(2) Price cap local exchange carriers shall recover the projected annual revenues for the Local Switching element that are not recovered in subparagraph (1) through charges that are expressed in dollars and cents per access minute of use and assessed upon all interexchange carriers that use local exchange switching facilities for the provision of interstate or foreign services. The maximum charge shall be computed by dividing the projected remainder of the annual revenues for the Local Switching element by the historical annual access minutes of use for all interstate or foreign services that use local exchange switching facilities.

(g) On or after July 1, 1998, a price cap local exchange carrier may recover signalling costs associated with call setup through a call setup charge imposed upon all interstate interexchange carriers that use that local exchange carrier's facilities to originate or terminate interstate interexchange or foreign services. This charge must be expressed as dollars and cents per call attempt and may be assessed on originating calls handed off to the interexchange carrier's point of presence and on terminating calls received from an interexchange carrier's point of presence, whether or not that call is completed at the called location. Price cap local exchange carriers may not recover through this charge any costs recovered through other rate elements.

16. Section 69.107 is deleted.

17. Section 69.111 is amended by deleting paragraphs (b) and (f), revising paragraphs (a), (c), (d), (e), and (g), and adding paragraph (l) to read as follows:

§ 69.111 Tandem-Switched Transport and Tandem Charge.

(a)(1) Through June 30, 1998, except as provided in paragraph (l), below, tandem-switched transport shall consist of two rate elements, a transmission charge and a tandem switching charge.

(2) Beginning July 1, 1998, except as provided in paragraph (l), below, tandem-switched transport shall consist of three rate elements as follows:

(i) A per-minute charge for transport of traffic over common transport facilities between the incumbent local exchange carrier's end office and the tandem switching office. This charge shall be expressed in dollars and cents per access minute of use and shall be assessed upon all purchasers of common transport facilities between the local exchange carrier's end office and the tandem switching office.

(ii) A per-minute tandem switching charge. This tandem switching charge shall be set in accordance with paragraph (g), excluding multiplexer and dedicated port costs recovered in accordance with paragraph (l), and shall be assessed upon all interexchange carriers and other persons that use incumbent local exchange carrier tandem switching facilities.

(iii) A flat-rated charge for transport of traffic over dedicated transport facilities between the serving wire center and the tandem switching office. This charge shall be assessed as a charge for dedicated transport facilities provisioned between the serving wire center and the tandem switching office in accordance with § 69.112 of this part.

(b) [Deleted.]

(c)(1) Through June 30, 1998, tandem-switched transport transmission charges generally shall be presumed reasonable if the telephone company bases the charges on a weighted per-minute equivalent of direct-trunked transport DS1 and DS3 rates that reflects the relative number of DS1 and DS3 circuits used in the tandem to end office links (or a surrogate based on the proportion of copper and fiber facilities in the interoffice network), calculated using the total actual voice-grade minutes of use, geographically averaged on a study-area-wide basis, that the incumbent local exchange carrier experiences based on the prior year's annual use. Tandem-switched transport transmission charges that are not presumed reasonable generally shall be suspended and investigated absent a substantial cause showing by the telephone company.

(2) Beginning July 1, 1998:

(i) Except in study areas where the incumbent local exchange carrier has implemented density pricing zones as described in section 69.124, per-minute common transport charges described in subparagraph (a)(2)(i) shall be presumed reasonable if the incumbent local exchange carrier bases the charges on a weighted per-minute equivalent of direct-trunked transport DS1 and DS3 rates that reflects the relative number of DS1 and DS3 circuits used in the tandem to end office links (or a surrogate based on the proportion of copper and fiber facilities in the interoffice network), calculated using the total actual voice-grade minutes of use, geographically averaged on a study-area-wide basis, that the incumbent local exchange carrier experiences based on the prior year's annual use. Tandem-switched transport transmission charges that are not presumed reasonable shall be suspended and investigated absent a substantial cause showing by the incumbent local exchange carrier.

(ii) In study areas where the incumbent local exchange carrier has implemented density pricing zones as described in section 69.124, per-minute common transport charges described in subparagraph (a)(2)(i) shall be presumed reasonable if the incumbent local exchange carrier bases the charges on a weighted per-minute equivalent of direct-trunked transport DS1 and DS3 rates that reflects the relative number of DS1 and DS3 circuits used in the tandem to end office links (or a surrogate based on the proportion of copper and fiber facilities in the interoffice network), calculated using the total actual voice-grade minutes of use, averaged on a zone-wide basis, that the incumbent local exchange carrier experiences based on the prior year's annual use. Tandem-switched transport transmission charges that are not presumed reasonable shall be suspended and investigated absent a substantial cause showing by the incumbent local exchange carrier.

(d)(1) Through June 30, 1998, the tandem-switched transport transmission charges may be distance-sensitive. Distance shall be measured as airline distance between the serving wire center and the end office, unless the customer has ordered tandem-switched transport between the tandem office and the end office, in which case distance shall be measured as airline distance between the tandem office and the end office.

(2) Beginning July 1, 1998, the per-minute charge for transport of traffic over common transport facilities described in subparagraph (a)(2)(i) may be distance-sensitive. Distance shall be measured as airline distance between the tandem switching office and the end office.

(e)(1) Through June 30, 1998, if the telephone company employs distance-sensitive rates:

(i) A distance-sensitive component shall be assessed for use of the transmission facilities, including intermediate transmission circuit equipment between the end points of the interoffice circuit; and

(ii) A non-distance-sensitive component shall be assessed for use of the circuit equipment at the ends of the interoffice transmission links.

