

operator services. These services directly compete with LEC services. Regulation is not required.

Forbearance from regulation of services in the Interexchange Basket will enhance competition by ensuring that competitors are treated similarly. The Commission has determined that the interstate, interexchange market is competitive for both international and domestic traffic. Corridor traffic, a specialized service, competes directly with services offered by nondominant domestic, interstate, interexchange carriers.⁷¹ The other services in this basket are also competitive. Incumbent LECs cannot prevent their competitors from entering the marketplace; attracting customers; and securing the carrying capacity necessary to meet their demand. More important, incumbent LECs cannot drive their competitors from the marketplace. Thus, incumbent LECs cannot charge unjust or unreasonably discriminatory rates. Allowing incumbent LECs to respond to competition is in the public interest because it will provide customers with real choices. This will only happen when the rules are the same for all participants.

Special Access and Collocated Direct Trunked Transport.

Forbearance from regulation of special access services and collocated direct trunked transport (DTT) is also justified. Special access service revenues for price cap LECs generate

⁷¹Although corridor service essentially provides interstate interLATA service, it differs from the services offered by nondominant interexchange carriers in that corridor service is strictly limited to specific geographical areas.

approximately \$3.7 billion in annual interstate revenues. This represents roughly 17 percent of price cap LECs' interstate access revenues and slightly more than half of their interstate transport revenues. Unlike switched services, high capacity special access services are generally concentrated in high volume, dense markets.

The Commission has found that the availability of close substitutes for services foster market forces that will generally ensure that the rates, practices, and classifications of interexchange carriers are just and reasonable and not unjustly or unreasonably discriminatory.⁷² There have been direct substitutes for special access services in the marketplace for years, putting special access markets at the forefront of local telecommunications competition. Because displacement of special access requires no interconnection with LEC services or LEC switches, IXCs and competitive access providers (CAPs) are able to displace LEC facilities without the use of any LEC resources. Hence, special access markets contain no alleged bottleneck making special access especially attractive to LEC competitors and IXC self-supply.

Data for major markets throughout the nation support the conclusion that direct substitutes for special access services exist and increasingly are being used by LEC customers. For example, a 1995 study commissioned by SBC demonstrated that in the Dallas market, SBC had already lost approximately 41.2 percent of the high capacity special access market as of the

⁷² Policy and Rules Concerning the Interstate, Interexchange Marketplace, CC Docket 96-61, released October 31, 1996 at ¶14.

fourth quarter 1994.⁷³ Similar losses of 31.6 percent were shown in the Houston market during this time period. In Los Angeles and San Francisco, Pacific Bell has lost approximately 46 percent of its high capacity market share. Over 3/4 of the traffic utilizing competitors' DS1s are actually switched minutes of use. Competitors have captured 50 percent of the high capacity market in New York City and 40 percent of the high capacity market in Boston. Competition for high capacity services in the Ameritech region is prevalent in all of its major markets.

Competitors have captured 55.2 percent of the Chicago market and 48.8 percent of the Grand Rapids market as of the third quarter 1996. GTE reports that approximately 14,000 equivalent DS1 facilities are provisioned by CAP facilities in GTE markets. These facilities represent nearly eight billion equivalent end user minutes of use lost to GTE's competitors with the capacity to transport more than ten billion equivalent minutes of use via switched and special access collocation arrangements.

It is important to note that these large market share losses were incurred without the availability of unbundled elements and with only limited use of collocation. Although those opposing LEC regulatory flexibility may argue that competition in major markets is the exception, the requirement imposed by the Act to provide ubiquitous access to unbundled

⁷³Quality Strategies Study, 1995.

elements renders these arguments moot.⁷⁴ The Act virtually guarantees ubiquitous availability of product and services substitutable for special access through the recombination of LEC unbundled elements.

