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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	CC Docket No. 91-213
End User Common Line Charges	CC Docket No. 95-72

REPLY COMMENTS OF AT&T CORP.

Pursuant to the Commission's Further Notice of Proposed Rulemaking,[1] and Section 1.415 of the Commission's Rules, 47 C.F.R. § 1.415, AT&T Corp. ("AT&T") hereby replies to other parties' comments[2] on the Commission's tentative conclusion to: (i) allow incumbent local exchange carriers ("LECs") to apply the newly created presubcribed interexchange carrier charge ("PICC") to special access lines, and (ii) reform the allocation of general support facilities ("GSF") in the interstate jurisdiction to ensure assignment of

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1 Access Charge Reform, CC Docket Nos. 96-262, 94-1, 91-213, 95-72, First Report and Order (and Further Notice of Proposed Rulemaking), FCC 97-158, released May 16, 1997 ("Access Reform Order" and "FNPRM," respectively).

2 A list of parties filing comments and the abbreviations used to identify them herein is attached as Appendix A.

nonregulated costs to the billing and collection category. In its comments AT&T showed that because the Commission should not create new cross-subsidy opportunities and should eradicate those that exist, AT&T opposes the first proposal and endorses the second.

As AT&T shows in Part I, the comments overwhelmingly agree that the Commission should *not* allow LECs to apply PICCs to special access because it would establish a new cross-subsidy rather than serve to move rates closer to cost. Moreover, any such assessment of PICCs would only encourage customers to move to alternative suppliers of special access, whose services are not burdened with this non-cost-based subsidy.

In Part II, AT&T demonstrates that, contrary to some LEC assertions, the Commission correctly concludes that it should adopt a mechanism to ensure that the costs of general support facilities that support the LECs' nonregulated billing and collection activities can no longer be recovered through access charges. There is broad consensus among the commenters that a modified Big Three Expense allocator, rather than reliance on special studies, would best accomplish this result without increasing administrative burdens.

I. THE COMMISSION SHOULD NOT IMPOSE PICCS ON SPECIAL ACCESS LINES.

As Sprint (at 1) aptly points out, the Commission's proposal to impose PICCs on special access lines is "unsound as a matter of economics, unnecessary as a matter of policy, and

untenable as a matter of law." Rarely in the course of the Commission's access reform proceeding has there been unanimous agreement: *all* commenters oppose the Commission's proposal to impose PICCs on special access lines.

First, as many parties point out, applying PICCs to special access is contrary to the Commission's efforts to remove price-distorting cross-subsidies in interstate switched access rate structures and is inconsistent with the 1996 Telecommunication Act's requirement that implicit subsidies should be replaced by explicit, competitively neutral ones.[3] As the Commission points out (para. 404) and the parties confirm, to impose PICCs on special access would be "a departure from established Commission practice that special access will not subsidize other services."[4] Given that subsidies generate inefficient economic behavior and the key purpose of universal service and access reform is to eliminate implicit subsidies from access charges and make access charges cost-based, the Commission should not take a step that would be inconsistent with and undermine these initiatives.

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[3] Ad Hoc at 4; AOL at 3; AT&T at 5; CBT at 1; CompTel at 5; Frontier at 4; ITAA/Coalition at 9-10; MCI at ii; Sprint at 3; USTA at 2.

[4] Because the PICC is designed to recover expanded common line costs (including the nontraffic sensitive line port component of the local exchange switch), and special access customers do not use either the common line or the local switch, forcing them to pay PICCs would be a patent cross-subsidy. See AT&T at 5 n.3; CompTel at 5; Frontier at 4; Sprint at 3-4; USTA at 2.

If anything, the Commission's suggestion that there may be a need for special access PICCs simply underscores the fact that, even with the Access Reform Order, switched access is still priced too high and interexchange carriers ("IXCs") continue to inappropriately bear common line-related costs -- despite the fact that those costs are caused exclusively by end user customers.[5] The Commission should address directly the continuing problems resulting from subsidies embedded in switched access rates rather than create new cross-subsidy bandaids, such as those proposed in the FNPRM, which would only create new incentives for inefficient behavior.

Moreover, the commenters agree that in suggesting that special access PICCs may be necessary, the Commission simply assumes, on pure speculation, that multiline business customers will shift to special access because the increased SLCs and PICCS will make it in their economic interest to do so.[6] However, as the comments show, the Commission ignores the fact that interstate special access and switched access are functionally *different* offerings; special access delivers toll traffic to the IXC whereas switched access also allows customers to access all local service functions, and that special access *must* be used for certain applications (such as

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[5] GTE at 3; MCI at 4; SBC Companies at 3-4.