(2) Beginning July 1, 1998, if the telephone company employs distance-sensitive rates for transport of traffic over common transport facilities, as described in subparagraph (a)(2)(i):

(i) A distance-sensitive component shall be assessed for use of the common transport facilities, including intermediate transmission circuit equipment between the end office and tandem switching office; and

(ii) A non-distance-sensitive component shall be assessed for use of the circuit equipment at the ends of the interoffice transmission links.

(f) [Deleted.]

(g)(1) The tandem switching charge imposed pursuant to subparagraph (a)(1) or (a)(2)(ii), as applicable, shall be set to recover twenty percent of the annual part 69 interstate tandem revenue requirement plus one third of the portion of the tandem switching revenue requirement being recovered through the interconnection charge recovered by §§ 69.124, 69.153, and 69.155, excluding multiplexer and dedicated port costs recovered in accordance with paragraph (l).

(2) Beginning January 1, 1999, the tandem switching charge imposed pursuant to subparagraph (a)(2)(ii) shall be set to recover the amount prescribed in subparagraph (g)(1) plus one half of the remaining portion of the tandem switching revenue requirement then being recovered through the interconnection charge recovered by §§ 69.124, 69.153, and 69.155, excluding multiplexer and dedicated port costs recovered in accordance with paragraph (l).

(3) Beginning January 1, 2000, the tandem switching charge imposed pursuant to subparagraph (a)(2)(ii) shall be set to recover the entire interstate tandem switching revenue requirement, including that portion formerly recovered through the interconnection charge recovered in §§ 69.124, 69.153, and 69.155, and excluding multiplexer and dedicated port costs recovered in accordance with paragraph (l).

(4) A local exchange carrier that is subject to price cap regulation as that term is defined in § 61.3(x) of this Chapter shall calculate its tandem switching revenue requirement as used in this paragraph by dividing the tandem switching revenue requirement that was included in the original interconnection charge by the original interconnection charge, and then multiplying this result by the annual revenues recovered through the interconnection charge, described in § 69.124, as of June 30, 1997.

* * * * *

(l) In addition to the charges described above, price cap local exchange carriers shall establish separate charges for multiplexers and dedicated trunk ports used in conjunction with the tandem switch as follows:

(1) Local exchange carriers must establish a traffic-sensitive charge for DS3/DS1 multiplexers used on the end office side of the tandem switch, assessed on purchasers of common transport to the tandem switch. This charge must be expressed in dollars and cents per access minute of use. The maximum charge shall be calculated by dividing the total costs of the multiplexers on the end office-side of the tandem switch by the serving wire center side of the tandem switch by the projected annual access minutes of use calculated for purposes of recovery of common transport costs in paragraph (c), above. A similar charge shall be assessed for DS1/voice-grade multiplexing provided on the end-office side of analog tandem switches.

(2)(i) Local exchange carriers must establish a flat-rated charge for dedicated DS3/DS1 multiplexing on the serving wire center side of the tandem switch provided in conjunction with dedicated DS3 transport service from the serving wire center to the tandem switch. This charge shall be assessed on interexchange carriers purchasing tandem-switched transport in proportion to the number of DS3 trunks provisioned for that interexchange carrier between the serving wire center and the tandem-switch.

(ii) Local exchange carriers must establish a flat-rated charge for dedicated DS1/voice-grade multiplexing provided on the serving wire center side of analog tandem switches. This charge may be assessed on interexchange carriers purchasing tandem-switched transport in proportion to the interexchange carrier's transport capacity on the serving wire center side of the tandem.

(3) Price cap local exchange carriers may recover the costs of dedicated trunk ports on the serving wire center side of the tandem switch only through flat-rated charges expressed in dollars and cents per trunk port and assessed upon the purchaser of the dedicated trunk terminating at the port.

18. Section 69.122 is deleted.

19. Section 69.123 is amended by adding paragraph (f) to read as follows:

§ 69.123 Density pricing zones for special access and switched transport.

* * * * *

(f)(1) An incumbent local exchange carrier that establishes density pricing zones under this section must reallocate additional amounts recovered under the interconnection charge prescribed in section 69.124 to facilities-based transport rates,

reflecting the higher costs of serving lower-density areas. Each incumbent local exchange carrier must reallocate costs from the interconnection charge each time it increases the differential between prices in density zones two and one or between three and one.

(2) Any incumbent local exchange carrier that has already deaveraged its rates on the date these rules become effective must reallocate an amount equivalent to that described in subparagraph (1) from the interconnection charge prescribed in section 69.124 to its transport services.

(3) Price cap local exchange carriers shall reassign to direct-trunked transport and tandem-switched transport categories or subcategories interconnection charge amounts reallocated under subparagraph (1) or (2) in a manner that reflects the way density pricing zones are being implemented by the incumbent local exchange carrier.

20. Section 69.124 is amended by revising paragraph (a) and subparagraph (b)(1), and by deleting subparagraph (b)(2) to read as follows:

§ 69.124 Interconnection charge.

(a) For telephone companies not subject to price cap regulation, an interconnection charge expressed in dollars and cents per access minute shall be assessed upon all interexchange carriers and upon all other persons using the telephone company local transport network.

(b)(1) For telephone companies not subject to price cap regulation, the interconnection charge shall be computed by subtracting entrance facilities, tandem-switched transport, direct-trunked transport, and dedicated signalling transport revenues from the Part 69 transport revenue requirement, and dividing by the total interstate local transport minutes.

(2) [Deleted]

(c) [Deleted]

21. Section 69.125 is amended by revising paragraph (a) to read as follows:

§ 69.125 Dedicated Signalling Transport.

(a) Dedicated signalling transport shall consist of two elements, a signalling link charge and a signalling transfer point (STP) port termination charge.

* * * * *

22. Section 69.126 is revised as follows:

§ 69.126 Nonrecurring charges.

