

continue to be receptive to changes in methods of calculating the X-Factor. The NPRM suggests several possible improvements in the present method, including an adjustment for input prices or an adjustment for the difference between interstate and intrastate productivity growth. GSA/DOD believes that the Commission should seriously consider adopting these refinements, because they should improve the precision of the interstate factor in representing the appropriate offset to the Gross Domestic Product Price Index.

Minimize Increases in SLC

GSA/DOD recommends that all reductions in the overall interstate access revenue requirement resulting from the actions outlined above, or other prescriptive actions that the Commission may select, flow initially to the newly defined NTS revenue requirement for access. That is, access revenue requirement reductions should be used to minimize any necessary increase in the SLC resulting from assignment of all NTS revenue obligations to end users.

B. Implement Pro-Competitive Elements of Market-Based Approach

As discussed previously in these Comments, the Commission has identified four specific pro-competitive actions that it would take when the Phase 1 triggers of the market-based approach are achieved.⁴⁰ These steps concern geographical deaveraging, volume and term discounts to interexchange carriers, contract tariffs, and deregulating new services. GSA/DOD recommends that the Commission proceed with these steps as soon as new price cap parameters — earnings sharing targets and the productivity offset — are in place.

⁴⁰ *Id.*, paras. 180-200.

Geographical Deaveraging

The Commission's rules now require that an incumbent LEC's charges for access be averaged within each of the company's study areas. However, the Commission has developed a system of density pricing zones, which may be used by a LEC to geographically deaverage its rates. The NPRM seeks comments on whether incumbent LECs that meet the Phase 1 trigger conditions in the market-based approach should be permitted to deaverage all access charge elements other than the SLC.⁴¹

As GSA/DOD indicated previously in these Comments, it is important that access charges be matched as nearly as possible to the costs of providing access. It should be possible to match geographical cost variations more accurately if rates are deaveraged by density zone, rather than simply by study area. Therefore, GSA/DOD recommends that LECs be permitted to geographically deaverage all access rate elements (except the SLC) by density zone when the companies' revenue requirements have been adjusted to implement access reform.

Volume and Term Discounts to Interexchange Carriers

The Commission's rules now permit volume and term discounts on certain transport services offered by incumbent LECs that are able to demonstrate a certain level of competition, as shown by demand for expanded interconnection services. Also, under certain conditions incumbent LECs are permitted to offer volume and term discounts on entrance and interoffice facilities. The NPRM seeks comments on whether volume and term discounts should be extended to all access elements when incumbent LECs meet the Phase 1 trigger conditions in the market-based approach.⁴²

⁴¹ *Id.*, para. 180.

⁴² *Id.*, para. 187.

Term discounts recognize cost savings that result from the certainty of longer-term commitments, while volume discounts reflect the lower unit costs of handling greater traffic volumes on high capacity facilities. Volume and term discounts encourage efficiency and greater competition. GSA/DOD recommends that volume and term discounts be permissible for all access elements when the revenue requirements have been adjusted to implement access reform.

Contract Tariffs

The Commission proposes to eliminate the rules prohibiting LECs from offering "competitive response" tariffs. These are contract tariffs filed by LECs to respond to a request for proposal. The Commission proposes to remove the present restrictions on LECs when they meet the Phase 1 trigger conditions in the market-based approach.⁴³

GSA/DOD recommends that the Commission eliminate the prohibition against competitive response tariffs at the present time. A local exchange carrier would not be able to submit a competitive response tariff if competition were not present, so that a test reflecting the general development of competition is not required.

Since interexchange carriers are now permitted to contract without such constraints, the present rules give IXCs an undue advantage over LECs.⁴⁴ Also, the present restrictions on LECs unnecessarily limit the number of responses in competitive procurements. The present restrictions should be eliminated even before the prescriptive elements of access reform are completed.

Deregulating New Services

The Commission seeks comments on whether to allow incumbent LECs to offer new access services outside of price cap regulation once the Phase 1 triggers under

⁴³ *Id.*, para. 195.

⁴⁴ *Id.*, para. 193.

the market-based approach to reform are met.⁴⁵ The NPRM observes that this flexibility might be justified for new access services that build upon “core” services that would continue to be price regulated.⁴⁶ The Commission also seeks comments on the additional step of eliminating all requirements for an incumbent LEC to obtain regulatory approval before a tariff introducing a new service can take effect.⁴⁷

GSA/DOD urges the Commission to move cautiously in removing the requirements for reviewing the rates for new service offerings. If the new service is a discretionary variation of a baseline service that remains regulated, GSA/DOD would concur that the new service could be offered outside of price caps after the LECs’ revenue requirements have been adjusted to implement access reform. However, GSA/DOD believes that it is premature for the Commission to make any general commitment to remove virtually all regulation of new LEC services.

45 *Id.*, para. 197.

46 *Id.*

47 *Id.*, para. 199.

V. Conclusion

As a major user of telecommunications services, GSA/DOD urges the Commission to modify the access charge rate structure and implement access charge reform as described in these Comments.

Respectfully submitted,

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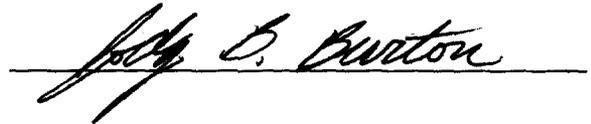
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