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FEDERAL COMMUNICATIONS COMMISSION  
OFFICE OF SECRETARY

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

**RE: Ex Parte Notice  
CC Docket No. 96-262**

Dear Mr. Caton:

On January 29, 1997, a group of USTA staff and members met with representatives of the Common Carrier Bureau. The USTA group included the undersigned, David Cohen, John Hunter, and Gary McBee of the USTA staff as well as Dan Hubbard (SBC), Larry Sarjeant (U S WEST), Tony Alessi (Ameritech), Jay Bennett (Pacific Telesis), Don Evans (NYNEX), Bob Blau (BellSouth), Ed Lowry (Bell Atlantic), and Scott Randolph (GTE). The representatives from the Common Carrier Bureau were Regina M. Keeney, Richard Metzger, Kathy Levitz, Mary Beth Richards, Larry Atlas, and Rich Lerner.

Mr. Lowry led a discussion of USTA's position on access reform using the attached charts. This discussion was consistent with the comments USTA filed on that same day in this docket.

Because of the lateness of the meeting, this notice is being filed today. An original and one copy of this ex parte notice are being filed in the Office of the Secretary. Please include this notice in the public record of these proceedings.

Respectfully submitted,

Mary McDermott  
Vice President - Legal & Regulatory Affairs

cc: Regina Keeney      Kathy Levitz  
Richard Metzger      Mary Beth Ricahrds  
Larry Atlas            Rich Lerner

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**USTA ACCESS REFORM PLAN**

**JANUARY 29, 1997**

# Contrasting Views of Access "Cost"

**IXCs**

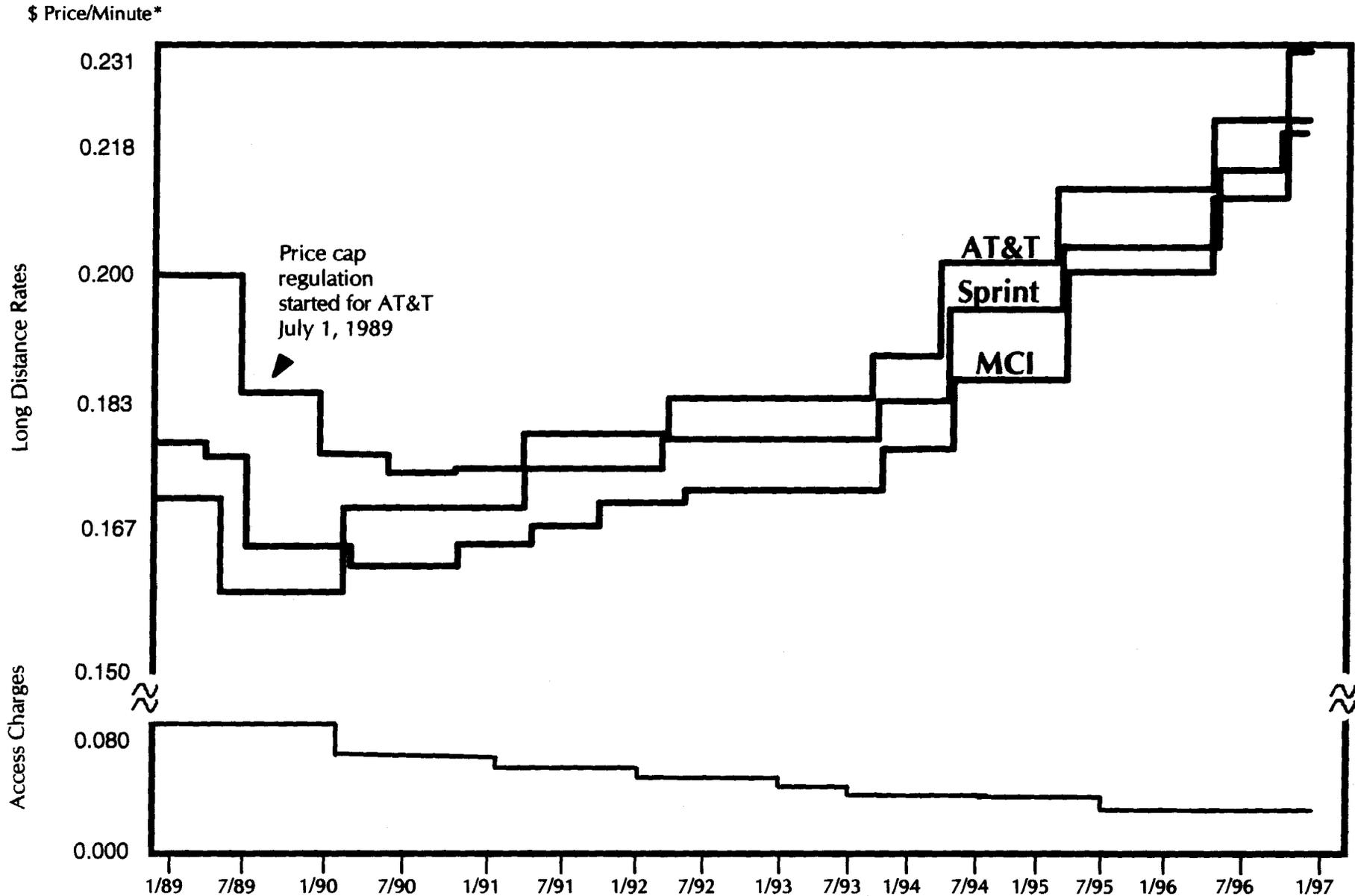
Universal Service
Excess Contribution
TELRIC

