge - approximately $10 million associated with the decision of Illinois Bell to establish demarcation points in multi-tenant and multi-story buildings at the minimum point of entry. The decision was implemented several years before the Commission's decision in CC Docket No. 88-57.

Local Switching Charge

The current local switching charge, to the extent that it recovers nontraffic sensitive costs associated with the line port in the switch and main distribution frame, also subsidizes basic exchange service. These costs are incurred with the provision of an individual local loop. Thus, as with other loop related costs, recovery of non-traffic sensitive line port costs from local switching constitutes a subsidy. In Ameritech's case, this is a $110 million interstate subsidy to basic exchange service paid by purchasers of switched access service.

The Transport Interconnection Charge ("TIC")

The TIC is assessed on all purchasers of access local switching service - including those that utilize direct-trunked or CAP provided transport. The TIC recovers costs associated with tandem switching and termination, and SS7 related services and as such, acts as a subsidy to those services.

Above and beyond the historical 25/75 allocation of basic service costs between the federal and state jurisdictions, access rates have more generally supported basic local exchange rates, which as a whole do not recover the 75% of loop and port costs remaining in the intrastate jurisdiction. As presented in Ameritech's Universal Service proposal, today, the Ameritech-wide loop and line port costs total $4.3 billion on an embedded cost basis. Yet, Ameritech recovers only $3.1 billion of that directly from end users in the form of intrastate local exchange rates and the EUCL. As discussed above, the BFPO and inside wire amoritization portions of the CCL recover an additional $175 million, the line port portion of the Local Switching Charge recovers $110 million and the Information Surcharge provides $10 million. Nonetheless, there is still a shortfall of $905 million between revenues and costs. Without other specific collection mechanisms, the ability of the LEC to keep basic local exchange service rates at current levels is predicated on maintaining margins above costs on other services, including access[4].

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[4]With the enactment of the Telecommunications Act of 1996 and the Commission's Interconnection Order, today's sources of contribution to the maintenance of low basic exchange rates cannot be sustained. New

B. The Access Subsidy Solution

As required by the Act, Ameritech's proposes to continue interstate subsidies in an explicit, competitively neutral manner. The recommended solution can be implemented by all LECs. As discussed, the foundation of this proposal is that at least 25% of the cost of the loop and line port[5] be recovered in the interstate jurisdiction in order to insure that end users continue to enjoy affordable basic exchange service rates.

1. 25% of Loop and Line Port Cost Recovery

A key element of Ameritech's access reform proposal is the creation of a mechanism to recover the portion of the local loop and line port costs allocated to the interstate jurisdiction. This mechanism consists of the existing EUCL charged directly to the end users, and a charge that will recover the difference between a total of 25% of the loop and line port costs and the EUCL revenues. This charge will be assessed on interstate communications providers - the carriers which provide the retail services that currently subsidize local exchange services. For purposes of this proposal, this charge will be called the Loop/Port Recovery ("LPR") charge. To further the interests of universal service and to be consistent with Section 254(d) of the Act, the LPR charge should be assessed to interstate telecommunications providers in a competitively neutral fashion in a way that does not skew their access purchase decision.

The Commission has a number of options regarding how to collect the LPR on a competitively neutral basis. First, it can assess the LPR charge as specifically contemplated by Section 254 (d), on all providers of interstate telecommunications services. In this case, a single third-party entity could aggregate the appropriate costs from all eligible LECs and bill each interstate provider on the basis of total interstate retail revenues. A second possibility would be to implement a similar mechanism on a LEC/study area (state) specific

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market entrants will provide service through the use of their own facilities or the incumbent's unbundled network elements, which will be priced at cost through the TELRIC methodology.

[5]The interstate allocation of loop costs is currently 25%. The interstate portion of the loop port varies by study area, but 25% would be a reasonable surrogate if a common allocation is desired for all LECs.

basis with billing done on the basis of relative interstate retail revenues within the state or study area.

With the implementation of the LPR charge, the BFPO and inside wire portions of the CCL and the Information Surcharge would be eliminated and the line port costs would be removed from the Local Switching rate element.