In addition, the Act requires collocation of competitor equipment on LEC premises making it very easy for a competitive access provider or interexchange carrier to combine its facilities with LEC unbundled elements to directly compete with LEC special access and direct trunked transport services.⁷⁵ The Commission has further enhanced the position of LEC competitors by interpreting the Act's collocation requirement to require both virtual and physical collocation in the Interconnection Order. Given the availability of collocation, it is reasonable to conclude that direct trunked transport substitutes are equally available in areas where collocation by ILEC competitors is utilized. Therefore forbearance should be granted for Special Access Services in all areas and for direct trunked transport in areas where collocation is utilized.

Competitive alternatives in the marketplace, the ubiquitous availability of unbundled network elements, collocation, and the sophisticated nature of special access customers, all support the removal of special access and collocated direct trunked transport services from tariff requirements. Regulation is unnecessary to ensure that special access and collocated direct trunked transport rates are not unreasonably discriminatory and regulatory enforcement is not

⁷⁴Section 251(c)(3).

⁷⁵Section 251(c)(6).

necessary for the protection of consumers.

In view of the widespread nature of competitive alternatives and the years of Commission's efforts to advance transport competition, the Commission should not wait for companies to file individual petitions for forbearance for special access services and collocated direct trunked transport. In the interest of conserving the Commission's finite resources and in order to accelerate consumer benefits of increased special access competition, the Commission should remove special access services and collocated direct trunked transport services from regulation in this proceeding so that individual company showings would not be required to remove these services from tariff regulation.

Directory Assistance.

Directory assistance is also a highly competitive service. Incumbent LECs have lost substantial wholesale directory assistance traffic to IXCs and alternative service providers. Retail directory assistance is also subject to competition from CLECs and new technologies.⁷⁶ For example, competitors such as Excell Agent Services⁷⁷, INFONXX, Metro One

⁷⁶Many businesses rent or buy computer disks with telephone numbers instead of using directory assistance. Oregonian, September 27, 1996.

⁷⁷Excell, which was founded in 1994, has won contracts to provide directory assistance service to AT&T in major US markets. The Arizona Republic, September 2, 1996.

Communications⁷⁸ and others have captured much of this market.

One reason AT&T and other major IXCs have been able to choose other companies to provide directory assistance is the ease with which competitors are able to gain entry into the market and quickly capture market share. In January of 1995, Excell Agent Services handled its first directory assistance call for one IXC. Today, it is reported that Excell “has over 200 operators handling directory assistance traffic for several telecommunications providers, including three of the six largest long distance firms”...and “is one of the largest independent call center companies...handling in excess of 20 million calls per month.”⁷⁹

Substantial direct competition for retail directory assistance is also impacting the market. In 1995, AT&T and MCI offered a 1-900 service that offers customers telephone numbers for anyone in the U.S. without knowing the area code.⁸⁰ Nortel offers a national directory assistance product with over 120 million residential, business, and government listings. PC/Plus maintains

⁷⁸Metro One’s clients include Ameritech Cellular Services, AT&T Wireless Services Inc., Bell Atlantic NYNEX Mobile, BellSouth Cellular, GTE Mobilnet Inc and US West New Vector Group. Radio Communications Report, September 2, 1996. 70 percent of Bell Atlantic’s wireless directory assistance traffic was lost to competitors in 1996.

⁷⁹Business Wire, August 12, 1996.

⁸⁰AT&T plans to bring hundreds of jobs to Scranton, Pennsylvania. The workers’ primary task will be accepting calls for AT&T’s national directory assistance. The Scranton Times, September 6, 1996.

two nation wide databases with more than 100 million listings in each.⁸¹

It is anticipated that millions of directory assistance calls on resold local lines will be rerouted to competitors in 1997. Forbearance from regulation is not likely to have any adverse impact on the robust competition which already exists or on the rates for these services. The public interest will be served by providing consumers with even more choices. Directory Assistance meets the criteria for forbearance from regulation.

2. Streamlined Rules to Replace Current Part 69 Rules for Price Cap LECs Should Be Adopted in Phase 1. (Paragraphs 291-299).