As of the effective date of the First Report and Order in Access Charge Reform, CC Docket No. 96-262, FCC 97-158, 12 FCC Rcd ___ (1997), incumbent local exchange carriers shall not assess any nonrecurring charges for service connection when an interexchange carrier converts trunks from tandem-switched transport to direct-trunked transport or when an interexchange carrier orders the disconnection of overprovisioned trunks, until six months after the effective date of the tariffs eliminating the unitary pricing option for tandem-switched transport.

23. New Subpart C is added beginning with section 69.151:

SUBPART C -- COMPUTATION OF CHARGES FOR PRICE CAP LOCAL EXCHANGE CARRIERS

§ 69.151 Applicability.

This subpart shall apply only to telephone companies subject to the price cap regulations set forth in Part 61 of this chapter.

§ 69.152 End user common line for price cap local exchange carriers.

(a) A charge that is expressed in dollars and cents per line per month shall be assessed upon end users that subscribe to local exchange telephone service or Centrex service to the extent they do not pay carrier common line charges. A charge that is expressed in dollars and cents per line per month shall be assessed upon providers of public telephones. Such charge shall be assessed for each line between the premises of an end user, or public telephone location, and a Class 5 office that is or may be used for local exchange service transmissions.

(b) Except as provided in paragraphs (d)-(i), the maximum single line rate or charge shall be computed:

(1) by dividing one-twelfth of the projected annual revenue requirement for the End User Common Line element by the projected average number of local exchange service subscriber lines in use during such annual period, only so long as a per-minute carrier common line charge is assessed or the multi-line PICC defined in § 69.153 recovers common line revenues.

(2) by dividing one-twelfth of the projected annual revenues permitted for the common line basket under the Commission's price cap rules, as set forth in Part 61 of this chapter, by the projected average number of local exchange service subscriber lines in use during such annual period, if no per-minute carrier common line charge is assessed and the multi-line PICC defined in § 69.153 does not recover any common line revenues.

(3) Provided, however, that the charge for each local exchange service subscriber line shall not exceed $9.00 as adjusted by the inflation factor computed under paragraph (k).

(c) The charge for each subscriber line associated with a public telephone shall be equal to the monthly charge computed in accordance with paragraph (b).

(d)(1) Through December 31, 1997, the monthly charge for each primary residential or single line business local exchange service subscriber line shall be the charge computed in accordance with paragraph (b), or $3.50, whichever is lower.

(2) Beginning January 1, 1998, the maximum monthly charge for each primary residential or single line business local exchange service subscriber line shall be the charge computed in accordance with paragraph (b), or $3.50, whichever is lower.

(e)(1) Through December 31, 1997, the monthly charge for each non-primary residential local exchange service subscriber line shall be the charge computed in accordance with paragraph (b), or $3.50, whichever is lower.

(2) Beginning January 1, 1998, the maximum monthly charge for each non-primary residential local exchange service subscriber line shall be the lower of:

(i) the maximum charge computed in accordance with paragraph (b); or

(ii) $5.00. On January 1, 1999, this amount shall be adjusted by the inflation factor computed under paragraph (k), and increased by $1.00. On July 1, 2000, and in each subsequent year, this amount shall be adjusted by the inflation factor computed under paragraph (k), and increased by $1.00.

(3) Where the local exchange carrier provides a residential line to another carrier so that the other carrier may resell that residential line to a residence that already receives a primary residential line, the local exchange carrier may collect the non-primary residential charge described in paragraph (e) from the other carrier.

(f) Except as provided in paragraphs (n) and (o), the charge for each primary residential local exchange service subscriber line shall be the same as the charge for each single line business local exchange service subscriber line.

(g) A line shall be deemed to be a residential subscriber line if the subscriber pays a rate for such line that is described as a residential rate in the local exchange service tariff.

(h) [reserved]

(i) A line shall be deemed to be a single line business subscriber line if the subscriber pays a rate that is not described as a residential rate in the local exchange service tariff and does not obtain more than one such line from a particular telephone company.

(j) No charge shall be assessed for any WATS access line.

(k)(1) On January 1, 1999:

(i) The ceiling for multi-line business subscriber lines under subparagraph (b)(3) will be adjusted to reflect inflation as measured by the change in GDP-PI for the 18 months ending September 30, 1998.

(ii) The ceiling for non-primary residential subscriber lines under subparagraph (e)(2)(ii) will be adjusted to reflect inflation as measured by the change in GDP-PI for the 12 months ending September 30, 1998.

(2) On July 1, 2000, the ceiling for multi-line business subscriber lines and non-primary residential subscriber lines will be adjusted to reflect inflation as measured by the change in GDP-PI for the 18 months ending on March 31, 2000.

(3) On July 1 of each subsequent year, the ceiling for multi-line business subscriber lines and non-primary residential subscriber lines will be adjusted to reflect inflation as measured by the change in GDP-PI for the 12 months ending on March 31 of the year the adjustment is made.

(l)(1) Beginning January 1, 1998, local exchange carriers shall assess no more than one end user common line charge as calculated under the applicable method under paragraph (e) for Basic Rate Interface integrated services digital network (ISDN) service.

(2) Local exchange carriers shall assess no more than five end user common line charges as calculated under paragraph (b) for Primary Rate Interface ISDN service.

(m) In the event the local exchange carrier charges less than the maximum end user common line charge for any subscriber lines, the local exchange carrier may not recover the difference between the amount collected and the maximum from carrier common line charges or PICCs.

(n) Through December 31, 1997, the End User Common Line charge for a residential subscriber shall be 50% of the charge specified in § 69.152(b) and (d) if the residential local exchange service rate for such subscribers is reduced by an equivalent amount, provided that such local exchange service rate reduction is based upon a means test that is subject to verification.

