APPENDIX D

Inappropriate Retail Expense in Interstate Switched Carrier Access

Overview

This expense analysis identifies and quantifies inappropriate retail expenses which are embedded in current interstate switched access rates. It has been designed to apply the requirements of Section 252(d)(3) of the Telecommunications Act of 1996, in conjunction with the criteria for cost studies outlined in the First Report and Order in CC Docket 96-98, to interstate access.[1]

The Act states that wholesale rates will be determined "on the basis of retail rates charged to subscribers for the telecommunications service requested, excluding the portion thereof attributable to any marketing, billing, collection, and other costs that will be avoided by the local exchange carrier." [2] Interstate access is a wholesale service and the retail expenses identified in this study are not associated with the provision of interstate access. Current interstate access is therefore implicitly cross-subsidizing other services in violation of the Act.[3]

The analysis derives the inappropriate retail expense in interstate switched access utilizing data from 1995 Automated Report Management Information System (ARMIS) reports, specifically the ARMIS 43-03 and the 43-04 financial reports, submitted to the Commission by each ILEC. It identifies the functions that are not applicable to the provision of interstate switched access, determines the amount of inappropriate retail costs currently included in access, and then removes those amounts in the manner specified in the 96-98 Order.

Direct Expenses

The costs recorded in the following Uniform System of Accounts (USOA) are inappropriately being recovered through access rates:[4]

6611 - 6613 ***Marketing Expense***
- 6611 - Product Management
- 6612 - Sales
- 6613 - Product Advertising

6623 ***Customer Service Expense***
- 6623 - Customer Services

---

[1] CC Docket 96-98, First Report and Order, FCC 96-325, released August 8, 1996, paras. 917-918.
[2] 47 U.S.C. Section 252(d)(3).
[3] 47 U.S.C. Section 254(k).
[4] CC Docket 96-98, First Report and Order, FCC 96-325, released August 8, 1996, para. 917.

As an exception to the categories outlined by the Commission, the following subcategories of customer service were identified as applicable to the provision of access, and therefore ***not deducted as inappropriate:***

6621 - Call Completion Services
6622 - Number Services
7150 - Total IXC Service Order Processing
7170 - Total IXC Payment and Collection
7190 - Total IXC Billing Inquiry
7270 - Carrier Access

Indirect Expenses

The costs recorded in the following accounts are also inappropriate for recovery through access rates and are removed in proportion to the inappropriate direct expenses identified above:[5]

6121 - 6124 ***General Support Expenses -***
- 6121 - Land & Building Expenses
- 6122 - Furniture & Artwork Expenses
- 6123 - Office Equipment Expenses
- 6124 - General Purpose Computer Expense

6711 - 6712 ***Corporate Operations Expenses***
6721 - 6728
- 6711 - Executive
- 6712 - Planning
- 6721 - Accounting & Finance
- 6722 - External Relations
- 6723 - Human Resources
- 6724 - Information Management
- 6725 - Legal
- 6726 - Procurement
- 6727 - Research & Development
- 6728 - Other General & Administration

5301 - ***Uncollectible Revenue -***
Telecommunications

[5] Id. at para. 918.

To determine the proportion of indirect expense to be removed from access an indirect allocation factor was calculated consistent with the Commission's criteria:[6]

Inappropriate Direct Retail Expenses/ Big 3 Expense

Big Three Expenses are the combined expense groups comprising:
Plant Specific Operations expense; Plant Nonspecific Operations expense; and Customer Operations expense.

INPUT DATA

The input data used to derive the retail expense in interstate switched access are from the 1995 ARMIS reports that ILECs file annually with the FCC. The analysis uses two data sources from ARMIS:

~ **ARMIS 43-04 (Access Report)** This report provides regulated financial and operating data that are separated between state and interstate jurisdictions in accordance with Part 36. The interstate data is further allocated to tariff access elements pursuant to Part 69 of the FCC's rules.

~ **ARMIS 43-03 (Joint Cost Report)** This report provides the regulated annual operating results for every account in the Commission's Part 32 Uniform System of Accounts. These data are used to supplement the data from ARMIS 43-04.

