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FEDERAL COMMUNICATIONS COMMISSION
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Before the
FEDERAL COMMUNICATIONS COMMISSION
Washington, DC 20554

In the Matter of Implementation of the Telecommunications Act of 1996	)))	CC. Docket No. 96-150
Accounting Safeguards under the Telecommunications Act of 1996	)))	

REPLY OF AMERITECH IN SUPPORT OF PETITION FOR RECONSIDERATION OR CLARIFICATION

In response to the Commission's recent Report and Order in the above captioned docket,[1] Ameritech submitted a petition for reconsideration or clarification with respect to the Commission's affiliate transaction rule.

In the Order, the rule was modified to provide that (a) services provided by a carrier to affiliates which are not subject to the tariff rate or prevailing price valuation standard be provided at the higher of estimated fair market value or fully distributed cost, and (b) services received by a carrier from those affiliates be provided at the lower of the estimated fair market value or fully distributed cost. The Commission did allow an exception when a carrier purchases services from an affiliate that "exists solely to provide service to members of the carriers corporate

[1] *In the Matter of Implementation of the Telecommunications Act of 1996: Accounting Safeguards under the Telecommunications Act of 1996,* CC Docket No. 96-150, Report and Order, FCC 96-490 (released December 24, 1996) ("Order").

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family."[2] In that case, the services are to be valued at fully distributed cost regardless of the estimated fair market value.[3]

Ameritech's petition asks that the Commission clarify that the fully distributed cost standard also be used when the carrier provides services to such an affiliate. Otherwise, when a carrier provides a service to the affiliate at a higher fair market value, that affiliate would simply bill that higher cost back to the carrier when providing services to the carrier.

Ameritech's petition was opposed specifically by AT&T and TRA. AT&T argues:

> By contrast, allowing carriers to avoid the higher cost or fair market value test when selling services to an affiliate would allow the affiliate to obtain services at less than fair market value, thereby skewing competition for the services (including long distance and information services provided by the affiliate) and forcing the ILECs' regulated ratepayers to improperly bear such costs.[4] (Emphasis original.)

AT&T's concern is misplaced because obviously the carrier's affiliate does not provide services in the competitive marketplace; therefore, competition would not be "skewed." Rather, Ameritech's petition concerns solely the provision of services by the carrier to an affiliate that exists only to provide services to members of the carriers corporate family. Moreover, it is not clear what "costs"

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[2] *Id.* At ¶148. (Emphasis original.)

[3] *Id.*

[4] AT&T at 5.

the ratepayers would "improperly" bear under Ameritech's proposal since the carrier would charge fully distributed cost for the service anyway.

TRA argues that granting Ameritech's petition[5] "would have adverse ramifications for both ratepayers and unaffiliated service providers." This position, however, ignores the fact that Ameritech is requesting this exception, again, only for those instances in which a carrier provides service to an affiliate that exists solely to provide services to members of the corporate family. The fact that the transaction would be valued at fully distributed cost means that, by definition, no transaction will be subsidized. Moreover, Ameritech's petition shows how ratepayers could be disadvantaged if the service is billed to the affiliate at a level above fully distributed cost and then is billed back to the carrier at the inflated level. Finally, the only unaffiliated service provider that would be disadvantaged is a one that could have supplied the service to the carrier's service affiliate at a price lower than the market price but higher than the carrier's fully distributed cost. Under those circumstances, the result would be to reward a provider that is less efficient than the carrier itself.

[5] And similar requests of Cincinnati Bell, SNET, and GTE..

In light of the foregoing, Ameritech respectfully requests that the Commission clarify that the fully distributed cost standard can be used when a carrier provides services to an affiliate that exists solely to provide services to members of the carrier's corporate family.

Respectfully submitted,

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Dated: April 16, 1997

CERTIFICATE OF SERVICE

I, Todd H. Bond, do hereby certify that a copy of the foregoing Reply of Ameritech in Support of Petition for Reconsideration or Clarification has been served on the parties on the attached service list, via first class mail, postage prepaid, on this 16th day of April, 1997.

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