(o) Subparagraphs (1) and (2) are effective through December 31, 1997.

(1) The End User Common Line charge for residential subscribers shall be reduced to the extent of the state assistance as calculated in subparagraph (2) of this section, or waived in full if the state assistance equals or exceeds the residential End User Common Line charge under the circumstances described below. In order to qualify for this waiver, the subscriber must be eligible for and receive assistance or benefits provided pursuant to a narrowly targeted telephone company lifeline assistance program, requiring verification of eligibility, implemented by the state or local telephone company. A state or local telephone company wishing to implement this End User Common Line reduction or waiver for its subscribers shall file information with the Commission Secretary demonstrating that its plan meets the criteria set out in this section and showing the amount of state assistance per subscriber as described in subparagraph (2). The reduction or waiver of the End User Common Line charge shall be available as soon as the Commission certifies that the state or local telephone plan satisfies the criteria set out in this subsection and the relevant tariff provisions become effective.

(2)(i) The state assistance per subscriber shall be equal to the difference between the charges to be paid by the participating subscribers and those to be paid by other subscribers for comparable monthly local exchange service, service connections and customer deposits, except that benefits or assistance for connection charges and deposit requirements may only be counted once annually. In order to be included in calculating the state assistance, such benefits must be a single telephone line to the household's principal residence.

(ii) The monthly state assistance per participating subscriber shall be calculated by adding the amounts calculated in subparagraphs (2)(ii)(A) and (B).

(A) The amount of the monthly state assistance per participating subscriber for local exchange service shall be calculated by dividing the annual difference between charges paid by all participating subscribers for residential local exchange service and the amount which would have been charged to non-qualifying subscribers for comparable service by twelve times the number of subscribers participating in the state assistance program. Estimates may be used when historic data are not available.

(B) The amount of the monthly state assistance for service connections and customer deposits per participating subscriber shall be calculated by determining the annual amount of the reductions in these charges for participating subscribers each year and dividing this amount by twelve times the number of participating subscribers. Estimates may be used when historic data are not available.

(p) Through December 31, 1997, in connection with the filing of access tariffs pursuant to § 69.3(a), telephone companies shall calculate for the association their projected revenue requirement attributable to the operation of § 69.104(n) through (o). The projected amount will be adjusted by the association to reflect the actual lifeline assistance benefits paid in the previous period. If the actual benefits exceeded the projected amount for that period, the differential will be added to the projection for the ensuing period. If the actual benefits were less than the projected amount for that period, the differential will be subtracted from the projection for the ensuing period. Through December 31, 1997, the association shall so adjust amounts to the Lifeline Assistance revenue requirement, bill and collect such amounts from interexchange carriers pursuant to § 69.117 and distribute the funds to qualifying telephone companies pursuant to § 69.603(d).

§ 69.153 Presubscribed interexchange carrier charge (PICC).

(a) A charge expressed in dollars and cents per line may be assessed upon the subscriber's presubscribed interexchange carrier to recover the common line revenues permitted under the price cap rules in Part 61 of this chapter that cannot be recovered through the end user common line charge established under § 69.152, residual interconnection charge revenues, and certain marketing expenses described in § 69.153(a). In the event the ceilings on the PICC prevent the PICC from recovering all the residual common line, residual interconnection charge revenues, and marketing expenses, the PICC shall recover all residual common line revenues before it recovers residual interconnection charge revenues, and all residual interconnection charge revenues before it recovers marketing expenses.

(b) If an end-user customer does not have a presubscribed interexchange carrier, the local exchange carrier may collect the PICC directly from the end user.

(c) The maximum monthly PICC for primary residential subscriber lines and single-line business subscriber lines shall be the lower of:

(1) One twelfth of the sum of annual common line revenues and residual interconnection charge revenues permitted under our price cap rules divided by the projected average number of local exchange service subscriber lines in use during such annual period, minus $3.50; or

(2) $0.53. On January 1, 1999, this amount shall be adjusted by the inflation factor computed under subparagraph (e), and increased by $0.50. On July 1, 2000, and in each subsequent year, this amount shall be adjusted by the inflation factor computed under subparagraph (e), and increased by $0.50.

(d) To the extent that a local exchange carrier cannot recover its full common line revenues, residual interconnection charge revenues, and those marketing expense revenues described in § 69.156(a) permitted under price cap regulation through the recovery mechanisms established in §§ 69.152, 69.153(c), and 69.156(b) and (c), the local exchange carrier may assess a PICC on multi-line business subscriber lines and non-primary residential subscriber lines.

(1) The maximum monthly PICC for non-primary residential subscriber lines shall be the lower of:

(i) One twelfth of the annual common line, residual interconnection charge, and § 69.156(a) marketing expense revenues permitted under our price cap rules, less the maximum amounts permitted to be recovered through the recovery mechanisms under §§ 69.152, 69.153(c), and 69.156(b) and (c), divided by the total number of projected non-primary residential and multi-line business subscriber lines in use during such annual period; or

(ii) $1.50. On January 1, 1999, this amount shall be adjusted by the inflation factor computed under subparagraph (e), and increased by $1.00. On July 1, 2000, and in each subsequent year, this amount shall be adjusted by the inflation factor computed under subparagraph (e), and increased by $1.00.