USTA has long maintained that the operation of the current Part 69 rules prevents incumbent LECs from responding to competitive market conditions. While the Commission has reduced some of the burdensome requirements for the provision of new services, the Commission should take this opportunity to eliminate Part 69 for price cap LECs and to replace it with streamlined rules to address, for example, the recovery of CCL, TIC and the depreciation reserve deficiency, as discussed herein. Specific rate elements should not be codified. The current Part 69 rules should be retained for rate of return companies, although limited modifications will be necessary to reflect the recovery of the CCL and TIC. The rules changes necessary to reflect the pricing flexibility required for rate of return companies will be the subject

⁸¹The PC/Plus Directory Assistance Forum, October 8-11, 1996.

of a separate rate of return proceeding and will be determined at that time.

3. The Pricing Flexibility Permitted in Phase 1 Will Ensure that Price Cap Regulation More Closely Replicates Today's Competitive Marketplace. (Paragraphs 180-200)

The pricing flexibility that USTA recommends be adopted in Phase 1 is consistent with the Commission's proposals for reform and will allow price cap regulation to more closely replicate a competitive market. Expanded zone pricing, volume and term discounts, contract tariffs and individual responses to RFPs are necessary to provide incumbent LECs an opportunity to compete, thereby facilitating efficient pricing in the marketplace and providing more choices for consumers. Incumbent LECs should have the opportunity to respond to customer requests now. The Commission adopted analogous regulatory reforms for AT&T prior to any determination regarding the status of competition in AT&T's markets. With the elimination of barriers to entry required by the Act, there is no need to delay the benefits of these much-needed reforms.

USTA also agrees with the Commission's proposal to deregulate new services. (¶¶ 197-200). The introduction of new services is in the public interest. Congress clearly stated that telecommunications policy should encourage the provision of new technologies and services and that any person or party opposing a new technology or service must bear the burden of

demonstrating that the technology or service is not in the public interest.⁸² There is no reason to impede the introduction of new services through regulation.

4. The Current Price Cap Baskets Should Be Revised to Facilitate Pricing Flexibility in Phase 1. (Paragraphs 231-235).

The Commission must create a new price cap basket structure that reflects the current environment, facilitates increasing competition for LEC services, and makes the movement from price caps to deregulation possible in an expedited fashion. In addition, all services with competitive alternatives should be removed immediately from price cap regulation.

As depicted in Attachment 9, USTA proposes a new price cap structure that meets the above listed objectives. Under USTA's proposal, network services that are not fully competitive and common line-associated services should be grouped under one basket. The basket would contain four service categories designed to reflect service functionalities: Tandem Switching and Transport, Local Switching, Data Base Services, and Common Line. The Tandem Switching and Transport and Local Switching service categories would have associated zones for the services included in the service category. The Common Line service category would have zones only for the carrier common line rate element. Prices would be controlled at the basket level through the Price Cap Index ("PCI"), at the service category level for Data Base Services and Common Line, and at the zone level for Tandem Switching and Transport, Local Switching, and Carrier

⁸²Section 7.

Common Line.

The creation of a Network Services Basket is consistent with the objectives of price cap regulation: to be a surrogate for competition. In a competitive market, the services for which price cap regulation may still be warranted should be combined into one basket. Concurrently, the Commission should create a transition mechanism for these services to be removed from price cap regulation as they become more competitive, as discussed above.

Four service categories should be established that group services with similar functionalities together. The Tandem Switching and Transport service category contains all rate elements associated with tandem switched transport, *i.e.*, common transport, direct trunked transport where collocation is not utilized,⁸³ the tandem switching charge, and the transport interconnection charge.⁸⁴ There would be no pricing constraint at the service category level. Pricing constraints would exist at the zone level.

The Local Switching service category includes services in the current Local Switching service category, Information Surcharge, Operator Transfer, and Busy Line Verification and

⁸³Direct Trunked Transport facilities where collocation agreements exist should not be subject to price cap regulation as discussed above.

⁸⁴Pursuant to USTA's recommendation, the misallocated costs (*e.g.*, tandem switching, analog trunk ports, host-remote links, etc.) will be removed from the Transport Interconnection Charge (TIC) and reassigned. Only regulatory policy-associated costs will remain in the TIC.

Interrupt.⁸⁵ Essentially, this service category is similar to the current Local Switching service category. There is no pricing constraint at the service category level. Pricing constraints would exist at the zone level.