Identification Of Inappropriate Retail Expenses in Interstate Switched Carrier Access

All ARMIS Reporting Companies

($ in thousands)

Inappropriate Direct Retail Expenses	$576,596
Marketing	
Customer Service	
Inappropriate Indirect Retail Expenses	$263,643
General Support	
Corporate Operations	
Uncollectible Revenue	
Total	$840,239

Information Source: ARMIS 43-04 Jan-Dec 1995 Report.

[6] Indirect expenses are "presumed to be avoided in proportion to the avoided direct expenses."

ARMIS *Account Information*
for
Inappropriate Retail Expense in Access

Direct Expenses:

The costs recorded in the following Uniform System of Accounts (USOA) are inappropriate: [7]

6610 ***Marketing Expense***

6611 - Product Management
6612 - Sales
6613 - Product Advertising

Account 6610 - *Marketing* is the summary account for accounts 6611 through 6613. Account 6610 is part of the group of expenses referred to as Customer Operations Expense.

Account 6611 - *Product Management* includes costs incurred in performing activities related to marketing products and services. Activities related to competitive analysis, product and service identification and specification, test-market planning, demand forecasting, product life cycle analysis, pricing analysis, and identification and establishment of distribution channels are booked to this account.

Account 6612 - *Sales* includes costs incurred in selling products and services. Included in this account are expenses related to the determination of individual customer needs, development and presentation of sales records.

Account 6613 - *Product Advertising* includes costs incurred in developing and implementing promotional strategies to stimulate the purchase of products and services.

6620 ***Customer Service Expense***

6623 - Customer Services

Account 6623 - *Customer Services* includes costs incurred in establishing and servicing customer accounts. This includes: initiating customer service orders and records; maintaining and billing customer accounts; collecting and investigating customer accounts; collecting and reporting pay station receipts; and instructing customers in the use of products and services.

[7] CC Docket 96-98, First Report and Order, FCC 96-325, released August 8, 1996, para. 917.

Indirect Expenses :

The costs recorded in the following accounts are also inappropriate for recovery through access rates and are removed in proportion to the inappropriate direct expenses identified above: [8]

6120 ***General Support Expenses***

6121 - Land & Building Expenses
6122 - Furniture & Artwork Expenses
6123 - Office Equipment Expenses
6124 - General Purpose Computer Expense

Account 6120 - *General Support Expense* is the summary account for accounts 6121 through 6124.

Account 6121 - *Land and Building* expense includes janitorial service, cleaning supplies, water, sewage, fuel and guard service, and electrical power.

Account 6122 - *Furniture and Artwork* expense includes expenses associated with furniture and artworks.

Account 6123 - *Office Equipment* expense includes only the costs incurred in connection with the office equipment itself. The costs of operators of this equipment are charged to accounts appropriate for the activities performed.

Account 6124 - *General Purpose Computers* includes costs of personnel whose principal job is the physical operation of general purpose computers and the maintenance of operating systems. Separately metered electricity for general purpose computers is included in this account.

6710 & 6720 ***Corporate Operations Expenses***

6711 - Executive
6712 - Planning
6721 - Accounting & Finance
6722 - External Relations
6723 - Human Resources
6724 - Information Management
6725 - Legal
6726 - Procurement
6727 - Research & Development
6728 - Other General & Administration

[8] Id. at para. 918.

Account 6710 - *Executive and Planning* is the summary account for accounts 6711 through 6712.

Account 6711 - *Executive* includes costs incurred in formulating corporate policy and in providing overall administration and management. Included are the pay, fees, and expenses of boards of directors or similar policy boards and all board-designated officers of the company and their office staffs, e.g., secretaries and staff assistants.

Account 6712 - *Planning* includes costs incurred in developing and evaluating long-term courses of action for the future operations of the company. This includes performing corporate organization and integrated long-range planning, including management studies, options and contingency plans and economic strategic analysis.

Account 6720 - *General and Administrative* is the summary account for accounts 6721 through 6728.

Account 6721 - *Accounting and Finance* includes costs incurred in providing accounting and financial services. Accounting services include payroll and disbursements, property accounting, capital recovery, regulatory accounting, non-customer billing, tax accounting, internal and external auditing, capital and operating budget analysis and control, and general accounting. Financial services include banking operations, cash management, securities management, and debt trust administration, corporate financial planning and analysis, and internal cashier services.