(2) If the maximum monthly PICC for non-primary residential subscriber lines is determined using paragraph (d)(1)(i), the maximum monthly PICC for multi-line business subscriber lines shall equal the maximum monthly PICC of non-primary

residential subscriber lines. Otherwise, the maximum monthly PICC for multi-line business lines shall be the lower of:

(i) One twelfth of the annual common line, residual interconnection charge, and § 69.156(a) marketing expense revenues permitted under our rules, less the maximum amounts permitted to be recovered through the recovery mechanisms under §§ 69.152, 69.153(c) and (d)(1)(i), and 69.156 (b) and (c), divided by the total number of projected multi-line business subscriber lines in use during such annual period; or

(ii) $2.75. On January 1, 1999, this amount shall be adjusted by the inflation factor computed under subparagraph (e), and increased by $1.50. On July 1, 2000, and in each subsequent year, this amount shall be adjusted by the inflation factor computed under subparagraph (e), and increased by $1.50.

(e) For the PICC ceiling for primary residential subscriber lines and single-line business subscriber lines under subparagraph (c)(2), non-primary residential subscriber lines under subparagraph (d)(1)(ii), and multi-line business subscriber lines under subparagraph (d)(2)(ii):

(1) On January 1, 1999, the ceiling will be adjusted to reflect inflation as measured by the change in GDP-PI for the 12 months ending September 30, 1998.

(2) On July 1, 2000, the ceiling will be adjusted to reflect inflation as measured by the change in GDP-PI for the 18 months ending on March 31, 2000.

(3) On July 1 of each subsequent year, the ceiling will be adjusted to reflect inflation as measured by the change in GDP-PI for the 12 months ending on March 31 of the year the adjustment is made.

(f)(1) Local exchange carriers shall assess no more than one PICC as calculated under the applicable method under subparagraph (d)(1) for Basic Rate Interface integrated services digital network (ISDN) service.

(2) Local exchange carriers shall assess no more than five PICCs as calculated under subparagraph (d)(2) for Primary Rate Interface ISDN service.

§ 69.154 Per-minute carrier common line charge.

(a) Local exchange carriers may recover a per-minute carrier common line charge from interexchange carriers, collected on originating access minutes and calculated using the

weighting method set forth in paragraph (c). The maximum such charge shall be the lower of:

(1) the per-minute rate that would recover annual common line revenues permitted less the maximum amounts allowed to be recovered under §§ 69.152 and 69.153; or

(2) the sum of the local switching, carrier common line and interconnection charge charges assessed on originating minutes on December 31, 1997, minus the local switching charges assessed on originating minutes.

(b) To the extent that paragraph (a) does not recover from interexchange carriers all permitted carrier common line revenue, the excess may be collected through a per-minute charge on terminating access calculated using the weighting method set forth in paragraph (c).

(c) For each Carrier Common Line access element tariff, the premium originating Carrier Common Line charge shall be set at a level that recovers revenues allowed under paragraphs (a) and (b). The non-premium charges shall be equal to .45 multiplied by the premium charges.

§ 69.155 Per-minute residual interconnection charge.

(a) Local exchange carriers may recover a per-minute residual interconnection charge on originating access. The maximum such charge shall be the lower of:

(1) the per-minute rate that would recover the total annual residual interconnection charge revenues permitted less the portion of the residual interconnection charge allowed to be recovered under § 69.153; or

(2) the sum of the local switching, carrier common line and residual interconnection charges assessed on originating minutes on December 31, 1997, minus the local switching charges assessed on originating minutes, less the maximum amount allowed to be recovered under § 69.154(a).

(b) To the extent that paragraph (a) prohibits a local exchange carrier from recovering all of the residual interconnection charge revenues permitted, the residual may be collected through a per-minute charge on terminating access.

(c) Any charge assessed pursuant to paragraph (a) or (b) shall be assessed only upon minutes utilizing the local exchange carrier's local transport service.

§ 69.156 Marketing expenses.

(a) Local exchange carriers shall recover marketing expenses that are allocated to the common line and traffic sensitive baskets, and the switched services within the trunking basket pursuant to §§ 32.6610 and 69.403 of this Chapter.

(b) The expenses described in paragraph (a) may be recovered from non-primary residential subscriber lines, by increasing the end user common line charge described in § 69.152(e). The amount of marketing expenses permitted to be recovered in this manner shall be the total marketing expenses described in paragraph (a) divided by the sum of non-primary residential lines and multi-line business lines. In no event shall the end user common line charge for these lines exceed the lower of the ceilings established in § 69.152(b)(3) and (e)(2)(ii).

(c) The expenses described in paragraph (a) may be recovered from multi-line business subscriber lines, by increasing the end user common line charge described in § 69.152(b). The amount permitted to be recovered in this manner shall be the total marketing expenses described in paragraph (a) divided by the sum of non-primary residential lines and multi-line business lines. In no event shall the end user common line charge for these lines exceed the ceiling established in § 69.152(b)(3).

(d) In the event that the ceilings set forth in paragraphs (b) and (c), and § 69.153(d) prevent a local exchange carrier from recovering fully the marketing expenses described in paragraph (a), the local exchange carrier may recover the remainder through a per-minute assessment on originating access minutes, so long as the charge for originating access does not exceed the amount defined in § 69.155(a)(2) less the maximum permitted to be recovered under § 69.155(a).

(e) In the event that the ceilings set forth in paragraphs (b), (c) and (d), and § 69.153(d) prevent a local exchange carrier from recovering fully the marketing expenses described in paragraph (a), the local exchange carrier may recover the remainder through a per-minute assessment on terminating access minutes.

(f) The amount of marketing expenses that may be recovered each year shall be adjusted in accordance with the price cap rules set forth in Part 61.

§ 69.157 Line port costs in excess of basic, analog service.

To the extent that the costs of ISDN line ports, and line ports associated with other services, exceed the costs of a line port used for basic, analog service, local exchange carriers may recover the difference through a separate monthly end user charge.