The Data Base Services category contains the current service categories of 800 Database and Billing Name and Address ("BNA") which are now in the Traffic Sensitive basket. These services are similar in that they require direct access to or LEC-provided information from a LEC-owned and operated data base. This service category would have an upper banding constraint of ten percent (+10%).

The Common Line service category should include both the Subscriber Line Charge (SLC) elements as well as the Carrier Common Line (CCL) elements. All formula driven rates should be removed and replaced with a service band constraint. The SLC would continue to be regulated by the existing caps of \$3.50 and \$6.00.⁸⁶ The CCL would be restructured from a per minute of use charge to a per line charge. The aggregate service band index should be restricted to only the change in the PCI, e.g., a limit of + 0. In addition, the CCL charges would be subject to zones. The limits placed on each zone would be + 10 percent.

⁸⁵Some LEC currently have Operator Transfer and Busy Line Verification and Interrupt in the Interexchange Basket. These services would be transferred to the new Network Services basket once the Interexchange basket is eliminated.

⁸⁶Some USTA member companies may suggest changes to the current cap as well as deaveraging the SLC. If any such changes are adopted, they can be easily accommodated in USTA's price cap proposal.

Service categories with zones should not be subject to additional banding constraints. Instead, the associated zones would have an upper banding constraint of +10 percent. A ten percent upper limit would ensure that consumers would not be subject to a large rate increase in any year and would limit the ability of the LECs to offset decreases in one zone with increases in other zones.

The introduction of zones was the first step in allowing price cap LECs to better reflect the costs of providing service. By providing limited flexibility in certain instances, price cap LECs could reduce the impact of the averaging and interstate costs embedded in rates for high capacity services and thus better respond to competition. Thus, competitors could not readily price under a statewide average "umbrella" LEC rate in dense, competitive areas. However, the zones established for the high capacity marketplace were based on demand densities that may not be particularly relevant to other access services. Further, the evolution of competition has not followed a simple pattern of high capacity demand densities. Ultimately, zones should reflect the competitive realities of specific markets.

Therefore, USTA recommends that the Commission allow the LECs to establish unique zones for different service categories based on the criteria that is most appropriate for that service category, with no limit on the number of zones.

The new price cap structure proposed by USTA would utilize the same basic price cap mechanics as the current structure. The Network Services basket still would have a PCI limiting

any ability to raise overall prices (*i.e.*, the Actual Price Index (API) still would have to be equal to or less than the PCI). Any service category without zones would have upper banding constraints at the service category level while service categories with zones would have upper banding constraints at the zone level only (except for Common Line). The price cap formula for determining the PCI would continue to take into consideration inflation, productivity, and exogenous cost changes.

The new price cap structure is administratively simple. It applies regulation to services which still require oversight. It provides an increased amount of pricing flexibility which is commensurate with the new competitive environment as provided for in the 1996 Act, and establishes a framework that will allow additional access services to be removed from price cap regulation as competition takes over the role of regulation.

III. THE ACCESS RATE STRUCTURE MUST PERMIT FLEXIBILITY TO RESPOND TO COMPETITION. (Paragraphs 54-139)

As noted above, the rate structure for the recovery of costs allocated to interstate access should be simplified to comport with the current market. The structure must be flexible enough to allow a competitive response, eliminate pricing distortions and provide an opportunity for full recovery of costs.

For example, the prices for network elements must be sufficient to recover the full, embedded costs of those elements. (§ 54). Currently, a portion of the costs associated with those

network elements is being assigned to the interstate jurisdiction in the separations process.

Unless and until the assignment of these costs change, some mechanism within access charges must permit recovery of these interstate costs.⁸⁷

A. An Alternative Method of Recovering Carrier Common Line (CCL) Costs Should Be Adopted. (Paragraphs 59-70).

In its comments in CC Docket No. 96-45, USTA agreed with the Joint Board that the existing CCL rate structure should be modified to eliminate the requirement that LECs must recover the NTS costs of the local loop from interexchange carriers on a per-minute basis.

