DOCKET FILE COPY ORIGINAL

RECEIVED

JUN 26 1997

FEDERAL COMMUNICATIONS COMMISSION
OFFICE OF THE SECRETARY

Before the
Federal Communications Commission
Washington, D.C. 20554

In the Matter of	)	
	)	
Access Charge Reform	)	CC Docket No. 96-262
	)	
Price Cap Performance Review for Local Exchange Carriers	)	CC Docket No. 94-1
	)	
Transport Rate Structure and Pricing	)	CC Docket No. 91-213
	)	
End User Common Line Charges	)	CC Docket No. 95-72

COMMENTS OF GTE

GTE Service Corporation and its affiliated telephone operating companies[1] (collectively, "GTE") submit these comments regarding the Commission's proposals set forth in the above-captioned *Further Notice of Proposed Rulemaking*.[2] In the *Further Notice*, the Commission seeks comment on the following issues: (1) the imposition of a presubscribed interexchange carrier charge ("PICC") on special access lines; and (2) the reallocation of General Support Facilities ("GSF") costs.

---

[1] GTE Alaska Incorporated, GTE Arkansas Incorporated, GTE California Incorporated, GTE Florida Incorporated, GTE Hawaiian Telephone Company Incorporated, The Micronesian Telecommunications Corporation, GTE Midwest Incorporated, GTE North Incorporated, GTE Northwest Incorporated, GTE South Incorporated, GTE Southwest Incorporated, Contel of Minnesota, Inc., and Contel of the South, Inc.

[2] *In the Matter of Access Charge Reform*, CC Docket 96-262, FCC 97-158 (rel. May 16, 1997) ("*Further Notice*" or "*FNPRM*").

As detailed below, the Commission should not create a new implicit subsidy in the form of special access PICCs in order to "fix" the ill-conceived PICC concept adopted as part of the FCC's revised access charge framework. An assessment of a PICC on special access service would violate the fundamental principle that access charges should be recovered from *cost-causing* entities and, thereby, further distort the market for access services. Nor should the Commission modify the present General Support Facilities allocator, particularly when billing and collection activities are conducted through a non-regulated affiliate. If a reallocation of GSF cost is nonetheless deemed necessary, the FCC should adopt the United States Telephone Association's ("USTA's") proposed methodology.

I. ASSESSING PICCs ON SPECIAL ACCESS CUSTOMERS PERPETUATES INEFFICIENT SUBSIDIZATION AND DISTORTS MARKET FORCES

The *Further Notice* describes the implicit subsidies and market distortions that may result from an increase in the subscriber line charge ("SLC") for certain customers and assessment of a presubscribed interexchange carrier charge on switched access users to recover common line revenues.[3] As a result of these charges, the Commission explains that certain switched access customers may find it cost effective to migrate to special access lines, thereby decreasing "projected revenue from multi-line SLCs" and necessarily increasing PICCs for switched access services "to make up for the loss of revenue."[4] To alleviate this problem, the

---

[3] *FNPRM*, ¶¶ 398-402.

[4] *Id.*, ¶¶ 401-402.

FNPRM proposes to permit price cap LECs "to assess a PICC on special access lines to recover revenues for the common line basket."[5]

GTE opposes the assessment of PICCs on special access services because it would perpetuate the poor policy decisions made in the Access Charge Reform order and permit irrational pricing of both switched and special access services. The FCC erroneously assumes that its new access charge rules will result in switched access customers migrating to special access services, when in fact, it is likely that such customers will instead turn to alternative switched access providers. GTE believes that the assessment of PICCs on special access services will ensure that switched access customers are driven to alternative providers. In addition, requiring LECs to recover common line costs through special access services would place these carriers at a substantial disadvantage in the highly competitive special access market and would harm consumers by forcing special access customers to subsidize other services.

The Commission's proposal to allow imposition of PICCs on special access lines underscores the problems inherent in the FCC's revised access pricing scheme. Rather than adhering to the principle of charging the cost-causer for services it uses, the Commission has opted to perpetuate inefficient pricing schemes by increasing only certain subscriber line charges and instituting a new PICC on interexchange carriers. GTE once again urges the Commission to allow recovery of the costs of providing access service directly from end-user customers in the form of geographically deaveraged subscriber line charges in order to ensure efficient pricing levels. To the extent that such charges result in rates that exceed pre-

---

[5] *Id.*, ¶ 403.

determined affordability levels, the Commission should rely on universal service support mechanisms rather than implicit subsidies between different services and end-users.

