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EX PARTE OR LATE FILED

February 28, 1997

EX PARTE

Mr. William F. Caton  
Acting Secretary  
Federal Communications Commission  
1919 M Street, N.W.  
Washington, D.C. 20554

RECEIVED  
FEB 28 1997  
Federal Communications Commission  
Office of Secretary

Re: *In the Matters of Access Charge Reform, CC Docket No. 96-262; Price  
Cap Performance Review for Local Exchange Carriers, CC Docket No.  
94-1/ and Usage of the Public Switched Network by Information Service  
and Internet Access Providers, CC Docket No. 96-263*

Dear Mr. Caton:

In accordance with the Commission's rules governing *ex parte* presentations, please be advised that today David Hostetter, Rich Standish, and the undersigned, representing Southwestern Bell Telephone Company ("SWBT"), met with Dr. Joseph Farrell of the Office of Plans and Policy. The purpose of the meeting was to discuss SWBT's stated positions and its access charge reform proposal, which are set forth in detail in its Comments in the above-referenced dockets.

Written materials, which were used during our meeting, are attached to this letter for inclusion into the official record in these proceedings. Should you have any questions concerning the foregoing, do not hesitate to contact me.

Very truly yours,

Attachments

cc: Dr. Farrell

**SWBT Proposed Interstate Access Reform Plan**  
SUMMARY

Description	(Revenues = \$ Millions)								
	SLC	CCL	Local Switching	Switched Transport	TIC	Total Per MOU	Special Access	New Elements	Public Policy
A. Current Revenue	705	289	297	71	248	905	457	N/A	N/A
B. Current Rate	\$3.50 - \$6.00	\$ 0.00746	\$ 0.00770	\$ 0.00185	\$ 0.00641	\$ 0.02342	By Facility	N/A	N/A
C. Modifications									
1. LTS, Nonreg Pay Telephone (Note 1)	----	(81)	----	----	----	(81)	----	----	----
2. Part 36/69 Cost Dislocations									
- Modification of COE Maint.	----	(19)	16	----	(10)	(13)	(22)	----	33
- Modification of Term. Counts	----	----	----	----	(21)	(21)	21	----	----
- Modification of Cost/Mile	----	----	----	----	(5)	(5)	4	----	1
- Marketing Expense (Note 2)	----	(51)	(9)	----	(17)	(77)	(23)	----	100
3. SLC Changes	138	(138)	----	----	----	(138)	----	----	----
4. Local Switching NTS Costs (Port \$.35 per line)	----	----	(59)	----	----	(59)	----	59	----
5. Increase Transport Facility Rates									
- Host/Remote	----	----	----	14	(14)	----	----	----	----
- Redefined Tandem Transport	----	----	----	8	(8)	----	----	----	----
6. Establish New Access Rate Elements									
- End Office Trunk Port Element	----	----	----	----	(17)	(17)	----	17	----
- SS7 Rate Elements	----	----	----	----	(7)	(7)	----	7	----
7. Assign Remaining TIC to Public Policy									
- Low Vol/Rural Facility Support	----	----	----	----	(118)	(118)	----	----	118
- Tandem Switching Support	----	----	----	----	(30)	(30)	----	----	30
D. Revised Revenue	843	0	245	93	0	338	437	83	282
E. Proposed Rates	\$ 4.82	N/A	\$ 0.00638	\$ 0.00242	N/A	\$ 0.00880	By Facility	(Note 3)	(Note 4)

(1) CCL is reduced by: \$42M for LTS, and \$39M for Payphone

(2) Marketing shift assumes the removal of access revenues from interstate billed revenues for jurisdictional allocation and retention of recovery in a public policy rate element pending Separations reform.

(3) The average port charge will be approximately \$0.35 per line. Separate charges would be established for SS7 and trunk ports.