USTA supports the Joint Board's recommendation that incumbent LECs recover the CCL costs through a flat-rate, per-line charge paid by interexchange carriers. As the Commission points

⁸⁷Access charges are the mechanism used to recover the network costs attributed through the separations process to the interstate jurisdiction. The separations rules, adopted by both the Federal and state regulators, determine how incumbent LECs will apportion their costs among the interstate and intrastate jurisdictions. According to those rules, the non-traffic sensitive costs of the common lines used by customers to place both intrastate and interstate calls are apportioned among the intrastate and interstate jurisdictions on the basis of a gross allocator which assigns 25 percent of the costs to the interstate jurisdiction. (47 CFR 36.154). Under the current Part 69 rules, the interstate costs are recovered through access charges assessed against end users and carriers. The intrastate portion of the costs are recovered through pricing systems which recover all intrastate costs in the aggregate. Intrastate cost recovery does not recover costs from specific cost causers. There is no common line pricing system which recovers the costs generated by a particular common line. Until the separations treatment of common lines is altered, incumbent LECs must continue to jurisdictionally allocate their common line costs pursuant to the separations rules. Costs allocated to the interstate jurisdiction should continue to be recovered through access charges. Therefore, until the separations rules are changed, it may be appropriate to permit incumbent LECs to apply access charges when unbundled network elements are used to carry interstate traffic.

out, assessing the charge against each customer's presubscribed interexchange carrier (PIC), or directly to any end user who elects not to chose a PIC, facilitates administrative simplicity.

The administrative burdens associated with the Commission's proposal to increase the SLC cap for secondary residential lines significantly outweigh any possible benefit to be derived. (¶ 65). There is no practical or efficient way to identify such lines in order to implement this proposal and certainly no feasible way to enforce it if it was adopted. Since incumbent LECs are the only providers which assess the SLC charge, this proposal will likely provide customers an uneconomic incentive to obtain secondary lines from LEC competitors. Eliminating the cap on multi-line business customers may provide some additional flexibility.

In its comments filed in CC Docket No. 95-72, USTA supported the one SLC per ISDN facility rule.⁸⁸ (¶ 69). USTA explained that the current multiple-SLC rule imposes disproportionate burdens of cost recovery on ISDN users. Because the multiple SLC rule is not related to the NTS costs of ISDN users, the imposition of multiple SLCs introduces pricing distortions. As noted above, an objective of this proceeding is to eliminate uneconomic pricing requirements.

The Commission should also recognize that the common line revenue requirement is a much larger percentage of rate of return LEC's total costs than for most price cap LECs. It

⁸⁸Comments of USTA, End User Common Line Charges, CC Docket No. 95-72, June 29, 1995.

would be prohibitive for residential or business customers served by rate of return LECs to pay their entire common line cost through an increased SLC. This could severely impede rural economic development and is contrary to the rate and service parity requirements of Section 254(b)(3) of the 1996 Act. Thus, any changes that may ultimately be adopted to modify the SLC cap for price cap LECs should not be applicable to rate of return LECs. (¶ 65).

B. LECS Should be Afforded Flexibility to Recover Local Switching Costs.
(Paragraphs 71-79).

As discussed above, there is no need to codify specific rate elements to recover local switching costs. The current codified rate structure has outlived its purpose and is no longer required as it creates administrative burdens which stifle innovation.

LECs should be afforded flexibility in the recovery of local switching costs. Pursuant to an approach which permits flexibility, some LECs may assess line port costs on a flat rate basis. (¶ 72). The current mechanism to recover trunk port costs on a minutes of use basis is reasonable, but the Commission should permit LECs flexibility to ensure that maximum efficiencies are realized. (¶ 73). LECs should be provided sufficient flexibility to recover the traffic sensitive local switching costs associated with call set up and peak/off peak prices. There is no need to mandate a particular structure for these elements. Recovery mechanisms should reflect market conditions. For example, the enormous increase in Internet usage has altered the traditional peak/off peak hours. LECs should be permitted to respond accordingly without the

need for waivers.