Account 6722 - *External Relations* includes costs incurred in maintaining relations with government, regulators, other companies and the general public. This includes reviewing existing or pending legislation; preparing and presenting information for regulatory purposes including tariff and service cost filings, obtaining radio licenses and construction permits; performing public relations and non-product related corporate image advertising activities; administering relations, including negotiating contracts with telecommunications companies and other utilities, businesses and industries; and administering investor relations.

Account 6723 - *Human Resources* includes costs incurred in performing personnel administration activities. This includes: equal employment and affirmative action programs; employee data for forecasting, planning and reporting; general employment services; occupational medical services; labor relations activities; personnel development and staffing services; personnel policy development; employee communications; benefit administration; and employee activity and safety programs.

Account 6724 - *Information Management* includes costs incurred in planning, developing, testing, implementing and maintaining data bases and application systems for general purpose computers.

Account 6725 - *Legal* includes costs incurred in providing legal services. This includes conducting and coordinating litigation, providing guidance on regulatory and labor matters, preparing, reviewing and filing patents and contracts and interpreting legislation.

Account 6726 - *Procurement* includes costs incurred in procuring material and supplies, including office supplies. This includes analyzing and evaluating suppliers' products, selecting appropriate supplies, negotiating supply contracts, placing purchase orders, expediting and controlling orders placed for material.

Account 6727 - *Research and Development* includes costs incurred in making planned search or critical investigation aimed at discovery of new knowledge. It also includes translating research findings into a plan or design for a new product or process or for a significant improvement to an existing product, process, whether intended for sale or not.

Account 6728 - *Other General and Administrative* includes activities not directly charged to the user, and not provided for in other accounts. This includes costs incurred in providing reference libraries, food services, archives, general security investigation services, operating official private branch exchanges in the conduct of business, and telecommunications and mail services.

5301 ***Uncollectible Revenue - Telecommunications***

Account 5301 - *Uncollectible Revenue - Telecommunications* is charged with amounts concurrently credited to Account 1181, Accounts Receivable Allowances - Telecommunications to provide for uncollectible amounts.

Information Source: 47 C.F.R. Part 32 (1995).

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APPENDIX E

Inappropriate General Support Facilities Expenses in Interstate Carrier Access

This analysis quantifies inappropriate General Support Facilities expenses, including General Purpose Computer expenses, which are embedded in interstate access rates. These expenses are inappropriately recovered through interstate access charges because they support a nonregulated interstate service provided by the LECs -- billing and collection service.

This is not a new issue. As recently as February 23, 1996, the FCC Common Carrier Bureau prepared a white paper "Preparation for Addressing Universal Service Issues: A Review of Current Interstate Support Mechanisms." In that report, the Common Carrier Bureau stated:

> "The General Support Facilities ("GSF") investment category in Part 36 includes some computer investment that is used by the LECs to provide nonregulated interstate billing and collection services. The costs of providing interstate billing and collection service are not removed from regulated service costs by Part 64 because many states still regulate intrastate billing and collection services. The separations process allocates these costs to the various separations categories based on the separations of the big three expenses (plant specific expenses, plant non-specific expenses, and customer operations expenses). Part 69 allocates GSF investment among billing and collection, interexchange, and the access elements based on the amount of COE, cable and wire facilities ("CWF"), and information origination/termination equipment ("IO/T") investment allocated to each Part 69 category. Since no COE, CWF, or IO/T investment is allocated to billing and collection, however, no GSF investment gets allocated to billing and collection. Likewise, since expenses related to GSF investment are allocated in the same manner as GSF investment, none of the related computer expenses get allocated to billing and collection. As a result, the computer investment and expenses are allocated to the other Part 69 categories."
>
> "Several parties have proposed to amend Part 69, Part 32, Part 64, or Part 36 of the Commission's rules to ensure that GSF investment and related expenses are allocated to the billing and collection category. Making this amendment to the rules would shift some costs from interstate access services to the nonregulated billing and collection category, thereby reducing the cost of access."