2. Long Term Support

As recommended by the Joint Board, the LTS should be removed from the CCL charge in the Commission's universal service inquiry. If LTS is treated otherwise in the Commission's final decision, then it should be directly billed by NECA to the IXCs. There is no reason to continue to burden LEC switched access services with this surcharge, and indeed the Act does not allow it. Since LTS is a subsidy which is ultimately paid by the IXCs today, there is no reason not to eliminate the intermediate step and to reconfigure the subsidy flow as a direct billing by NECA to IXCs.

C. Switched Access Rate Realignment

Within today's switched access rates, there are some costs which are recovered via inappropriate rate elements or on an inappropriate recovery basis. The following discussion proposes modifications to the Local Switching Rate Element, and the TIC to eliminate these concerns.

1. Local Switching

With line port cost recovery removed from local switching and placed in the LPR charge, the remainder of the local switching charge should be designed to recover costs in a manner consistent with how they are incurred. A flat-rated monthly Trunk Port charge to recover the non-traffic sensitive cost of the trunk port should be established. The remainder of the traffic sensitive costs of local switching should continue to be recovered by the Local Switching charge on a MOU basis.

2. TIC

As discussed in Section II, A, the TIC recovers costs associated with tandem switching and termination as well as SS7 related costs. Theses costs should be moved to existing rate elements that are assessed to the users of tandem and SS7 services. Ameritech has already established separate rate elements for SS7 signal generation, switching, and transport and has reduced the Ameritech TIC rate by a corresponding amount.

Because of the significance of the TIC in contributing to the LECs' ability to maintain affordable basic exchange rates, the Commission should permit the remainder of the TIC to be billed to interstate providers of telecommunications services in a manner consistent with the way in which the LPR is billed. These amounts should no longer be embedded in switched access rates and instead, should be recovered on a competitively neutral basis from all providers of interstate services. The Commission should reject the interstate carrier's demands for an immediate flash-cut elimination of the TIC since that could jeopardize the LECs' ability to provide affordable basic local exchange services. However, a phase out of the TIC in equal increments over five years might be appropriate with reform of current access pricing restrictions (see sections D and E, following). Such reforms must give the ILECs the flexibility to adjust rates, including rate increases where justified by the value of services. In addition, since we have demonstrated that the TIC in its entirety does not cover the deficit between the cost of providing basic exchange service and the revenue collected for that service, the TIC should not be eliminated until states have completed studies of intrastate subsidy sources that contribute to affordable basic local exchange rates. In a competitive environment, and where ILECs are required to provide unbundled elements at TELRIC based rates, LECs can no longer count on margins from other services (e.g., vertical service and toll) to maintain low basic local exchange rates, and have instituted competitively neutral mechanisms for identifying and collecting these subsidies. States must begin and conclude proceedings that allow LECs to recover the intrastate portion (75%) of loop and line port costs from end user rates or state universal service funding mechanisms currently being recovered by the TIC.

D. Price Cap Regulation Should Be Simplified

With the implementation of the Act, the LEC access offerings face significant new competitive pressures. In order to compete in the access market, ILECs must be able to respond to changes in the market without significant delay or regulatory restriction.

First, the newly established LPR charge and EUCL should not be regulated by price caps. Instead, this charge should be a purely cost-based rate element. In order to avoid dramatic changes in the total burden placed on the payers of the LPR charge[6], Ameritech proposes that the LPR charge be based initially on current price cap revenues collected for BFPO, inside wire amoritization, switch line port and information surcharge and be transitioned in equal increments over five years to 25% of costs. On a going forward basis, embedded costs would be periodically reviewed by the Commission.

Second, in order to respond to the competitive offerings of CLECs, LECs should be able to "zone price" the EUCL consistent with zones used for unbundled loops in each state, subject to the existing overall EUCL caps.

With implementation of the Act, and the availability of unbundled network elements, a competitive provider of access services need not undertake any significant capital investment. No longer can it be argued that the exchange access/local exchange market is burdened with substantial entry or exit barriers. The price cap plan was originally established to simulate what would naturally happen to service prices in a competitive environment. The access market is highly competitive and a price cap is no longer necessary to regulate prices of many access services.