**LECs**

Universal Service
Separations
Depreciation
Actual Cost

# Why Bell Company Entry Into The Long Distance Market Will Benefit Consumers

## Trends in Long Distance Rates and Exchange Access Charges



\*Long distance rates based on the average price per minute for basic service.

Source: WEFA Group and FCC Tariff Filings

## **USTA Supports Market Based Approach to Access Reform**

1. Consistent with the Telecom Act
2. Price cap incentives have worked and access rates have decreased
3. Costs assigned to Interstate Jurisdiction
  - a. Valid costs incurred to do business
  - b. Public policy decisions to implicitly support intrastate jurisdiction by assigning costs to Interstate jurisdiction
  - c. Transitions to recover costs explicitly and consistent with competitive paradigm
4. Support rate structure changes to accomplish Item 3
5. Regulatory parity – application of revised access paradigm to CLECs where appropriate so as not to disadvantage ILECs (e.g. terminating access)
6. ESPs should pay their cost of service incurred.

## **Prescriptive Approach is Regressive**

1. **Inconsistent with the Telecom Act**
2. **Prescriptive approach is bad economics-- creates perverse economic incentives**
3. **Bad public policy – removes ILEC incentives to invest and innovate, causes waste of economic resources and does not provide proper signals to the customers.**
4. **Problems with pricing at TSLRIC**
5. **Movement back to rate of return regulation**
6. **ATT/MCI X-factor approaches are really rate of return based .**
  - Christensen Affidavit:  
Critique of the AT&T Performance Based Model
  - Affidavit of Dr. James H. Vander Weide
7. **Legal arguments regarding regulatory takings**
  - Affidavit of J. Gregory Sidak and Daniel F. Spulber

## **Market Based Approach**

**A. Telecom Act** – focus on opening competitive marketplace/and the accelerated rate of growth of competition

**B. USTA Plan**

1. Triggers for flexibility:

- |                |                                                                                                                                                                                                                          |
|----------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <b>Phase 1</b> | -State approved agreement for interconnection statewide<br>- Pricing flexibility (e.g. volume and term; contract pricing)<br>- Price cap basket simplification<br>- Elimination of rate structure codification (Part 69) |
| <b>Phase 2</b> | - Demonstrated use of unbundled elements by competitors or presence of facility based provider<br>- Out of price caps, smaller geographic areas                                                                          |