C. All Incumbent LECs Are Entitled to the Full and Complete Recovery of the Transport Interconnection Charge (TIC). (Paragraphs 96-122)

As discussed above, tandem switching and transport services should be eligible for regulatory reform in Phase 1 of USTA's plan to reduce regulation. Collocated direct trunked transport should be forborne from regulation. The current rate structure for recovery of transport costs is sufficient. However, the Commission must provide for the full recovery of the TIC.

The TIC was developed at the expiration of the "equal charge per unit of traffic received and delivered" rule of the MFJ as a result of the interim transport rate structure ordered in CC Docket 91-213.⁸⁹ Under the rules established in that docket, switched transport rates (direct or tandem) were set based on special access rates. Tandem switching rates were established at an arbitrary 20 percent of the tandem revenue requirement. The TIC was the residual charge which permitted LECs to initially recover the same level of total transport revenues under the new structure as they received under the prior rules.

All incumbent LECs are entitled to full and complete recovery of the entire TIC amount. Identification of only certain components in no way suggests that only a portion of the TIC should be recovered in the post-access reform environment. The TIC represents legitimate,

⁸⁹Transport Rate Structure and Pricing, CC Docket No. 91-213, 7 FCC Rcd 7006 (1992) [Local Transport Restructure Order]; recon. 8 FCC Rcd 5370 (1993); further recon. 8 FCC Rcd 6233 (1993); further recon. 10 FCC Rcd 3030 (1994); further recon. 10 FCC Rcd 12979 (1995).

actual costs which have been assigned to the Interstate jurisdiction and to the transport category through the correct applications of the Commission's rules and regulations.

To a large extent, the TIC reflects costs which the Commission's Part 36 jurisdictional separations rules and Part 69 access charge rules assign to the interstate local transport rate element. In this regard, discerning exactly where the costs recovered in the TIC originated is not a simple task. USTA has undertaken this difficult analysis and has identified certain cost components of the TIC.

The TIC components listed below are fully described in the empirical analysis contained in Attachment 10. In addition, USTA has developed an industry estimate of the magnitude of these TIC components as compared to TIC revenues. This estimate is depicted in Attachment 11. The TIC components are: 80 percent of tandem revenue requirement; CCS/STP costs allocated to tandem switching; host/remote configurations; central office terminating counts; COE maintenance misallocations; analog end office trunk switch ports; redefined tandem switched transport, transport averaging, cost allocations and cost recovery; and interexchange cable and wire investment.

The TIC must be separated into two distinct categories - the portion that has identifiable service related costs of trunking, transport and tandem switching and the remaining portion which relates to historical public policy decisions. The service related portion must be moved to the appropriate elements and recovered as described below. The remaining portion must be

recovered via a competitively-neutral, recovery mechanism.

For rate of return LECs, after the components have been identified and recovered in a cost-causative manner, the remaining TIC revenue requirement should continue to be recovered pursuant to Part 69.124 of the Commission's rules until the rate of return access reform and separations reform proceedings are completed. Rate of return LECs cannot "price manage" access under the current Part 69 rate structure.

1. Recovery of Identifiable Service Related Costs of Trunking, Transport and Tandem Switching.

Redefined Tandem Switched Transport. The Commission's Local Transport Restructure (LTR) Order was based on special access based formulas which did not allow the LECs to accurately recover the costs associated with providing Tandem Switched Transport.

This needs to be addressed as follows:

- 1) Identify the impact of re-defining tandem switched transport (TST). This re-definition is necessary because the special access-based formulas prescribed in the Commission's LTR Order do not allow LECs to accurately recover the costs associated with providing TST.
- 2) Eliminate the MOU option between the POP serving wire center (POP SWC) and the tandem. All customers should be required to order and be charged for direct trunked transport for this portion of the network because that is the way it is provisioned.
- 3) The rates for tandem transport, which will only apply between the tandem and the end office, must be updated to include the costs of the appropriate multiplexing equipment. The rates must also be adjusted to reflect company-specific MOU assumptions for that leg of the network. These changes will result in rates that more accurately capture a LEC's actual costs of providing tandem service. No price cap changes are required since under USTA's recommended structure, the Tandem Switching and Transport service category includes the TIC, tandem switched

transport, direct trunked transport, the tandem switching charge and all other related transport charges.