[6] Ad Hoc at 8-9; AOL at 6; AT&T at 6; CompTel at 8; Sprint at 1; WorldCom at 5.

high speed data) for which switched access is unsuitable.[7] Even in those instances where a customer could forego local switching, the Commission overlooks the fact that potential nonrecurring charges, the need to modify customer premises equipment, and other provisioning issues, coupled with the fact that the higher PICCs on switched multiline business lines would be temporary, will tend to deter the predicted migration.[8] Most fundamentally, as several commenters point out, the reduction in usage-sensitive switched access rates under the Access Reform Order will tend to offset the higher subscriber line charges and PICCs on multiline business customers and thereby *discourage* migration by these customers to special access.[9]

Nonetheless, as AT&T had pointed out (at 6), to the extent that some customers do migrate from switched to special access, the Commission should regard this as a healthy, market driven way to put downward pressure on switched access rates. If, in fact, the LECs start losing customers to cost-based access alternatives (whether those alternatives are unbundled network elements ("UNEs") or special access) that result is completely consistent with the Commission's desire to have the market operate to drive switched access rates lower.

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[7] Ad Hoc at 12-14; API at 4; AT&T at 6; WorldCom at 2-4.

[8] Ad Hoc at 11; AT&T at 6; MCI at 5.

[9] Ad Hoc at 8-9; CompTel at 8; ITAA/Coalition at 5-8; Sprint at 1; WorldCom at 5.

To the extent that the Commission's special access PICC proposal was intended to help the LECs retain revenues, as the commenters show, it would backfire. As Bell Atlantic/NYNEX (at 4) and others indicate, imposing PICCs on special access would only "compound . . . uneconomic incentives for customers to migrate from the LECs' networks to competing carriers."[10] Moreover, applying PICCs to special access would create a pricing umbrella for new entry and thus stimulate inefficient entry in local markets.[11] For all of these reasons, the Commission should not allow LECs to apply PICCs to special access.

II. THE COMMISSION SHOULD MODIFY THE ALLOCATION OF GENERAL SUPPORT FACILITIES TO ENSURE THAT THE COSTS OF BILLING AND COLLECTION SERVICES ARE NOT IMPOSED ON ACCESS CUSTOMERS.

As the Commission acknowledges in the FNPRM (para. 407) "the current allocation of GSF costs enables incumbent LECs to recover through regulated interstate access charges

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[10] API at 7; Ameritech at 3; BellSouth at 4; Frontier at 3; GTE at 3; ITAA/Coalition at 9; SBC Companies at 2; U S WEST at 3. For this reason, SBC (at 2-3) asserts that if the Commission assesses PICCs on LEC special access, it should assess the PICCs on purchasers of unbundled elements as well. To the contrary, if the Commission, nonetheless, decides to impose the PICC on LEC special access (which it should *not*), it should make clear that the PICC may only be assessed on special access used for long distance services and that it may not be imposed when a special access line is used for local service, *i.e.*, when it functions as a UNE. Because the PICC is an access charge, this clarification would implement the Commission's finding that purchasers of UNEs are *not* required to pay access charges (para. 337).

[11] Ad Hoc at 5; Frontier at 4 (penalizes the LEC).

costs associated with the LECs' nonregulated billing and collection functions." This is because although the LECs use GSF investment, including general purpose computer equipment, to provide nonregulated billing and collection services to IXCs, the costs of providing interstate billing and collection services are not treated as nonregulated in the Part 64 cost allocation process, and the Part 36 and 69 cost allocation processes used to identify these expenses do not assign them to the billing and collection category.

Notwithstanding these facts, the LECs advance various arguments as to why the Commission should not reallocate GSF or, if it does so, it should ensure that the reallocation has no downward price effect on access rates. These LEC suggestions should be rejected.

First, several LECs suggest that the Commission should not reallocate GSF but rather should leave the issue to separations reform or some other comprehensive review.[12] To the contrary, there is no need to wait for future proceedings to address the GSF problem because the Commission's reallocation proposals are confined to the interstate jurisdiction.