The Commission's interest regarding inappropriate General Support Facility and General Purpose Computer-related expenses included in interstate access rates was also addressed in CC Docket No. 87-113, "In the Matter of Amendment of Part 69 of the Commission's Rules and Regulations, Access Charges, To Conform It With Part 36, Jurisdictional Separations Procedures." The Order on Reconsideration, released December 12, 1988 (paras. 34-37), reviews AT&T's concerns about the inclusion in interstate access of costs associated with the LEC provision of nonregulated billing and collection services.

AT&T's current study identifies $124 million of expenses recovered in interstate access that support the nonregulated Billing and Collection category. Of the $124 million, $60.1 million is included in interstate switched carrier access, and $20.5 million is in interstate special carrier access, with the remainder recovered by the subscriber line charge. The study identifies those portions of the following expense components that are inappropriately included in interstate access:

Account	Description
6120	General Support Expenses
6121	Land and Building Expense
6122	Furniture and Artworks Expense
6123	Office Equipment Expense
6124	General Purpose Computers Expense
6560	Depreciation & Amortization Expense of GSF
	Return on GSF Net Investment

Utilizing ARMIS 43-04 (Access Report) and ARMIS 43-03 (Joint Cost Report) data, the study developed a Billing & Collection/Total Interstate Access "Big Three Expense" ratio, and applied that ratio to the total interstate access amounts for the above expense components to determine an appropriate allocation of expenses to the nonregulated Billing and Collection category. The results are shown in the following chart.

Inappropriate General Support Facilities Expenses In Interstate Access

($ in Millions)

General Support Expense	61.6
GSF Depreciation + Amortization Expense	33.3
Return on GSF Net Investment	29.0
Total	$123.9

F

APPENDIX F

EQUAL ACCESS COST RECOVERY

The FCC, in its Equal Access Accounting Order, required LECs to identify separately the incremental capital investments and the incremental non-capital-related expenses associated with equal access implementation.[1] The investments associated with equal access were treated pursuant to ordinary accounting and ratemaking principles. To avoid the rate fluctuations associated with the concentrated, unusually high level of one-time non-capital-related conversion expenses, the Commission required the LECs to defer these expenses to Part 32, Account 1439. The FCC subsequently required the LECs to charge the deferred expenses to Account 675 and to complete the amortization by December 31, 1993.[2]

As a result, at the inception of price caps, the LECs' local switching rates contained a mixture of both ordinary on-going capital-related expenses (depreciation) and the revenue requirement associated with deferral of equal access expenses (amortization of equal access cost recovery or "EACR"). In their 1990 Annual Interstate Access Filings, the RBOCs' developed their EACR rates by calculating a combined revenue requirement for both depreciation and equal access amortization costs. This revenue requirement became part of the LECs' costs that were used to set the initial PCIs for their Traffic Sensitive baskets. AT&T calculated the amount of exogenous cost adjustment that is required for the removal of equal access conversion costs from the RBOCs' Traffic Sensitive PCIs as follows:

(A) AT&T separately calculated the revenue requirement for the equal access amortization-only portion of costs reported in the RBOCs' 1990 Annual Filings, COS-5, page 2 of 2 [See Attachment EACR-1].

(B) Equal access amortization-only revenue requirement for each RBOC was further adjusted by the same percentage that its Traffic Sensitive basket PCI has been adjusted since the inception of price caps [See Attachment EACR-2].

---

1 Memorandum Opinion and Order, FCC 85-628, released December 9, 1985 (Equal Access Accounting Order).

2 The FCC subsequently affirmed the treatment of capital and one-time expenses in Memorandum Opinion and Order, FCC 86-470, released November 5, 1986.

CALCULATION OF RBOC'S EACR EXOGENOUS COST ADJUSMENTS

[Dollars in 000]

		EACR COSTS IN INITIAL TS BASKET PCI	INITIAL TS BASKET PCI	1996 AF TS BASKET PCI	EACR EXOGENOUS COST ADJUSTMENT
		A (Note 1)	B	C	D=A*(C/B)
1	AMERITECH	$12,040	100.0000	80.3722	$9,677
2	BELL ATLANTIC	$23,137	100.0000	79.6561	$18,430
3	BELLSOUTH	$11,617	100.0000	77.1905	$8,967
4	NYNEX	$37,707	100.0000	82.5111	$31,112
5	NEVADA BELL	$973	100.0000	79.8586	$777
6	PACIFIC BELL	$29,414	100.0000	92.0293	$27,069
7	SW BELL	$12,534	100.0000	78.7709	$9,873
8	US WEST	$6,184	100.0000	81.1075	$5,016
9	**TOTAL**	**$133,606**			**$110,922**