2. Immediate forbearance for interexchange service, special access, directory assistance

3. Price cap mechanics streamlined

4. Affidavit of Richard Schmalensee and William E. Taylor

## USTA MARKET-BASED APPROACH TO ACCESS REFORM

Services	Phase I (Reduced regulation and Increased pricing flexibility)		Phase II (Out of price caps)		Forbearance	
	Trigger	Regulatory Reform	Trigger	Regulatory Reform	Trigger	Regulatory Reform
Switched Access	Interconnection Agreement or Effective SGAT	Replace Part 69 for PC LECs with new Part XX, Pricing Flexibility, Vol. and Term, Contract Tariffs, Simplified Basket Structure	Interconnection Agreement or effective SGAT with use or facilities based provider	Streamlined regulations and removal from price caps	Satisfy Section 10(a) of the Act - just & reasonable rates - consumer protection - in public interest	Forbearance
Tandem Switching and Transport	Interconnection Agreement or Effective SGAT	Replace Part 69 for PC LECs with new Part XX, Pricing Flexibility, Vol. and Term, Contract Tariffs, Simplified Basket Structure	Interconnection Agreement or effective SGAT with use or facilities based provider	Streamlined regulations and removal from price caps	Satisfy Section 10(a) of the Act - just & reasonable rates - consumer protection - in public interest	Forbearance
Database	Interconnection Agreement or Effective SGAT	Replace Part 69 for PC LECs with new Part XX, Pricing Flexibility, Vol. and Term, Contract Tariffs, Simplified Basket Structure	Interconnection Agreement or effective SGAT with use or facilities based provider	Streamlined regulations and removal from price caps	Satisfy Section 10(a) of the Act - just & reasonable rates - consumer protection - in public interest	Forbearance
Special Access and Collocated Direct Trunked Transport	NA	NA	NA	NA	Satisfy Section 10(a) of the Act - just & reasonable rates - consumer protection - in public interest	Forbearance
Directory Assistance	NA	NA	NA	NA	Satisfy Section 10(a) of the Act - just & reasonable rates - consumer protection - in public interest	Forbearance
Interexchange Basket	NA	NA	NA	NA	Satisfy Section 10(a) of the Act - just & reasonable rates - consumer protection - in public interest	Forbearance

# Rate Structure

## A. Economically Efficient Rate Structure

## B. Common Line

1. Flat rate recovery per line from IXCs
2. Maintain current Subscriber Line Charges (SLC) caps for residence and single line business.
  - a. No increase on second residence line SLC
  - c. Eliminate multi line SLC cap
  - d. ISDN -- one SLC per facility
3. LECs must have the means to recover all loop costs assigned to Interstate (including that portion associated with unbundled loops) unless and until the separations process is reformed.

## C. Local Switching -- pricing flexibility

1. Allow line port at a flat rate per line
2. Allow trunk port -- non traffic sensitive common use versus dedicated -- trade off of economic signals versus cost of administration
3. Remaining switching is traffic sensitive --need flexibility
  - a. Allow call set up rate per call
  - b. Allow balance of charge on MOU basis
  - c. Economics of peak/off-peak -- should be optional

## D. Transport -- pricing flexibility

1. With modification, current structure is appropriate
2. Transport Interconnection Charge (TIC) analysis
  - a. Correct Part 69 TIC service allocations and create new rate elements
  - b. Correct Part 36 allocations and adjust via separations reform
  - c. Recovery of costs in the interim
  - d. Review after separations reform