24. Subpart C -- Computation of Transition Charge, sections 69.201-69.205, is deleted.

25. Section 69.303 is amended by deleting paragraph (a) and redesignating paragraph (b) as section 69.303.

26. Section 69.304 is amended by deleting paragraph (c).

27. Section 69.305 is amended by revising paragraphs (b) and (d), and adding paragraph (e) to read as follows:

§ 69.305 Carrier cable and wire facilities (C&WF).

* * * * *

(b) Carrier C&WF, other than WATS access lines, not assigned pursuant to paragraphs (a), (c), or (e) of this section that is used for interexchange services that use switching facilities for origination and termination that are also used for local exchange telephone service shall be apportioned to the local Transport elements.

* * * * *

(d) All Carrier C&WF that is not apportioned pursuant to paragraphs (a), (b), (c), and (e) of this Section shall be assigned to the Special Access element.

(e) Carrier C&WF that is used to provide transmission between the local exchange carrier's signalling transfer point and the local switch shall be assigned to the local switching category.

28. Section 69.306 is amended by revising paragraphs (c), (d), and (e) to read as follows:

§ 69.306 Central Office Equipment (COE).

* * * * *

(c) COE Category 2 (Tandem Switching Equipment) that is deemed to be exchange equipment for purposes of the Modification of Final Judgment in United States v Western Electric Co. shall be assigned to the tandem switching charge subelement and the interconnection charge element. COE Category 2 which is associated with the signal transfer point function shall be assigned to the local switching category. COE Category 2 which is used to provide transmission facilities between the local exchange carrier's signalling transfer point and the database shall be assigned to the Line Information Database subelement at § 69.120(a). All other COE Category 2 shall be assigned to the interexchange category.

(d) COE Category 3 (Local Switching Equipment) shall be assigned to the Local Switching element except as provided in paragraph (a) of this section; and that, for telephone companies subject to price cap regulation set forth in Part 61 of this chapter, line-side port costs shall be assigned to the Common Line rate element.

(e) COE Category 4 (Circuit Equipment) shall be apportioned among the interexchange category and the Common Line, Transport, and Special Access elements. COE Category 4 shall be apportioned in the same proportions as the associated Cable and Wireless Facilities; except that any DS1/voice-grade multiplexer investment associated with analog local switches and assigned to the local transport category by this rule shall be reallocated to the local switching category.

29. Section 69.307 is amended by deleting paragraph (c).

30. Section 69.308 is deleted.

31. Section 69.309 is amended to read as follows:

§ 69.309 Other investment.

Investment that is not apportioned pursuant to §§ 69.302 through 69.307 shall be apportioned among the interexchange category, the billing and collection category and access elements in the same proportions as the combined investment that is apportioned pursuant to §§ 69.303 through 69.307.

32. Section 69.401 is amended by revising paragraph (b) to read as follows:

§ 69.401 Direct Expenses.

* * * * *

(b) Plant Specific Operations Expenses in Accounts 6210, 6220 and 6230, shall be apportioned among the interexchange category and access elements on the basis of the apportionment of the investment in Accounts 2210, 2220, and 2230, respectively; provided that any expenses associated with DS1/voice-grade multiplexers, to the extent that they are not associated with an analog tandem switch, assigned to the local transport category by this subsection shall be reallocated to the local switching category; provided further that any expenses associated with common channel signalling included in Account 6210 shall be assigned to the local transport category.

* * * * *

33. Section 69.406 is amended by deleting subparagraph (a)(9).

34. Section 69.410 is deleted.

35. Section 69.411 is amended to read as follows:

§ 69.411 Other Expense.

Except as provided in §§ 69.412, 69.413, and 69.414, expenses that are not apportioned pursuant to §§ 69.401 through 69.409 shall be apportioned among the interexchange category and all access elements in the same manner as § 69.309 Other investment.

36. Section 69.501 is amended by deleting paragraph (a).

37. Section 69.502 is amended to read as follows:

§ 69.502 Base factor allocation.

Projected revenues from the following shall be deducted from the base factor portion to determine the amount that is assigned to the Carrier Common Line element:

(a) End User Common Line charges, less any marketing expense revenues recovered through end user common line charges pursuant to § 69.156;

(b) Special Access surcharges; and

(c) The portion of frozen per-line support that carriers receive pursuant to § 54.303 that is attributable to LTS payments received prior to January 1, 1998.

38. Section 69.611 is deleted.

Statement of
Commissioner James H. Quello

RE: FEDERAL-STATE JOINT BOARD ON UNIVERSAL SERVICE (CC Docket No. 96-45),

ACCESS CHARGE REFORM (CC Docket No. 96-262), and

PRICE CAP PERFORMANCE REVIEW FOR LOCAL EXCHANGE CARRIERS (CC Docket No. 94-1).

Today, the Commission has established rules to implement the Universal Service provisions of the Telecommunications Act of 1996, as well as rules to restructure the access charge system while also initiating reductions in the levels of those access charges. I have believed throughout my participation in the debates regarding universal service and access reform that, as much as possible, we should seek to ensure that consumers experience the benefits of our actions. To this same end, we should try to avoid the possibility that total bills for groups of consumers could increase as a result of implementing new universal service programs and moving into a new access charge regime.

Universal Service

This Commission now has taken steps to establish processes for the administration of universal service funds in a way that allows the commitments represented in this section of the 1996 Telecommunications Act to be fulfilled. We have labored to develop a reasonable plan that will provide necessary and sufficient funds for schools and libraries as well as other universal service programs. We also have sought to avoid collection of funds beyond those legitimately needed to help make new and important services available to students and teachers in inner city, suburban and rural schools from Takoma Park, D.C., to Tacoma, Washington, from McAllen, Texas to Mackinac Island on the Upper Peninsula of Michigan.