We recommend that the Commission establish the following triggers for the removal of certain rate elements from price caps:

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[6]Under Ameritech's proposal, the current payers of the subsidies -- purchasers of interstate access services -- would remain the payers of the LPR charge. The only change is in the method of collecting the payment -- from MOUs purchased from ILECs -- to relative revenues.

1) Interexchange services should be entirely removed from price caps when 1+ presubscription has been implemented for interstate intraLATA (interexchange) services. These services are highly competitive today. With the implementation of 1+ presubscription for this traffic, no one can seriously argue that the LEC retains any unreasonable advantage.

2) For the following access elements, a direct competitive alternative clearly exists when their analog unbundled elements are available either under tariff or via a "Statement of Generally Available Terms", and either direct competition is demonstrated through CLEC or CAP provision of equivalent services, or purchases of that unbundled element are made:

transport
directory assistance
LIDB query
800 database query
originating local switching

3) Terminating local switching should be removed from price caps if an ILEC agrees to make it available to any carrier at the same rate that it charges under reciprocal compensation arrangements for termination of local traffic. This places terminating local switching in the same category as the network elements listed in 2), above.

To facilitate the removal of service from price caps and to provide the pricing flexibility commensurate with the new competitive environment created by the Act, all services should be placed in a single price cap basket. This would greatly simplify the administration of removing services and regulating the remaining price cap services. The TIC would be in a separate sub-basket and would not be permitted to be increased. No other sub-baskets should be created.

E. Access Pricing Must Be More Flexible

Even without the enactment of the Telecommunications Act of 1996, access competition has been developing rapidly in many markets. Ameritech faces competition for transport services from MFS, TCG, ICG, Brooks Fiber, MCI Metro, Time Warner and others. Focusing on DS1 and DS3 services, seven competitors have captured 30% of the midwest market and 51% of the Chicago market. Directory Assistance faces competitors everywhere including from newcomers like Excell, Clifton Forge, Frontier and Metro One.

In order for LECs to respond to the competitive pressures in the market place, the Commission should permit all access services (except for the LPR charge) to be zone priced and should allow LECs the streamlined contract tariffing capability similar to that granted to AT&T before it was classified as a non-dominant carrier.

III. Conclusion

As described above, Ameritech's proposal provides a comprehensive access reform plan that the Commission should adopt that removes and makes explicit subsidies currently embedded in access charges, realigns the switched access rate structure, simplifies price cap regulation and provides for access pricing flexibility.

If implemented for all LECs, our proposal would provide a viable and competitively neutral means of continuing the availability of affordable basic exchange service rates, while allowing competition to determine the ultimate level of access charges. Changes in price cap regulation are the other side of the access reform coin that are necessary to avoid unreasonable and uneconomic market distortion and to provide customers with the maximum benefit from the new competitive telecommunications market.

Appendix A to this proposal contains presentation materials previously used at the Commission to explain Ameritech's Access Reform proposal. These materials provide numerical and graphical of the concepts discussed in this paper.