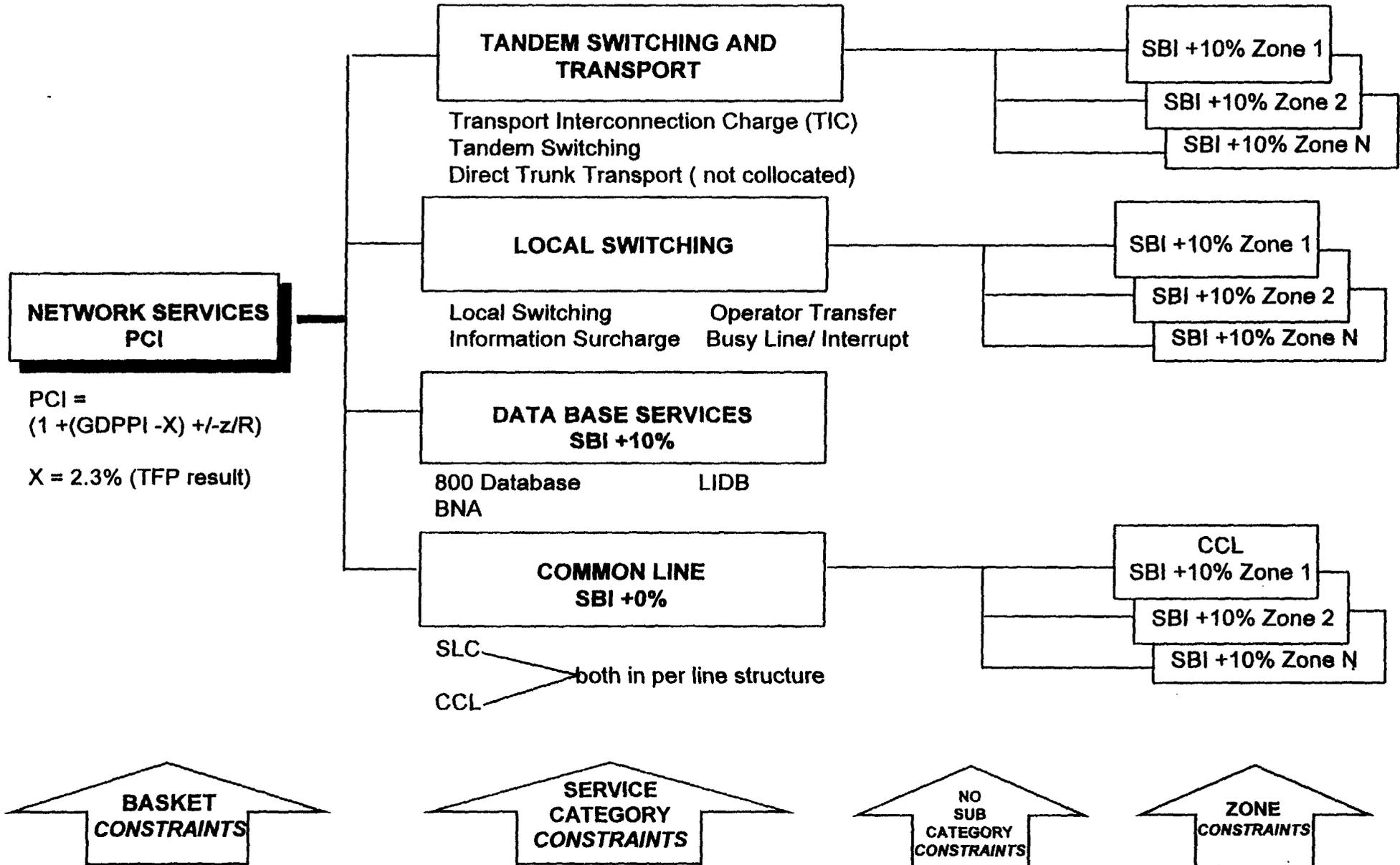
## E. Terminating Access

1. Not necessary - competition provides appropriate restraint
2. But, if regulated then apply to competitive LECs also

## F. Price Cap Basket Structure

1. Single Basket with 4 Service Categories and constraints
2. Facilitates movement of services out of Price Cap Regulation

# PROPOSED BASKET AND BAND STRUCTURE



## Capital Recovery

1. Under recovered in past
2. Transitional recovery options – explicit recovery
3. FCC should forbear from regulating future capital recovery
4. USTA calculates Reserve Depreciation Shortfall at \$4.5B, Interstate
5. Theoretical Reserve should have been set at 54% not the current 47% level. Shortfall of 7%
6. LEC comparison to other Telecommunication Competitors

<b>Table 3</b>				
<b>Comparison of Depreciation Rates</b>				
	PPE 12/31/95 (\$M) (1)	PPE 12/31/94 (\$M) (2)	Depreciation Expense <sup>a</sup> 1995 (\$M) (3)	Depreciation Rate 1995 $(3)/((1)+(2))/2$ (%) (4)
AT&T Communications <sup>b</sup>	\$24,530	\$23,122	\$2,673	11.2%
MCI <sup>c</sup>	14,243	12,218	1,308	9.9
MFS	1,316	787	100	9.5
TCI Communications Inc.	10,152	8,578	848	9.1
Average:				9.9
LECs				7.3