Note 1: From Attachment EACR-1, Line B300

Calculation of RBOC's EACR Amortization Revenue Requirement
Excluding Depreciation Expenses

[Dollars in 000]

Part A data from RBOC's 1990 Annual Filing: COS-5, Page2		Ameritech	Bell Atlantic	BellSouth	New Eng. Tel	New York Tel	Nevada Bell	Pac Bell	SW Bell	U S WEST	TOTAL RBOC
A Revenues: Amortization & Depreciation											
300 Net Rev. Req.		**29,078**	**34,879**	**16,532**	**11,792**	**42,111**	**1,116**	**37,678**	**23,841**	**16,380**	**213,408**
Expenses and Taxes											
310 Depreciation Expenses		6,484	5,795	3,862	2,507	12,130	115	5,693	5,711	4,140	
320 Exp. Less Dep.-Cummulative Amort. from prior periods		7,196	13,059	7,620	5,414	16,100	585	17,968	6,313	3,847	
330 Exp. Less Dep.-Amort. from current period		504	1,403	177	427	875	102	1,043	1,445	37	
340 Taxes Less FIT		1,957	691	529	246	157	0	1,441	235	1,156	
350 FIT		4,280	4,737	1,189	1,345	2,310	91	3,921	3,446	1,882	
360 Investment Tax Credit		119	0	286	52	0	5	0	0	530	
370 Fixed Charges		0	0	0	0	6,065	31	0	0	0	
380 Net Return		8,657	9,195	3,155	1,853	10,539	223	7,612	6,691	5,318	
Rate Base											
400 Total Plant in Service		89,848	72,720	47,044	17,056	99,807	1,749	49,010	80,568	56,182	
410 Unamort Equal Access amount Cumulative from Prior Periods		19,870	45,026	20,016	16,246	48,278	1,505	49,982	24,982	11,734	
420 Unamort Equal Access amount For Current Period		1,152	430	594	1,314	2,263	188	879	694	374	
430 Other Rate base Adjustments		910	0	229	0	0	0	1,133	0	0	
440 Depreciation Reserve		25,719	21,796	19,671	6,867	33,886	676	14,730	32,074	19,612	
450 Accum. Deferred IncomeTax		13,917	19,757	21,919	12,305	28,636	911	22,842	18,410	5,237	
460 Rate Base		72,144	76,623	26,293	15,444	87,826	1855	63432	55,760	43,441	
470 Net Rate of Return		12.00%	12.00%	12.00%	12.00%	12.00%	12.00%	12.00%	12.00%	12.00%	
B Revenues: Amortization only											
300 Net Rev. Req.	Ln B[310+330+340+350+380]	**12,040**	**23,137**	**11,617**	**9,757**	**27,950**	**973**	**29,414**	**12,534**	**6,184**	**133,605**
Expenses and Taxes											
310 Exp. Less Dep.-Cummulative	Ln A320	7,196	13,059	7,620	5,414	16,100	585	17,968	6,313	3,847	
320 Amort. from prior periods											
330 Exp. Less Dep.-Amort. from current period	Ln A330	504	1,403	177	427	875	102	1,043	1,445	37	
340 Taxes Less FIT	Ln A340*(B460/A460)	570	410	415	280	90	0	1,155	108	322	
350 FIT	Ln A350*(B460/A460)	1,247	2,810	932	1,529	1,329	83	3,144	1,587	525	
360 Investment Tax Credit	Ln A360*(B460/A460)	35	0	224	59	0	5	0	0	148	
370 Fixed Charges	Ln A370*(B460/A460)	0	0	0	0	3,490	0	0	0	0	
380 Net Return	Ln B460*0.12	2,523	5,455	2,473	2,107	6,065	203	6,103	3,081	1,453	
460 Rate Base	Ln A410+A420	21,022	45,456	20,610	17,560	50,541	1,693	50,861	25,676	12,108	

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Before the
FEDERAL COMMUNICATIONS COMMISSION
Washington, D.C. 20554

In the Matter of	
Price Cap Performance Review for Local Exchange Carriers	CC Docket No. 94-1
Treatment of Operator Services Under Price Cap Regulation	CC Docket No. 93-124
Revisions to Price Cap Rules for AT&T	CC Docket No. 93-197

COMMENTS OF AT&T CORP.