80 Percent of Tandem Revenue Requirement.

1) Tandem switching rates should be adjusted to reflect the appropriate recovery of the 80 percent of the tandem revenue requirement that was not included in tandem switching rates pursuant to the LTR Order. These costs were excluded from tandem switching because the Commission wanted to keep tandem switching rates low for small IXCs. This requires no price cap changes because under USTA's recommended structure the Tandem Switching and Transport service category includes the TIC, tandem switched transport, direct-trunked transport, the tandem switching charge and all other related transport charges.

CCS/STP Costs Allocated to Tandem Switching.

1) Identify the portion of the tandem revenue requirement that recovers the costs of SS7 signal transfer points (STPs). Identify the costs for the links between service switching points and STPs. These costs are currently recovered in the TIC. These SS7 STP and links costs are associated with providing Feature Group D service and are not recovered through any of the existing SS7-related rate elements such as CCSAS (common channel signaling) and database services. These costs will be removed from the TIC and recovered through existing SS7 rate elements. This action requires no price cap changes because under USTA's recommended structure the Tandem Switching and Transport service category includes the TIC, tandem-switched transport, direct-trunked transport, the tandem switching charge and all other related transport charges.

Host/Remote Configurations.

1) Identify the costs specific to host/remote transport that are currently included in the TIC. These specific costs are not included in any other rate element. The current method of charging tandem transport rates (fixed and per mile only, no tandem switching) for the leg between the host switch and the remote office does not accurately reflect the true cost of providing this service.

2) Include the host/remote costs in the existing tandem transport rates because those rate elements are currently applied to host/remote connections. This requires no price cap changes because under USTA's recommended structure, the Tandem Switching and Transport service

category includes the TIC, tandem switched transport, direct trunked transport the tandem switching charge and all other related transport charges.

Analog End Office Trunk Switch Ports.

1) Identify the portion of the TIC that recovers the costs associated with connecting trunks to an analog switch. These costs are incurred because an analog switch does not have a direct DS1 interface and requires a combination trunk unit (ports) and a DS1/voice grade multiplexing function to take traffic to a DS0 level. The special access formulas prescribed by the Commission for switched transport do not include these costs which are specific to switched access.

2) These analog port costs are classified as circuit equipment (which, through Part 69 rules, would be assigned to transport) but could also be associated with the switching function because of their integral link with switching equipment. Therefore, these costs should be assigned to Local Switching and recovered in the existing rate elements. In fact, trunk ports in digital switches are actually line cards in the switch, with the costs assigned to the Local Switching service category.

3) Costs must be transferred from the Tandem Switching and Transport service category to the Local Switching service category.

2. Recovery of Identifiable Costs Associated With Central Office Termination Counts, COE Maintenance Misallocations and Interexchange Cable and Wire Investment.

The whole amount of the current TIC results from the application of Part 36 and Part 69 rules which dictate the separation of costs between the interstate and intrastate jurisdictions and which assign those costs to specific rate elements. In some cases, these allocations and assignments of costs do not correctly associate the costs with the cost causer. There are several Part 36 rules which impact the TIC, by overstating the assignment of interexchange trunk investment, COE maintenance expense accounts and interexchange cable and wire investment to

the TIC. Correcting the misassignment of these costs will reduce the TIC by reassigning costs to intrastate and interstate (Common Line, Local Switching, Special Access, etc.).

Any Part 36 revisions will require Joint Board action. Therefore, there will likely be a lag in implementing the necessary changes to the separations rules. Until the conclusion of the required separations rules reform, these specific TIC components should be removed from the per-minute-of-use TIC rate and bulk billed to interexchange carriers based on interstate revenues or minutes.