We have achieved this balance by establishing funding necessary to begin the program at a reasonable level, with a provision that allows schools and libraries to begin the program January 1, 1998. By this time, we would hope that participating groups will have had the opportunity to develop their plans. Our decision to start the program with lower funding in the first six months, increasing in the following years, gives the program early constraint, with flexibility at later periods when greater demand is likely to develop. As a result, I believe this decision provides for new universal service funding within the limits of what consumers around the country are willing to pay.

The issue of what consumers are prepared to pay has been a very difficult one. The need for our attention to the issue, however, has been clearly expressed in many ways. It has required the Commission to balance the need for programs involved in universal service that are critically

important to the future of this country with their cost. In this respect, this universal service proceeding is one of the most important decisions in this agency's history. At the same time, we have heard a consistent message from around the country that consumers and businesses are not necessarily willing to pay for these services through higher total bills for telecommunications services.

With respect to funding for health care subsidies, we have endeavored to make sure that rural, non-profit health care facilities have sufficient funding to meet the needs for providing services in communities that otherwise might not have the same resources that are available in urban communities.

There also are many other policy and market issues that will need to be resolved in a new universal service environment. For instance, I believe it remains to be seen how cable and wireless industries will continue to develop to play a greater role in the telecommunications services that will meet future universal service needs. As these developments occur, the Commission may continue to monitor the equity of contribution and recovery of universal service funds by paging services as well as the extent to which wireless services in general should contribute for intrastate services.

Access Reform

The Commission's actions today on access reform involve two components: (1) several structural changes that will cause access components to move to more reasonable categories and to become subject to competition where possible; and (2) reductions in the current level of access charges, largely accomplished through revision of the productivity and sharing mechanism in LEC price caps.

Where this decision changes the structure of end user charges, as in our treatment of business and residential customers, and consumers with second or multiple lines, I believe our decisions should be -- and are -- characterized by balance. As a result of this necessary reform of the access payment structure, charges should remain within reasonable bounds and should help to promote the development of competition and consumer benefits.

I also believe this Commission would be remiss in our regulatory duties to the American public and responsibilities to our licensees if we were to restructure universal service without concurrently engaging in access charge reform. We have talked about this step for quite some time. Many parties have expressed their views in a very public fashion as to whether or not this step is warranted, or to what degree access charges should be reduced. I believe that this step to restructure and reduce the level of access charges is the right thing to do and this is the right time to do it.

The consumers and users of telecommunications services are the intended beneficiaries of today's actions regarding access reform. Now that these decisions are adopted, I believe it will become clear that we have done our best to ensure that consumers do not bear the burden of

implementing the new universal service program and access charge reform. Our actions also represent a fundamental part of the Commission's effort to facilitate competition in the local exchange marketplace, in this case by reducing access charges paid to LECs by interexchange carriers.

The primary vehicle for this reduction is the decision to change the existing combinations of productivity factors, or "x-factors", and sharing options to a single productivity factor of 6.5% accompanied by no sharing obligation. As a result, this decision continues the Commission's efforts to move away from the lingering remnants of rate of return regulation for local exchange carriers. Today's decision will complete the movement of price cap LECs away from the sharing obligations that were part of the past system.

Looking to the Future

I want to emphasize that today's actions represent a first step in many respects.

Concerning universal service, this is not a day to declare victory. There is much left to be done by the Commission, the states, temporary and permanent fund administrators, school districts, libraries, health care facilities, parties developing cost models, and telecommunications companies seeking to provide services and enter new markets. This is definitely an important day, but the real effort is just beginning. That effort will require investment, planning, training in using services, and community, professional, and corporate involvement, and it will only be successful after the continuing involvement, in community after community, by the many parties who have so diligently participated in this proceeding.

The Commission's action to increase the productivity factor not only results in reduced access charges in the first year, but also in further reductions in access charges in subsequent years. In another respect, it may very well become necessary very soon for the Commission to consider how to supplement today's decision to allow for pricing flexibility by LECs as competition develops to a greater level in the local marketplace. One possible way to provide that flexibility might be through relaxing the 6.5% productivity factor where LECs can meet criteria to demonstrate sufficient competition.

At the same time, later steps might also include the potential for checks and balances in the event that competition in the local exchange marketplace does not develop as soon as some seem to expect. Once again, down the road the Commission may need to consider more specific measures to ensure that the platforms necessary for competition truly are available. It is my hope that those steps won't be necessary.

Finally, some parties have warned recently that any actions by this Commission to lower access charges may cause LECs to seek to raise local phone rates. That matter will become an issue for state commissions, and it is my hope that they will respond to any efforts to raise local rates by ensuring that consumers ultimately benefit from federal and state actions to implement the Telecommunications Act of 1996 and any related decisions.

Separate Statement
of
Commissioner Susan Ness

Re: Universal Service; Access Reform; Price Cap Review

Today we reach another milestone in our efforts to secure for consumers the myriad benefits made possible by the Telecommunications Act of 1996. We are steadfastly fulfilling the tasks assigned to us by Congress in a manner that will prove the wisdom -- and realize the vision -- of this landmark legislation.

Our pursuit has many facets. We must eliminate impediments to competition, ensure fair rules of engagement for all market participants, safeguard the interests of residential consumers, especially those with limited incomes and those in high cost areas, promote economic efficiency, and lower prices to consumers. Today's orders represent substantial progress on all these fronts.

Much of what we are doing is driven by law and by economics. But the results of our decisions have a human face:

> Will a poor family in Appalachia be able to summon the police or fire department in an emergency?
>
> Will a critically ill patient in a remote region of Montana have her tumor quickly and accurately diagnosed?
>
> Will a curious high-school freshman have an opportunity to view Thomas Jefferson's valedictory letter, in his own aged but still powerful hand?
>
> Will an elderly widow be less hesitant to break her loneliness with longer and more frequent calls to her great-grandchildren?