Mark C. Rosenblum
Peter H. Jacoby
Richard H. Rubin
Judy Sello

Room 3244J1
295 North Maple Avenue
Basking Ridge, New Jersey 07920
(908) 221-8984

Its Attorneys

December 11, 1995

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SUMMARY

The SFNPRM finds (¶ 5) that "LECs retain considerable market power" and that LECs' access services represent "bottlenecks" for their actual and potential competitors. Id., ¶ 19. Notwithstanding these facts, the SFNPRM seeks comments on a number of proposals that would significantly alter the price cap regulation of the LECs. The SFNPRM also seeks comments on the measures and procedures the Commission should adopt in connection with possible future streamlining of the LECs' services.

Part I shows that the LECs' bottleneck monopolies are entrenched and that there are systemic impediments to full and fair competition in the interstate access and local exchange markets. Thus, there is no practical likelihood that the LECs' dominance in these markets will decline meaningfully for many years. Given the LECs' monopoly position, the Commission should not expend current resources to relax price cap rules significantly. Neither does it need to address at this time the complex market definition questions that must be resolved before it can reduce regulation of the LECs. Rather, the Commission should focus its energies on assuring that the preconditions for competition are effectively implemented, including the establishment of access rates that are based on economic cost and assurances that effective resale mechanisms are in place.

All reduced regulation of the LECs' services should follow a LEC's demonstration -- on a market-by-market basis -- that there is substantial measurable competition. The SFNPRM (¶ 106) is thus correct that LEC services should not be streamlined until the LEC demonstrates there is actual competition in the relevant markets. Part II shows that the critical analytical tools necessary to determine whether actual and effective competition exists in the relevant markets require considerably more rigor than is assumed in the SFNPRM. In particular, Part II.A shows that the SFNPRM ignores that the price cap service categories the Commission proposes to use to define relevant markets are service components, rather than stand-alone services, and thus are not appropriate to define relevant markets. Part II.B demonstrates that the Commission's analysis of geographic markets fails to recognize several economic principles that have a significant impact upon the future success of its regulation. Part II.C explains that the existence of preconditions to competition is not a guarantee that actual competition will develop or actually exist in any market. Thus, it is fundamentally wrong to presume that a "checklist" of preconditions is sufficient proof of effective competition.

Finally, although any regulatory system should be reviewed periodically to assure that its rules achieve its desired ends, the Commission only recently reviewed the operation of its LEC price cap regime. There is no new reason for another general review of those rules at this time. Moreover, Part III demonstrates that the Commission should not adopt most of its proposed LEC price cap modifications, because they would cause competitive harm and thus would not achieve the Commission's goals in this proceeding or serve the public interest. In all events, the Commission should assure that any modifications in price cap regulation reflect the fact that the LECs continue to operate in a monopoly environment.

Before the
FEDERAL COMMUNICATIONS COMMISSION
Washington, D.C. 20554

In the Matter of	)	
Price Cap Performance Review for Local Exchange Carriers	)	CC Docket No. 94-1
Treatment of Operator Services Under Price Cap Regulation	)	CC Docket No. 93-124
Revisions to Price Cap Rules for AT&T	)	CC Docket No. 93-197

COMMENTS OF AT&T CORP.

Pursuant to the Commission's Second Further Notice of Proposed Rulemaking ("SFNPRM") in CC Docket No. 94-1, FCC 95-393, released September 20, 1995, and Section 1.415 of the Commission's Rules, 47 C.F.R. § 1.415, AT&T Corp. ("AT&T") submits these comments on the Commission's specific proposals to modify the price cap rules for local exchange carriers ("LECs") and to establish a framework for additional "gradations of increasingly less stringent price regulation" for these monopoly carriers.[1]

1 SFNPRM, ¶ 2. The Common Carrier Bureau extended the time for filing comments until December 11, 1995. See Order on Motion for Extension of Time, DA 95-2340, released November 13, 1995.