3. Recovery of the TIC Associated With Past Public Policy Decisions.

The local transport equal charge rates, prior to price caps and transport rate restructure, were derived from a "revenue requirement" which was the result of Commission rules for the allocation of investments and expenses. This mandated cost allocation process predominantly utilized (and still does for data reported in ARMIS) general categorizing and averaging of costs across technologies, geographical areas (e.g., rural, suburban, urban), services and jurisdictions. Plant investment was the primary driver as expenses generally followed the allocation of the plant. Because there were basically only two rate elements for switched local transport, the per minute termination charge and the per minute-mile facility charge, the rates could deviate very little, if at all, from the rate levels resulting from the cost allocation rules.

Special access rates, on the other hand, while adjusted to equal a total special access revenue requirement, were more heavily based on a unit investment approach which more

specifically identified the actual plant used for each service. The unit investments were then used as a basis for loading overheads. In addition, under the cost allocation process, high cap facilities could be directly identified and assigned to the special access revenue requirement category.

Once rates were set under the price cap rules, beginning in 1991, the direct link to revenue requirements was broken, but the price cap basket and banding limitations allowed relatively little annual deviation from original rate-of-return levels and rate relationships. The transport rate restructure was implemented at the beginning of 1994 and was based on 1993 rates and 1992 demand. Switched transport services were repriced based on special access high cap rates. To a great extent, the TIC, which was the resulting difference in revenues between the two pricing schemes, represented the difference in costing methods between the two services, *i.e.*, the local transport rates based predominantly on cost allocation rules that over stated costs to local transport and the high cap rates based on a more direct identification of costs. Much of the TIC, therefore, represents the averaging of costs across technologies, geographies, and jurisdictions (state and interstate) that were inherent in the cost allocation rules that determined the equal charge rates.

A direct identification of local transport costs would result in fewer costs than those produced by cost allocation rules. For example, in the cost allocation process the first step is the combination of plant accounts which are then categorized into three general plant categories --

exchange loop, exchange trunk and interexchange trunk. These categories are then subcategorized into message and private line for jurisdictional separations purposes. Although the detail is available at the subaccount level prior to categorization, that detail is lost in the subsequent categorization and separation process. A detailed analysis utilizing a direct cost approach demonstrates that the cost allocation rules assign more investment to local transport than is actually utilized in provision of the service. The difference in costs is currently in the TIC, even though these costs are actually incurred to provide local services, intrastate services, and/or interstate services other than local transport.

Another component of the TIC can be identified. Circuit equipment and cable and wire facilities serving longer haul traffic have an embedded Part 36 cost that is many times the cost developed by using the special access costing methodology. The cost of hauling traffic to scattered local dial switches in remotely populated areas is several times more than the costs of hauling an equivalent unit of traffic in the larger cities at special access rates. This cost differential has been averaged over the rate charged to all customers as part of the TIC. Most of the longer haul traffic is carried on "interexchange" facilities as defined by the Commission's rules and is associated with the Part 69 transport element. These costs are well documented in the ARMIS process. The cost per unit of traffic using interexchange facilities is significantly higher than the cost of traffic hauled over the exchange, more urban type of facilities for some companies. The cost differential per unit of traffic is also part of the TIC.

This residual portion of the TIC revenues represents real costs resulting from past separations decisions, as well as the interim local transport restructure. LECs must be allowed to continue to recover these costs, in total.

The Part 36 revisions required to implement the changes described above will require action by the Federal State Joint Board. Therefore, there will likely be a lag in implementing the necessary changes to the rules. Until the conclusion of the required separations reform proceeding, these specific TIC amounts should be removed from the per-minute-of-use TIC rate and recovered via the same bulk billing mechanism as proposed above.

D. A Mandated Structure for SS7 is Not Necessary. (Paragraphs 127-138).

LECs should have the flexibility to adopt the appropriate rate structure to meet their market needs. The Commission need not mandate the rate structure proposed by Ameritech for all price cap LECs. SS7 costs vary significantly among LECs due in part to the fact that LECs have implemented different SS7 systems. Incumbent LECs should be permitted the flexibility to recover these costs in a manner which will not impose severe administrative burdens.

In addition, the Commission should not mandate a structure that would require price cap LECs to install equipment for metering SS7. Such equipment is extremely expensive. However, the LECs should be permitted to recover the full costs associated with any measurement requirements imposed by the Commission through a new service rate element.