APPENDIX A

ACCESS REFORM

Ameritech Recommendation

Ameritech

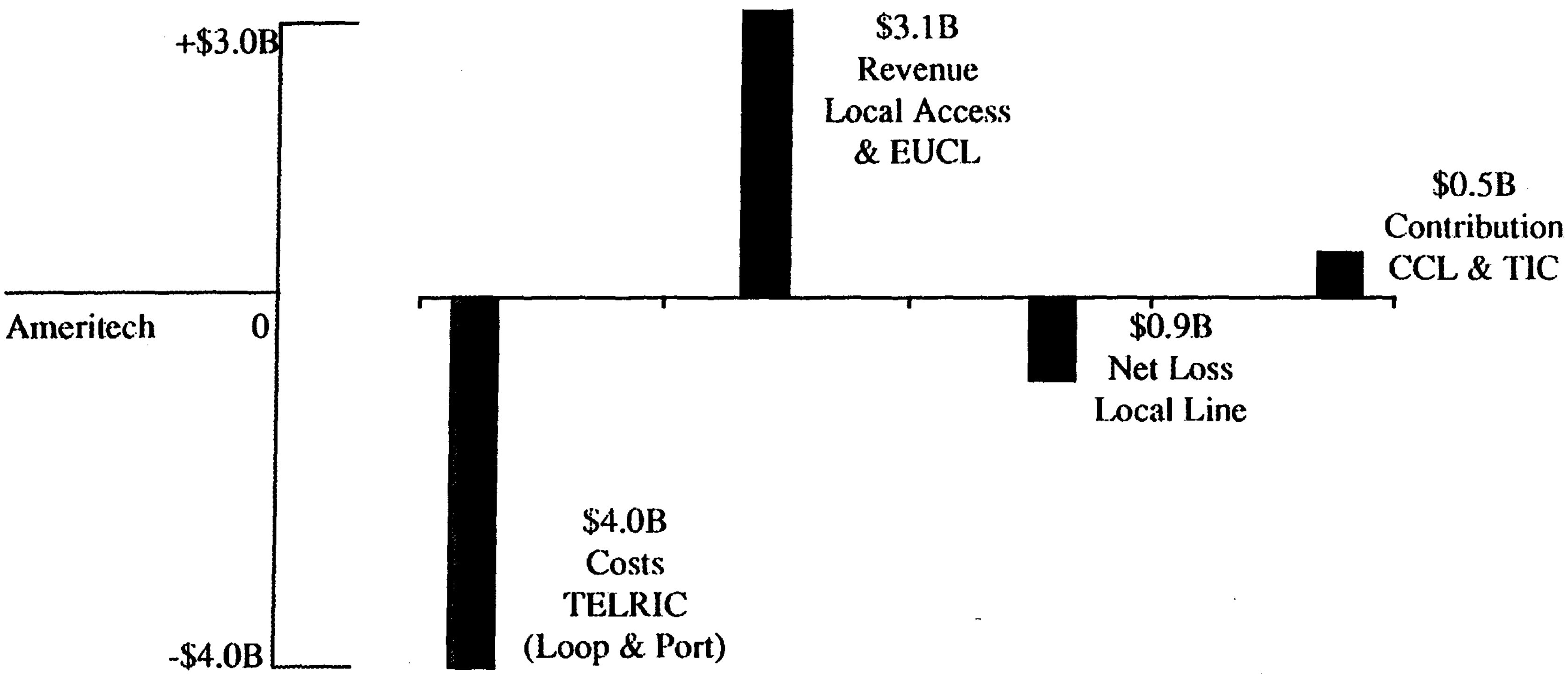
Access Reform - Key Issues for Ameritech

- The Access Reform docket must address the existing subsidies in interstate access rates

- The FCC should streamline its regulation of access charges so that all competitors can compete on equal terms in the marketplace

Local line prices are significantly below costs

For the Ameritech region Local Line Revenues are significantly short of costs including shared and common costs of the loop and port



For example, today a residential customer in Kalamazoo, Michigan pays $13.94 per month for their access line while the TELRIC for the loop and the port is $18.76. For each residential line in Kalamazoo, a contribution of $4.82 must come from other services.

Sources of revenue that contribute to the LECs ability to maintain below cost local exchange access line pricing will diminish

Contributions from Access:	Contributions from Other Sources:
Carrier Common Line	IntraLATA Toll Margins
Transport Interconnection Charge	Vertical Service Margin
Margins on Access Services	Urban Margins Contribute to Rural Rates
	Business Margins Contribute to Residence Rates

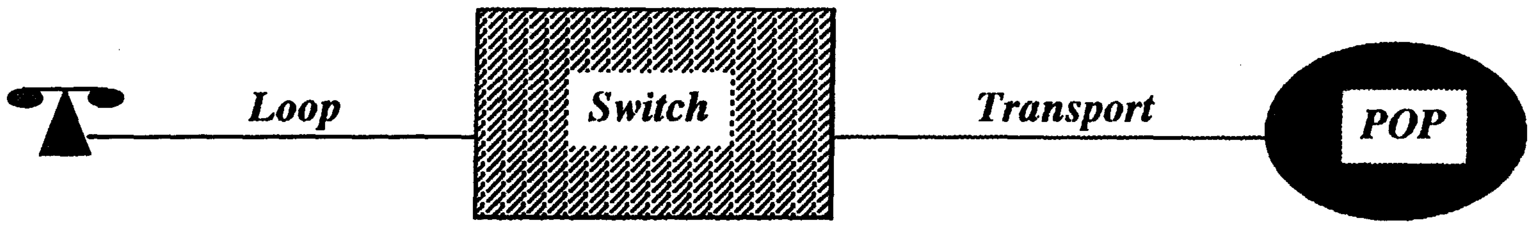
- ILECs can no longer count on retaining existing higher margins in toll and access services because of the developing 1+ intraLATA toll competition and the pressure to move access prices closer to TELRIC based unbundled network element pricing as the IXCs self-provide access