As it has maintained in the access reform proceeding and other contexts, GTE strongly opposes irrational end-user pricing schemes that perpetuate implicit subsidies in access charges. Irrational pricing seriously harms consumer welfare and competition because consumption of services and market entry are artificially distorted.[6] Further, pricing structures that disguise the true cost of providing service send incorrect signals to both consumers and new market entrants, thereby encouraging the inefficient provision of services.

An imposition of PICCs on special access customers would perpetuate the Commission's departure from the goal of reconciling access charge rate structures with the manner in which costs are incurred and assessing these charges on cost-causers. Indeed, the access charge *First Report and Order* specifically acknowledges that "[t]he Commission has recognized in prior rulemaking proceedings that, to the extent possible, costs of interstate access should be recovered in the same way that they are incurred, consistent with the principle of *cost-causation*."[7] While the Commission's revised access charge framework missed the mark in this regard, there is no reason to perpetuate these mistakes. Clearly, the FCC's proposal to allow LECs to assess PICCs on special access services in order to recover *switched* access revenues contradicts cost-causation principles.

---

[6] Comments of GTE, CC Docket 96-262, at 17-21 (filed Jan. 29, 1997) ("GTE Access Charge Comments").

[7] *In the Matter of Access Charge Reform*, CC Docket No. 96-262, FCC 97-158, ¶ 24 (rel. May 16, 1997) (*First Report and Order*) (emphasis added).

In addition, increasing implicit subsidies by inefficiently imposing costs on those who do not create costs will impede competition. As GTE and numerous other parties explained in the access reform docket, special access services are robustly competitive because direct substitutes for these services have been available for a long time, and the FCC's *Interconnection Order* virtually ensures that competitors will use unbundled elements as a substitute for special access service.[8] Special access customers faced with the prospect of incurring PICCs will readily migrate to competitive providers in order to avoid these charges, thereby further exacerbating access charge revenue shortfalls. In light of the current state of competition for these services, GTE believes that the Commission is required to forebear from regulating special access services under Section 10 of the Communications Act.

Accordingly, the Commission should resist creating a "fix" to the shortcomings of its switched access charge structure by permitting even a temporary subsidy on special access customers through PICCs. Instead of creating an ineffective Band-Aid, the Commission should eliminate implicit subsidies consistent with the 1996 Telecommunications Act and give LECs full and immediate pricing flexibility in order to establish rational, market-based prices for access services. Even if the Commission were to adopt an optional PICC assessment, it would be problematic because it would contradict the FCC's stated goals of access charge reform and could lead to ambiguities about cost recovery for LECs that choose not to impose a special access PICC. Thus, if the FCC does adopt a permissive approach, it should make clear that the approach is truly permissive by allowing LECs that select not to assess the PICC

---

[8] *See* GTE Access Charge Comments at 58-61; Comments of Bell South, CC Docket 96-262, at 20-24 (filed Jan. 29, 1997); Comments of United States Telephone Association, CC

(Continued...)

on special access services to recover all of their common line costs from switched access elements.[9]

II. TO THE EXTENT THE COMMISSION CONCLUDES THAT A REALLOCATION OF GENERAL SUPPORT FACILITIES COST IS REQUIRED, IT SHOULD ADOPT USTA'S ALTERNATIVE ALLOCATION METHODOLOGY

The *Further Notice* seeks comment on two options for reassigning general purpose computer costs attributable to billing and collection to the Part 69 billing and collection category, concluding that such costs should not be recovered through regulated access charges.[10] Under the first proposed option, a LEC would allocate such costs by developing percentage factors (derived from a study of the LEC's general purpose computer assets) that would be applied to its general purpose computer asset and expense accounts, respectively.[11] The second proposal would require price cap LECs to allocate between billing and collection and all other categories by using a general expense allocator -- such as the "Big Three Expense" allocator -- applied to the GSF investment account.[12] Under the second option,

---

(...Continued)
Docket 96-262, at 42-46 (filed Jan. 29, 1997).