Today brings us closer to a day when these questions can all be answered "yes."

Fifteen months after enactment of the Telecommunications Act, the transition to a new industry paradigm remains far from complete. The road is not straight, or smooth, or free from peril. But a steady course -- and a shared determination -- can bring us to the desired destination.

We still have far to travel to resolve issues of support for high-cost areas. I believe we have a sound plan and a clear timetable for implementation, but we still face two main

obstacles. The proxy models, already impressive feats of cost engineering, still require further refinement before they can reliably be used to target federal cost support. And a new consensus must be achieved before support essential to maintain affordable telephone service in high-cost states can be drawn from states with lesser need, as I believe the Congress of the United States clearly intended. In the meantime, we can make only incremental changes in the implicit subsidies that currently support the high-cost services provided by large price cap telephone companies.

For the smaller rural companies, change will come even more gradually. This is consistent with Congress's expectation that competition would arrive more quickly in the cities and the suburbs. In the interim, we recognize that rural economies must not face unnecessary dislocations.

The need to avoid harmful dislocations, while also encouraging beneficial change, is crucial to much of what we are doing in the access reform and price cap orders. We are implementing many changes that will help to ensure an orderly transition from monopoly to fair and efficient competition.

In particular, the recovery of more costs through flat-rated charges instead of usage-sensitive charges will reduce the exposure of incumbent telephone companies to "cherry-picking" by new entrants, even as they also expand the range of customers likely to be offered competitive alternatives. Completion of the conversion to a three-part rate structure for tandem-switched transport will eliminate a historical artifact, but allow time for affected carriers to adjust. The new X-factor more accurately reflects the productivity gains that can reasonably be expected from price cap carriers, while avoiding radical reduction of telephone company access revenues and proposals that would have unfairly penalized those companies that have most assiduously conducted themselves in accordance with the incentives we deliberately created.

We prefer to rely on marketplace forces rather than regulation to drive investment decisions and price reductions. Some will fault us for not acting more aggressively; others will complain that we are too heavy-handed. My own view is that each decision, and all of the many issues in these orders, has been approached with balance and sensitivity, fairness and principle.

Not everyone will be satisfied. But no one can say that we have not read the law, considered economic theories and business realities, consulted our consciences, and sought to achieve as much fairness as is humanly possible.

I readily confess that I cannot muster the same passion for restructuring the arcane and impenetrable Transport Interconnection Charge as for devising a completely new regime to provide discounts for schools and libraries to access telecommunications and information services. Though I am fully committed to full realization of all of the universal service provisions, the Snowe-Rockefeller-Exon-Kerry provisions reflect an especially bold vision.

For our part, we have used our creativity to harness the magic of competition to reduce the costs of the support program, created incentives to ensure only prudent use of supported services, targeted discounts to minimize the danger of a widening gap between information haves and have-nots, and sought at every turn to maintain our commitment to competitive neutrality.

Even more important, we have sought to leave crucial decisions in the hands of educators and librarians, scattered throughout the country, rather than in the hands of Washington-based administrators. And, best of all, we have arranged a smooth take-off that will avoid creating unsustainable financial burdens on carriers and consumers, allowing competition and growth and declining prices -- rather than rate increases -- to supply the necessary funds.

In this area, as in the others addressed by today's orders, we have applied all our energy, and all our skill, to make the best decisions, based on our current knowledge and the law. A continuing commitment to constructive dialogue by all interested parties -- telephone companies, long distance companies, wireless companies, small businesses, large businesses, residential consumers, state regulators, and members of Congress -- is critical to continued progress. At the end of the day, fairness to all parties and demonstrable benefits to consumers are the standards by which we will all be judged.

Separate Statement of

Commissioner Rachelle B. Chong

Re: *In the Matter of Access Charge Reform, Price Cap Performance Review for Local Exchange Carriers, Transport Rate Structure and Pricing, End User Common Line Charges, First Report and Order,* CC Docket Nos. 96-262, 94-1, 91-213, 95-72.

The Commission's access charge system has been a constant landmark in the telecommunications regulatory landscape during the past decade. Charges imposed by this access charge regime were unduly high, because these access charges were part of the funding mechanism for our patchwork quilt "system" of universal service funding.

With the passage of the Telecommunications Act of 1996 ("1996 Act"), however, the days of the current access charge system became numbered. The 1996 Act directed the Commission to create a universal service program that makes sense in a competitive marketplace.[1] Thus, it is appropriate and necessary for the Commission to do a thorough overhaul of our access charge regime in concert with implementation of the new universal service system ordered by the 1996 Act. To the extent possible, implicit subsidies must be identified and removed from access charges, and a sensible transition made to a market forces system where access charges are based on forward-looking economic cost. While I believe that today's decision generally finds the right balance in creating an improved access charge system, I write separately to explain our actions and comment on some aspects of our decision.

In this order, we direct that federal universal service support received by incumbent local exchange telephone carriers be used to reduce the interstate revenue requirement otherwise collected through interstate access charges. Thus, interstate implicit support will be identified and removed from interstate access charges, and instead we will provide universal service support through an explicit support mechanism ordered in our companion *Universal Service* decision.

The existence of universal service support subsidies within access charges, however, only partially explains why access charges create distortions in the marketplace and vast economic inefficiencies. Other culprits which drive access charges up for interexchange carriers include the current rate structures and pricing levels of our access charge system. These overly high charges are eventually passed through to long distance consumers in the

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[1] 47 U.S.C. Section 254 (e)(requiring that any universal service support "be explicit and sufficient to achieve the purposes of this section").