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July 16, 1997

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Ex Parte

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

Re: CC Docket No. 96-150, In the Matter of the Telecommunications Act of 1996: Accounting Safeguards Under the Telecommunications Act of 1996

Dear Mr. Caton:

In accordance with Commission rules, please be advised that yesterday, July 15, 1997, Mr. Pat Doherty, Mr. Bob Schaefer, Ms. Chris Jines and the undersigned representing SBC Communications Inc.(i.e., Southwestern Bell Telephone Company, Pacific Bell and Nevada Bell), Mike Crumling, representing U S WEST and Mr. Gerald Asch, representing Bell Atlantic and NYNEX, spoke with Mr. Jose Rodriquez, Mr. Ron Kaufman, Ms. Alicia Dunnigan, Mr. Thad Machcinski, Ms. Kim Yee, Ms. Janice Jamison, Ms. Jane Whang and Mr. John Hays of the Accounting and Audits Division.

Specifically, the subject discussed was the non-regulated accounting treatment of Section 271(g) incidental interLATA services as ordered in this Docket. The matters discussed are summarized in the attached material, which was handed out at the meeting, and in the Petition for Reconsideration filed in this proceeding by Southwestern Bell Telephone Company (SWBT). Additionally, Bell South and Bell Atlantic-NYNEX filed comments in support of SWBT's Petition on the accounting treatment of certain types of incidental interLATA services.

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The Commission was asked to reconsider its decision in treating any regulated, tariffed service under Section 271(g) as non-regulated for accounting purposes. Parties present submitted, in discussion, that regulated tariffed services do not need special treament in the Part 64 cost allocation process. The current accounting rules are adequate. Furthermore, the current tariff filing requirements and procedures, including the filing of detailed cost support, adequately satisfy the requirements of Sections 254(k) and 271(h) of the Telecommunications Act of 1996. Parties recommended that the Commission continue regulated accounting treatment for those Section 271(g) services that are regulated and tariffed.

An original and one copy is being submitted. Acknowledgment and date of receipt of this transmittal are requested. A duplicate transmittal letter is attached for this purpose. Please include this letter in the record of this proceeding in accordance with Section 1.1206(a)(2) of the Commission's Rules.

Due to the lateness of the conclusion of the meeting yesterday, this letter is being filed with your office today. If you desire further information, please contact me at (202) 326-8894.

Sincerely,

B Beaulieu

Attachment

cc: Mr. Rodriguez (w/attachment)
Mr. Mulitz (w/attachment)
Ms. Dunnigan (w/attachment)
Mr. Machcinski (w/attachment)
Ms. Yee (w/attachment)
Mr. Hays (w/attachment)

CC Docket 96-150 Report and Order
Incidental InterLATA

The Act/Accounting Safeguards Order

- The report and order asserts that Part 64 cost allocation rules should apply to certain types of incidental services that may be provided by incumbent local exchange carriers on an integrated basis(Paragraphs 73 and 75). Incidental services are defined in Section 271(g) in the Act. The order concludes this Part 64 requirement based on the language in Sections 254(k) and 271(h).
  - Section 254(k) prohibits a telecommunications carrier from using services that are not competitive to subsidize services that are subject to competition.
  - Section 271(h) specifically requires the Commission to ensure that the provision of incidental interLATA telecommunications services by a BOC or its affiliate will not adversely affect telephone exchange service ratepayers or competition in any telecommunications market.

Signaling treated as non-regulated

- This order therefore treats incidental interLATA network control signaling, Section 271(g)(6), as a non-regulated service for accounting purposes. These services are tariffed Title II services which are price regulated.

- SBC is very concerned that the fundamental Title II communications component, signaling, which is used to a great degree in providing various regulated Title II services will be considered to be non-regulated for jurisdictional accounting purposes.

Existing Signaling Tariff treated as non-regulated is illogical

- SBC has a recently approved tariff for provision of interLATA access and transport of CCS/SS7 signaling messages associated with call setup and non-call associated signaling messages. This service is a fundamental Title II service employing port termination on SBC Signaling Transfer Points and dedicated 56kbs channels to the interconnecting customers' network.

  SBC believes that it is contrary to the Joint Cost Orders and more importantly illogical to consider a tariffed Title II service as non-regulated. The Joint Cost Orders predicated the definition of non-regulated services on the fact that they were not Title II communications services.

Common Channel Signaling is ubiquitous in regulated services

- There are a number of services (both local and access) where the interconnection, access and interLATA transport of CCS/SS7 signaling messages associated with the service are bundled as part of the basic service, e.g. Calling Name, 800/888 Access and LIDB. On the horizon, AIN services will also employ this signaling.
  As a result, interLATA CCS/SS7 signaling will constitute a dominant part of SBC's regulated network offerings. Maintaining Part 64 cost allocation of signaling will be a burdensome and unnecessary task exacerbated by the Part 64 requirement

to continuously forecast the Common Network Investment for purposes of filing the 495 reports.

The tariff support demonstrates that no cross subsidies will occur

- The above tariff was filed with cost support consistent with Part 61.49(g). This rule requires that new service tariffs must be filed with cost data that would demonstrate that the service would generate a net revenue increase and that this service will not recover more than a reasonable portion of the carrier's overhead costs.

- This cost support is sufficient to determine that no cross subsidies are occurring and that the requirements of the Act are being met. A Part 64 cost allocation is not needed or necessary.

- Tariff filings for signaling and network control signaling will employ cost support calculations which are similar in methodology to the calculations incorporated in the Part 64 CAM allocation algorithms. It would be a redundant exercise to require CAM cost allocation after supplying cost support with the tariff. Additionally, CAM would add no increase in accuracy in determining if cross subsidies occur.

The Tariff Process can satisfy the Act

- Review of this filed cost support should serve to satisfy the needs of the Act as expressed in the initial point of this document. Cost support should demonstrate that 1)no cross subsidies are occurring, 2)that telephone exchange ratepayers are not being harmed, and 3)that competition in any telecommunications market is not being adversely affected.

  Therefore, Title II services that are regulated and tariffed should not be subject to Part 64 cost allocation.