(4) Three separate public policy elements will be established: (1) Common line, (2) Separations, and (3) Transport. The Common Line Public Policy element

# Positions on Access Reform

Southwestern Bell Telephone Company

February 28, 1997

**SWBT**

# Steps to Successful Access Reform

- Establish Efficient Access Prices
- Establish Streamlined Structure and Market-based Pricing Flexibilities

**SWBT**

# Establish Efficient Access Prices

- Eliminate CCL charges by:
  - Removing LTS and pay telephone costs
  - Applying USF receipts
  - Increasing single line SLC to \$4.80 over a 2-year period (\$1.30 increase)
  - Decreasing multiline SLC to parity (\$1.20 decrease)

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## Establish Efficient Access Prices (cont.)

- Reallocate TIC to reflect cost causation
- Reduce local switching by creating an end-user port charge (\$0.35 per line/month)
- Recover marketing expense with a public policy element pending separations reform
- Recover depreciation reserve deficiency and correct future depreciation rates

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# Establish Streamlined Structure and Market-Based Pricing Flexibilities

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- Only public policy elements should be specified in the Commission's rules
- Modify existing tariff structure to accommodate competitive marketplace
  - Common line
  - Switching
  - Transport
  - Public policy elements

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# Establish Streamlined Structure and Market-Based Pricing Flexibilities (cont.)

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- Identify areas where competition has begun to develop (**Open Market Category**)
  - **Market Triggers:** Availability of interconnection, unbundled network elements, service resale and collocation
  - **Market Area:** State

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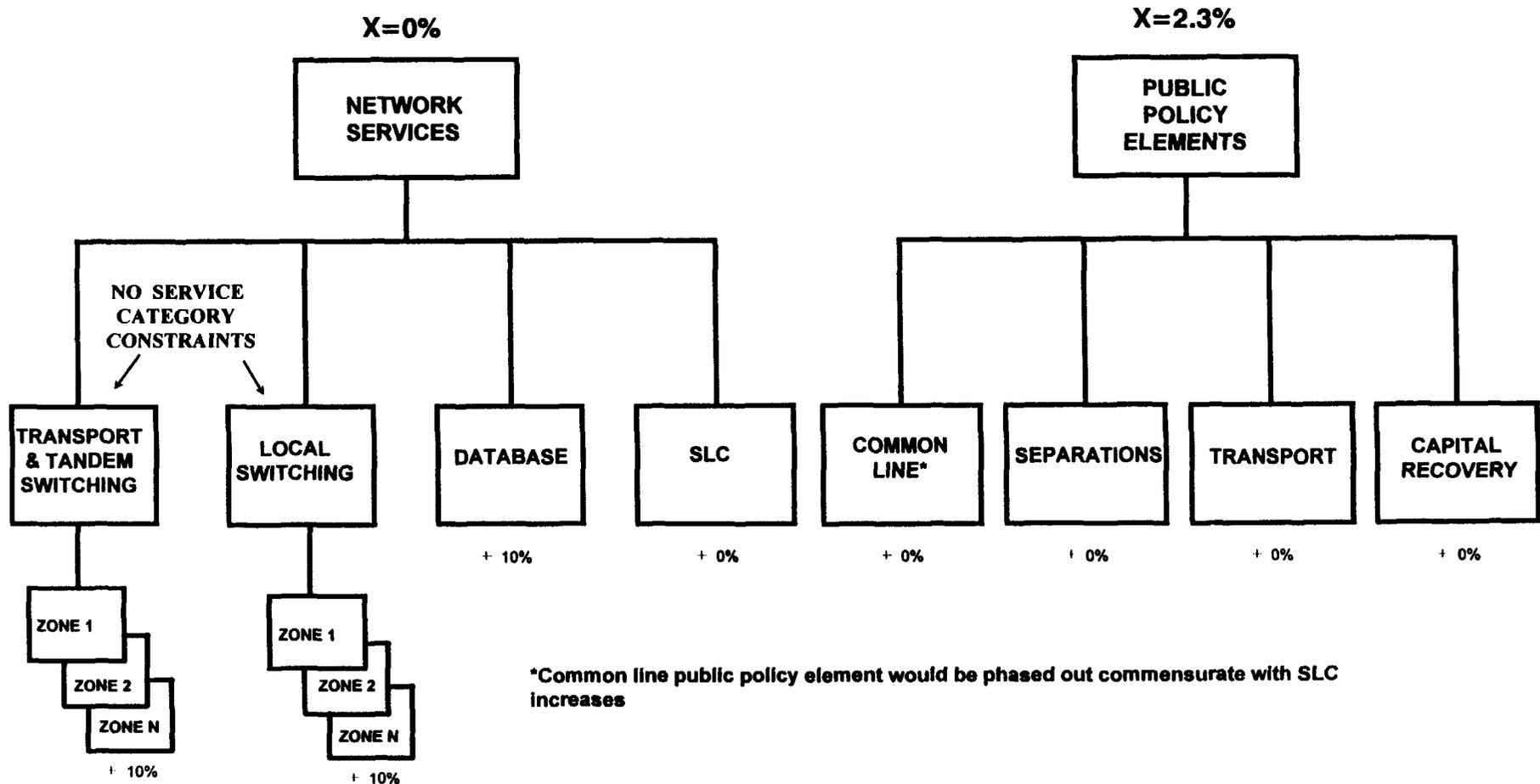
# Establish Streamlined Structure and Market-Based Pricing Flexibilities (cont.)