Second, Ameritech's suggestion (at 4-5) that the reallocation of GSF should *not* result in a downward exogenous adjustment because it is a noneconomic cost analogous to OPEB is nonsense. GSF is a real cost that is being improperly

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[12] BellSouth at 2, 5; CBT at 2; USTA at 4.

recovered through access charges. The recovery of these costs, which are clearly associated with nonregulated billing and collection services (para. 414), through access charges is contrary to the Commission's explicit goal of preventing carriers from using their regulated services to support their nonregulated operations. This burdening of regulated access with the costs of billing and collection is fundamentally inconsistent with the Commission's objective of ensuring full cost separation between regulated and nonregulated activities.[13]

As MCI (at iii, 11) correctly points out, for price cap LECs, the only mechanism for removing these misassigned costs from their price cap indices ("PCIs") is through a downward exogenous adjustment. This downward adjustment is necessary whether or not IXCs take-back their billing from the LECs, otherwise these misassigned costs will remain in the LECs' PCIs. These costs, associated with a nonregulated offering, do not belong in regulated rates and, for that reason and contrary to Ameritech's assertion (at 4-5), any future upward exogenous adjustment, in the event of IXC take-back of billing, would be inappropriate.

Assuming GSF costs are reallocated -- as AT&T and others have shown they should be -- there is broad consensus that the Commission should not require a special study to

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[13] AT&T at 8-9; MCI at 10; Separation of Costs of Regulated Telephone Services from Costs of Nonregulated Activities, 2 FCC Rcd. 1298, para. 37 (1987) ("Joint Cost Order").

assign GSF to the billing and collection category. The comments confirm the Commission's own view (para. 416) that special studies would be costly and burdensome and would give the LEC too much discretion as to how it identifies costs.[14]

By contrast, there is broad support for the use of a modified Big Three Expense allocator for the allocation of GSF because it is straightforward and simple to administer.[15] However, several parties, including Ameritech, Bell Atlantic/NYNEX, GTE, Sprint, U S WEST and USTA, suggest that the Commission should modify the proposed Big Three Expense allocator so that it is used only to allocate the general purpose computers in Accounts 2124 and 6124, respectively (rather than all of Accounts 2110 and 6120), contending that otherwise it will overallocate costs to the billing and collection category. To the contrary, general purpose computers, as well as the supporting land, buildings, office equipment etc. and related expenses, all support nonregulated billing and collection services. The Commission itself recognized this in both the Access Reform Order (paras. 326-328) and the ENPRM (para. 407) by acknowledging that "general support facilities" (not some subset of those facilities) were misassigned. Therefore, contrary to the LECs' position, the Commission's second option, namely, to use the Big Three

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[14] Ameritech at 6; AT&T at 9; Frontier at 5; GTE at 7; MCI at 14; USTA at 4.

[15] Ameritech at 7; AT&T at 10; Bell Atlantic/NYNEX at 7; GTE at 8; MCI at 15; Sprint at 4; U S WEST at 6; USTA at 5.

Allocator to allocate to the billing and collection category an appropriate portion of the GSF investment and expenses in Accounts 2210 and 6210 that support the provision of the LECs' nonregulated billing and collection services, is the correct approach.[16]

CONCLUSION

For the reasons stated above, and consistent with its objective of moving interstate access rates to cost-based levels, the Commission should not apply PICCs to special access lines, and it should modify the allocation of GSF to the billing and collection category.

Respectfully submitted,

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[16] It should be noted that with the exception of the billing and collection category, all other Part 69 access and non-access (*i.e.*, Interexchange) categories receive an allocation of GSF investment and expenses that support the services in each category. Similarly, the GSF investment and expenses that support LEC billing and collection services should likewise be removed from access and assigned to the non-access billing and collection category. The Commission's second option does just that.

LIST OF COMMENTERS
CC DOCKET 96-262 FNPRM

Ad Hoc Telecommunications Users Committee ("Ad Hoc")

America Online, Inc. ("AOL")

American Petroleum Institute ("API")

Ameritech

AT&T Corp. ("AT&T")

Bell Atlantic and NYNEX ("Bell Atlantic/NYNEX")

BellSouth Corporation and BellSouth Telecommunications Inc. ("BellSouth")

Cincinnati Bell Telephone Company ("CBT")

Competitive Telecommunications Association ("CompTel")

Frontier Corporation ("Frontier")

GTE Service Corporation and its affiliated telephone operating companies ("GTE")

Information Technology Association of America and Internet Access Coalition ("ITAA/Coalition")

MCI Communications Corporation ("MCI")

The Southern New England Telephone Company ("SNET")

Southwestern Bell Telephone Company and Pacific Bell and Nevada Bell ("SBC Companies")

Sprint Corporation ("Sprint")

United States Telephone Association ("USTA")

U S WEST, Inc. ("U S WEST")

WorldCom, Inc. ("WorldCom")

CERTIFICATE OF SERVICE

I, Viola J. Carlone, do hereby certify that on this 11th day of July, 1997, a copy of the foregoing Reply Comments of AT&T Corp. was served by U.S. first class mail, postage prepaid, to the parties listed on the attached Service List.

/s/ Viola J. Carlone
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