- ILECs can no longer count on the margins from vertical services because of developing local competition

- Competitors will target high margin communications intensive businesses and households

Today's access contributions support below cost local line prices

Switched Interstate Access Today



EUCL = $850
CCL excl LTS = $175

Local
Switching = $410
TIC = $335
Info
Surcharge = $ 10

Transport = $95

Total = $1,875

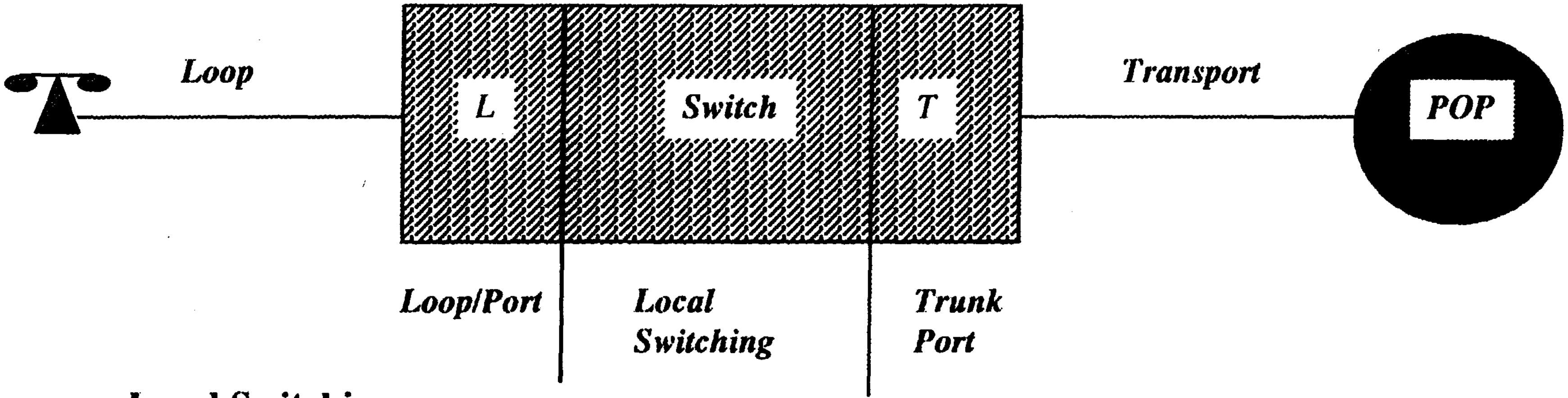
**Ameritech Revenues ($M)*

Access Reform
Recommended Solution

1) Realign Rate Elements
   - Remove the line port from local switching and associate with recovery of loop costs
   - Separate the remaining local switching element into a usage element and a flat rated monthly trunk port element
   - Transfer TIC to appropriate elements, phase out remainder over 3-5 years
   - Establish new loop and line port cost recovery mechanism outside of Price Caps - transition to recovery of 25% of total cost over 3-5 years

2) Form single Price Cap basket
   - Prices based on market forces and annual price cap mechanisms
   - Competition will drive prices to approach cost