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- Open market category flexibilities:
  - Revised price cap basket structure
  - Pricing flexibilities such as volume and term pricing and contract based pricing
  - New services outside of price caps

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# Establish Streamlined Structure and Market-Based Pricing Flexibilities (cont.)



**SWBT**

# Establish Streamlined Structure and Market-Based Pricing Flexibilities (cont.)

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- Identify where competition is sufficient to provide pricing discipline (**Effective Competition Category**)
  - **Market Trigger:** Exchange of local minutes for reciprocal compensation
  - **Market Area:** Geographic area considered local for reciprocal compensation

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## Establish Streamlined Structure and Market-Based Pricing Flexibilities (cont.)

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- Effective competition category flexibilities include:
  - All "Open Market Category" flexibilities
  - Access services removed from price caps
  - One-day notice period on tariff filings
  - No cost support requirements

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# Establish Streamlined Structure and Market-Based Pricing Flexibilities (cont.)

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- Deregulate services that have sufficient competition today
  - Special Access
  - Dedicated transport to end offices and tandems
  - Directory assistance and operator services

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# Access Charges Should be Applied to Unbundled Network Elements

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- UNE prices do not recover actual costs

	Texas	
	Business	Residence
<b>Retail Revenue</b>	\$55.10	\$38.16
<b>UNE Revenue</b>	\$26.93	\$25.13
<b>Total Actual Cost</b>	\$46.96	\$46.95
<b>Intrastate Actual Cost</b>	\$35.21	\$35.21

- Full SLCs should be assessed to all purchasers of unbundled loops
- Transport public policy element should be assessed to unbundled transport

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# Hypothetical Network Models do not Produce the Results of Competitive Markets

- AT&T and MCI believe that access rates can be cut by over \$10B based on hypothetical models of networks that do not exist and never will. Hypothetical models can be used to arrive at any price but by only luck will they arrive at a proper price.
- AT&T's and MCI's hypothetical model based prices would only allow recovery of 38% of the RBOCs total actual cost of providing service.
- ILEC actual costs are subject to approval by both state and federal regulators and cannot be merely disallowed by a "computer slight of hand."

**SWBT**

# ESPs Should be Subject to Access Charges

- ESPs use the network like carriers to provide their services and access charges should apply for that use
- Modified access charge structure should apply to information service providers
  - Local exchange service arrangements provided over the circuit switched network should be converted to switched access services
  - Service arrangements using advanced technology should be established outside of price caps
  - Public policy elements should not apply

**SWBT**