ARGUMENT

I. GIVEN THE LECS' CONTINUING BOTTLENECK MONOPOLIES, THE COMMISSION SHOULD FOCUS ON ENSURING THE ESTABLISHMENT OF PRECONDITIONS NECESSARY FOR COMPETITION IN THE ACCESS AND LOCAL EXCHANGE MARKETS.

Only a few months ago, after an extensive review, the Commission correctly found that the LECs "retain substantial market power in providing local exchange and access services"[2] and "continue to control bottleneck facilities."[3] There have been no significant competitive changes that would justify, much less necessitate, the price cap reforms the Commission now proposes. Indeed, the comments in Phase I of this proceeding left no serious doubt that the LECs' monopoly control over these services will continue well into the future.[4]

The LECs' only actual competitors are competitive access providers ("CAPs"), whose offerings are predominantly restricted to dedicated, high capacity services to customers in a limited number of buildings in the nation's largest

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[2] Price Cap Performance Review for Local Exchange Carriers, CC Docket No. 94-1, First Report and Order, 77 R.R.2d 783, ¶ 92 (1995) ("First Report") (emphasis added).

[3] Id., ¶ 368 (emphasis added).

[4] See the Phase I Comments in CC Docket No. 94-1, submitted May 9, 1994 by AT&T, pp. 6-21; Ad Hoc, pp. 32-34; ALTs, pp. 12-20; MCI, p. 64; MFS, p. 37; Sprint, pp. 24-27; Teleport, pp. 16-17; Time Warner, pp. 6-12; WilTel, pp. 34-35.

cities.[5] Collectively, CAPs generate a mere two percent of total access revenues, and they face inherent limitations that make it unlikely they can significantly expand. Moreover, most CAPs offer only transport and must rely on the LECs for the switching and distribution components of the services they sell to end user customers. Thus, at best, competition in the access and exchange markets is embryonic and scattered. Furthermore, the existing competition may be as much the artificial result of regulatory rules as of economically-based competition.[6] Accordingly, there is no evidence that the LECs' access monopolies could be broken by competing facilities-based landline carriers for many years.

Wireless technologies and cable telephony, which LECs have often cited as potential competitors, are also currently incapable of providing a viable alternative to the LECs' monopoly landline networks. The LECs themselves have admitted that cellular service is not a substitute for

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[5] The SFNPRM's request for comments (¶ 173) on whether AT&T's price caps should treat changes in CAP access charges as exogenous costs has been mooted by the recent reclassification of AT&T as a nondominant carrier. See Motion of AT&T Corp. to be Treated as a Nondominant Carrier, 10 FCC Rcd. 10980 (1995) ("AT&T Nondominance Order").

[6] See AT&T's Phase I Reply Comments, filed June 29, 1994, pp. 4-11.

landline service "as a matter of commercial reality."[7] Similarly, projections concerning the potential impacts of cable telephony[8] have proven optimistic, as even limited trials of such technology have become mired in technical and other difficulties.[9]

Finally, the Commission's expanded interconnection initiatives are limited to transport services and do not address the other components of access. Thus, these initiatives alone could not achieve effective competition in the local exchange market in the foreseeable future.

The strength of the LECs' monopoly power is confirmed by a study recently reported in The Enduring Local Bottleneck, which analyzed competition in the local exchange and concluded that "little if any competition has emerged

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7 See United States v. Western Electric Co., Civ. No. 82-0192 (D.D.C.), Reply of the Bell Companies in Support of Their Motion for Removal of Mobile and Other Wireless Services from the Scope of Section II of the Decree, p. 38 n.48 (filed with the Department of Justice August 3, 1992). See also id., AT&T's Opposition to RBOCs' Motion to "Exempt" Wireless Services From Section II of the Decree, pp. 16-33 (filed April 27, 1992).

8 See, e.g., Petition for a Declaratory Ruling and Related Waivers to Establish a New Regulatory Model for the Ameritech Region, DA 93-481, March 1, 1993, p. 9 and Att. 1A, p. III-4.

9 L. Cauley, "Calls Waiting: Rivals Are Hung Up On Baby Bells Control Over Local Markets," Wall Street Journal, October 24, 1995, p. 1.