Access Reform - Switched Access Rate Realignment



Local Switching

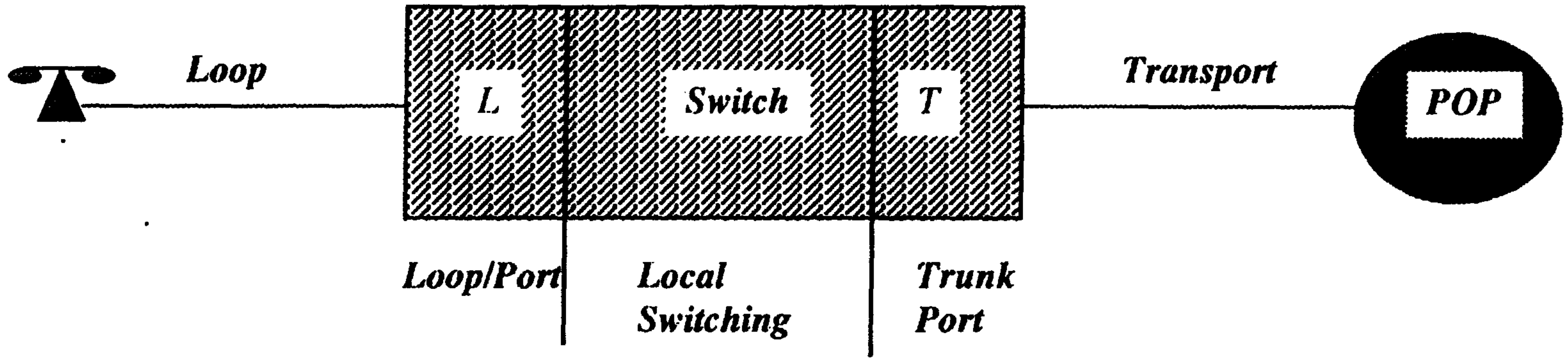
- Transfer NTS line termination and Info Surcharge amounts to Loop/Port recovery mechanism
- Establish flat rated trunk port charge which recovers cost of trunk port
- Recover remaining traffic sensitive local switching on per minute of use basis

TIC

- Transfer tandem and SS7* related costs to appropriate access rate elements
- Bill remainder to IXCs as a transitional surcharge - this amount to be phased out over 3-5 years

** SS7 related costs already removed from Ameritech TIC (Trans #982)*

Access Reform - Switched Access Rate Realignment



Carrier Common Line

Base Factor Portion Overflow (BFPO)

- Transfer BFPO and other loop related costs to Loop/Port recovery mechanisms
- Remove pay telephone costs from common line in accordance with FCC 96-128 Order

NECA Long Term Support (LTS)

- If LTS is not subsumed by universal service, the FCC should direct NECA to bill IXCs directly

Loop/Port recovery mechanism

- Full interstate loop and line port costs recovered by a combination of EUCL and Loop/Port Recovery Charge to interstate long distance carriers
- Transfer Non Traffic Sensitive (NTS) Line Termination and Info Surcharge amounts from Local Switching to Loop/Port
- After initial per loop charge calculation, recovery is transitioned over 3-5 years to 25% of cost for each loop used to provide local service
- Allow geographically deaveraged rates for EUCL consistent with unbundled elements

Mapping Today's Rate Elements to Switched Access Rate Realignment

Today			***Recommended Initial Charges***	
EUCL	$ 850M	(850) →	Loop/Port Recovery Mechanism (EUCL and Loop/Port Recovery Charge) *Transition to 25% of cost*	$1,145M
CCL excl LTS	$ 175M	(175) →	Loop/Port Recovery Mechanism	
Information Surcharge	$ 10M	(10) →	Loop/Port Recovery Mechanism	
Local Switching	$ 410M	(110) →	Loop/Port Recovery Mechanism	
		(275) →	Local Switching	$ 275M
		(25) →	Trunk Port	$ 25M
TIC	$ 335M	(310) →	TIC transition *Phase out in 5 years*	$ 310M
		(25) →	Transport	
Transport	$ 95M	(95) →	Transport	$ 120M
TOTAL	**$1,875M**		**TOTAL**	**$1,875M**

Access Reform -
Price Cap Revisions

- Loop and line port cost recovery (Common Line) removed from Price Caps
- Simplify treatment of remaining Access Services
  - Aggregate into a single Price Cap Basket
  - Transitional TIC would reside in a sub-band
- Allow rate structure flexibility, including establishing zones, consistent with unbundled network elements
- Ability to establish new services without cost support or Part 69 waiver
- Competitive services removed from Price Caps
  - Existing IX basket
  - Transport
  - Directory Assistance Services