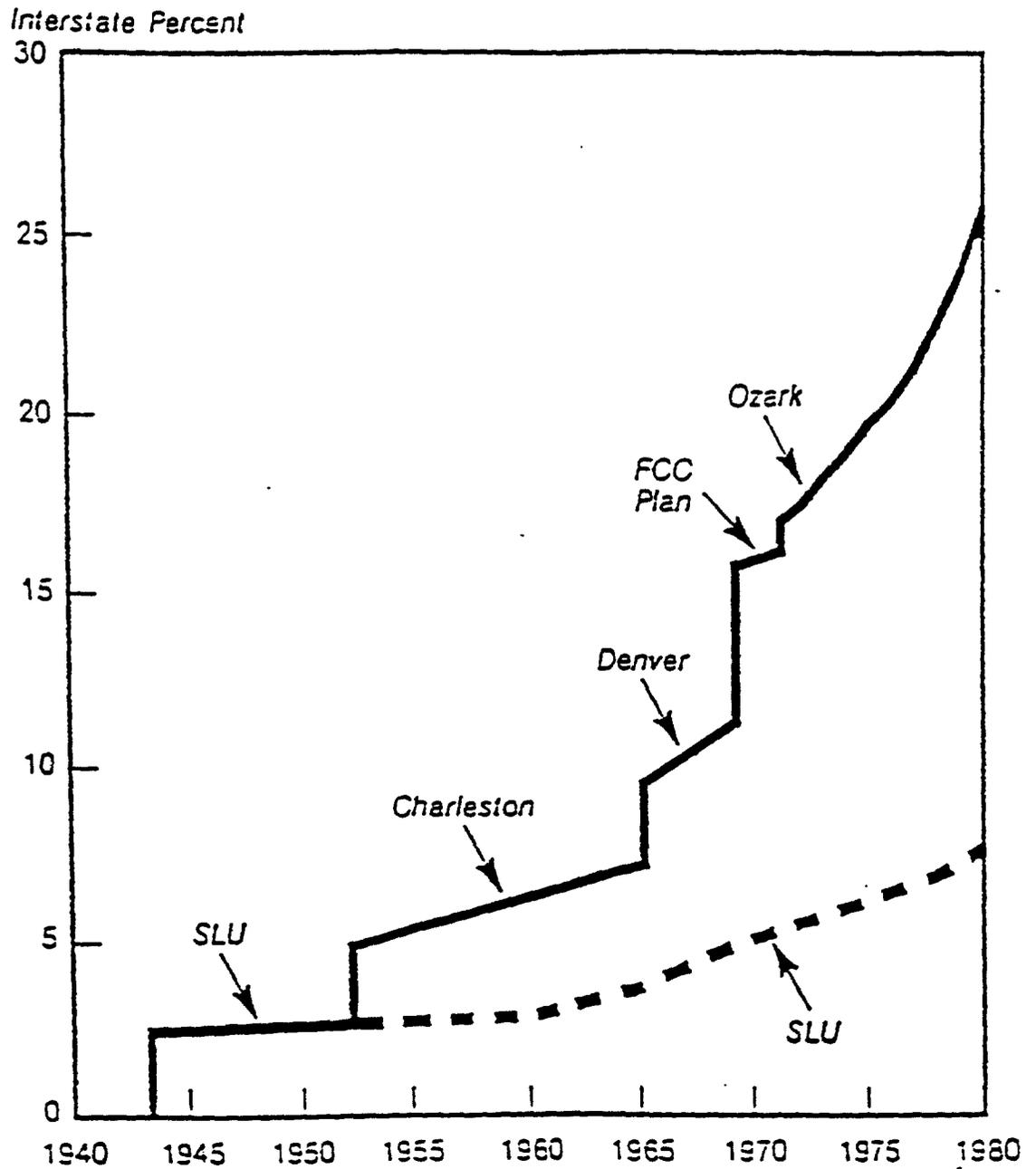
<sup>a</sup> Excludes amortization of intangible assets.  
<sup>b</sup> Reflects 12/94 and 12/93; 12/95 not reported in most recent FCC *Statistics of Communications Common Carriers*.  
<sup>c</sup> There was also a \$520 million asset write-down in 1995.

Source: AT&T: FCC *Statistics of Communications Common Carriers* (1994/ 1995 edition). MCI, MFS and TCI: Form 10-Ks, 12/31/95, submitted to the Securities and Exchange Commission.

7. Affidavit by Strategic Policy Research provided an economic study demonstrating industry analysis of shortfall is conservative when compared to the Hatfield/FCC Proxy model

## Separations

1. Past public policy decisions
2. Recovery implicit in access rates until separations reform
3. Affidavit of James M. Fischer, Albert P Halprin, Henry M. Rivera and Marvin R. Weatherly



## Transport Interconnection Charge (TIC)

1. TIC analysis
2. Separations related component -- continue recovery until addressed in a separations reform proceeding

### TOTAL INDUSTRY TIC ESTIMATE

COMPONENT	ESTIMATE
TOTAL TIC REVENUES	\$3,101,857,999
80% OF TANDEM REVENUE REQUIREMENT	400,977,155
REDEFINED TANDEM SWITCHED TRANSPORT	349,273,294
HOST/REMOTE CONFIGURATIONS	160,503,740
ANALOG END OFFICE TRUNK SWITCH PORTS	138,426,630
CCS/STP COSTS ALLOCATED TO TANDEM SWITCHING	58,746,472
CENTRAL OFFICE TERMINATION	630,658,408
COE MAINTENANCE MISALLOCATIONS	101,795,512
INTEREXCHANGE CABLE AND WIRE INVESTMENT	37,412,468
TRANSPORT AVERAGING, COST ALLOCATIONS AND COST RECOVERY	1,156,152,244