[9] For example, while the FCC's rules concerning SLC ceilings give LECs the "discretion" to charge lower SLCs than allowed by the ceiling, these rules also preclude recovery of any "foregone revenues through the PICC or CCL." *First Report and Order*, ¶ 86.

[10] *FNPRM*, ¶ 414.

[11] *Id.*, ¶ 415.

[12] *Id.*, ¶ 417.

carriers that acquire billing and collection services from unregulated affiliates or through third parties would continue to record expenses for such services in the customer services expense account.[13]

As an initial matter, GTE maintains that the Commission need not modify the present mechanisms for allocating General Support Facilities to the billing and collection category. AT&T's concerns that GSF costs are overallocated to regulated services are overstated and speculative because they fail to consider the magnitude of non-billing related investment in the GSF account and the various accounting methods used by LECs to make the appropriate allocation to billing and collection. Further, the Commission clearly does not need to take any action with respect to the allocation rules applicable to LECs that obtain billing and collection services from non-regulated affiliates. In those instances, investment in general computer facilities used for billing purposes and related expenses are incurred by the affiliate, and the FCC's present rules and the associated affiliate transactions rules adequately address cost allocation.

The Commission's two alternatives to revise the allocation process will not facilitate the assignment of general purpose computer costs to the billing and collection category and will unnecessarily burden LECs or misallocate GSF costs. Because the information needed to calculate the FCC's proposed "percentage of investment" is not readily available, the cost and effort associated with any special study of LEC general purpose computer accounts, which may include additional Part 32 subaccount detail and continuing property tracking,

---

13 *Id.*

substantially outweigh any purported benefit in expense reallocation.[14] The FCC's alternative proposal to use the "Big Three Expense" allocator is likewise defective because it will misallocate investment not attributable to billing and collection to the billing and collection category. GSF expenses include a large variety of non-general purpose computer investment. Applying a general allocator to such a broad category of costs will inevitably overallocate unrelated expenses in this category to billing and collection. The Commission thus should not adopt either of the proposed alternatives discussed in the *FNPRM*.

However, if the Commission nonetheless determines that some reallocation is warranted, GTE supports the assignment methodology proposed by the United States Telephone Association in its comments filed in response to the *Further Notice*.[15] By focusing its calculation of the apportioned investment on general purpose computer investment, this approach offers a more targeted method of allocating computer expenses related to billing and collection than either alternative proposed by the Commission. USTA's approach also would use presently existing accounting data, thereby obviating the need for costly and unnecessary special studies or complicated independent audit requirements. Accordingly, this approach would provide LECs with a more workable and predictable allocation methodology as

---

[14] Indeed, the *Further Notice* proposes to require that each price cap LEC add a new section to its cost allocation manual and explains that any special study would be subject "to the same independent audit requirements as other regulated and nonregulated cost allocations," in addition to an examination of the study's "design and execution" during the first independent audit. *FNPRM*, ¶ 416.

[15] *See* Comments of United States Telephone Association, CC Docket 96-262 (filed June 26, 1997).

compared to other suggested alternatives, while minimizing the additional burdens placed on LECs that would result from changes to current allocation rules.

III. CONCLUSION

The Commission must recognize the harm to consumers and competition that results from perpetuating implicit subsidies and establishing inefficient pricing levels. To bring an end to such subsidies, the FCC should not pursue adding PICCs on special access services. In addition, while modifications to the existing General Support Facilities allocator are not necessary, the Commission should adopt USTA's suggested approach if it nonetheless concludes that reallocation is warranted.

Respectfully Submitted,

GTE Service Corporation
and its affiliated telephone operating companies

By: _____
R. Michael Senkowski
Gregory J. Vogt
Kenneth J. Krisko
WILEY, REIN & FIELDING
1776 K Street, N.W.
Washington, D.C. 20006
(202) 429-7000

Its Attorneys

Ward W. Wueste
Gail L. Polivy
GTE Service Corporation
1850 M Street, N.W.
Suite 1200
Washington, D.C. 20036
(202) 463-5200

June 26, 1997