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September 5, 1997

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FEDERAL COMMUNICATIONS COMMISSION
OFFICE OF THE SECRETARY

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

DOCKET FILE COPY ORIGINAL

RE: Erratum -- Ameritech Reply Comments in Response to Petitions For Reconsideration -- CC Docket Nos. 96-262, 94-1, 91-213, and, 95-72.

Dear Mr. Caton:

Please accept for filing this corrected page number 2 to be substituted for the corresponding page in the reply comments filed by Ameritech with respect to petitions for reconsideration in the above captioned proceeding. For your convenience, a corrected copy of the filing in its entirety is also attached.

A copy of the corrected page has also been sent to all of the parties on the attached service list.

Sincerely,

Michael S. Pabian

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charges more accurately reflect the manner in which costs are incurred, thereby facilitating the movement to a competitive environment."[3] With that in mind, Ameritech offers the following observations:

The comments provide substantial support for USTA's request that, in order to avoid competitive distortions, primary interexchange carrier charges ("PICCs") be assessed relative to Centrex lines on a trunk-equivalency basis.

In addition, there is no significant opposition to USTA's proposal to recover retail marketing expenses from all lines as opposed to from on multi-line PICCs.

Further, parties supporting PFRs that have asked the Commission to reconsider its decisions to allocate tandem switching costs to the tandem switching rate element and to eliminate the unitary rate structure for tandem-switched transport simply ignore the distorting effect that would continue if these cost-causative changes were not made.

In addition, there has been no legitimate reason put forth for the Commission to reconsider its decision to establish tandem multiplexing charges for tandem-switched transport.

Also, the comments provide no justification for the Commission to reconsider its decision to make the transport interconnection charge ("TIC") exemption for non-LEC transported minutes to be effective on January 1, 1998 --

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[3] *Id.* at ¶13.

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Before the
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Washington, D.C. 20554

In the Matter of	)	
	)	
Access 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

REPLY OF AMERITECH TO COMMENTS ON PETITIONS FOR RECONSIDERATION

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Dated: September 3, 1997

TABLE OF CONTENTS

I. SUMMARY. 1

II. MULTI-LINE PICCs RELATIVE TO CENTREX LINES SHOULD BE ASSESSED ON A TRUNK-EQUIVALENCY BASIS. 3

III. MARKETING EXPENSES SHOULD BE RECOVERED FROM ALL LINES. 5

IV. THE COMMISSION CORRECTLY REQUIRED FOR THE REALLOCATION OF TANDEM SWITCHING COSTS TO THE TANDEM SWITCHING RATE ELEMENT. 6

V. THE COMMISSION SHOULD NOT RECONSIDER ITS DECISION TO ELIMINATE THE UNITARY RATE STRUCTURE. 8

VI. THE COMMISSION SHOULD NOT RECONSIDER ITS DECISION TO CREATE RATE ELEMENTS FOR TANDEM MULTIPLEXING IN CONNECTION WITH TANDEM-SWITCHED TRANSPORT. 9

VII. THE TIC EXEMPTION FOR NON-LEC TRANSPORTED MINUTES SHOULD NOT TAKE EFFECT PRIOR TO JANUARY 1, 1998. 10

VIII. UNTIL THEY ARE ASSIGNED TO THE TANDEM SWITCHING RATE ELEMENT, TANDEM SWITCHING COSTS CONTAINED IN THE TIC SHOULD BE CONSIDERED PART OF THE RESIDUAL TIC AND, THEREFORE, ASSIGNABLE TO PICCs. 11

IX. THE COMMISSION SHOULD NOT EXPAND ITS NON-RECURRING CHARGE WAIVER PROVISIONS. 13

X. THE COMMISSION SHOULD NOT IMPOSE A "FRESH LOOK" REQUIREMENT ON LEC ACCESS SERVICES 14

XI. THE COMMISSION SHOULD CONTINUE TO PERMIT THE IMPLEMENTATION OF UNBUNDLED SS7 CHARGES. 16

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	)	
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REPLY OF AMERITECH TO COMMENTS ON PETITIONS FOR RECONSIDERATION

Ameritech[1] submits this reply to comments on the petitions for reconsideration and or clarification ("PFRs") filed with respect to the Commission's Access Reform Order.[2]

I. SUMMARY.

In examining the comments filed in response to the PFRs, the Commission should keep in mind one of the fundamental goals of this docket -- to remove distortions and inefficiencies in the current access rate structure and "ensure that

[1] Ameritech means: Illinois Bell Telephone Company, Indiana Bell Telephone Company, Incorporated, Michigan Bell Telephone Company, The Ohio Bell Telephone Company and Wisconsin Bell, Inc.

[2] *In the Matter of Access Reform, Price Cap Performance Review for Local Exchange Carriers, Transport Rate Structure and Pricing, End User Common Line Charges,* CC Docket Nos. 96-262, 94-1, 91-213, 95-72, First Report and Order, FCC 97-158 (released May 16, 1997) ("Access Reform Order").

charges more accurately reflect the manner in which costs are incurred, thereby facilitating the movement to a competitive environment."[3] With that in mind, Ameritech offers the following observations:

The comments provide substantial support for USTA's request that, in order to avoid competitive distortions, primary interexchange carrier charges ("PICCs") be assessed relative to Centrex lines on a trunk-equivalency basis.

In addition, there is no significant opposition to USTA's proposal to recover retail marketing expenses from all lines as opposed to from on multi-line PICCs.

Further, parties supporting PFRs that have asked the Commission to reconsider its decisions to allocate tandem switching costs to the tandem switching rate element and to eliminate the unitary rate structure for tandem-switched transport simply ignore the distorting effect that would continue if these cost-causative changes were not made.

In addition, there has been no legitimate reason put forth for the Commission to reconsider its decision to establish tandem multiplexing charges for tandem-switched transport.

Also, the comments provide no justification for the Commission to reconsider its decision to make the transport interconnection charge ("TIC") exemption for non-LEC transported minutes to be effective on January 1, 1998 --

[3] *Id.* at ¶13.

the same time at which costs will be removed from the residual TIC and transferred to other rate elements.

On the other hand, the comments raise an issue as to whether, after January 1, 1998, amounts that have not yet been transitioned from the TIC to the tandem switching rate element should be considered part of the residual TIC for either the exemption or for the assignability of those costs to the PICCs. It appears that the better view would be to treat those amounts as part of the residual TIC for both purposes.

Further, the comments provide no justification for the Commission to establish a "fresh look" requirement or to expand its non-recurring charge ("NRC") waiver provision to those situations in which an interexchange carrier ("IXC") relocates its point of presence ("POP") or chooses to move its business to a competitive access provider ("CAP").

Finally, USTA correctly points out that there is no merit to WorldCom's request that the Commission reconsider its decision on the unbundled recovery of SS7 signaling costs.

II. MULTI-LINE PICCs RELATIVE TO CENTREX LINES SHOULD BE ASSESSED ON A TRUNK-EQUIVALENCY BASIS.

There was significant support for the request of USTA, ICA, and the County of Los Angeles for the Commission to provide that PICCs relative to

Centrex lines be assessed on a trunk-equivalency basis.[4] In fact, there was very little opposition.

AT&T opposed the request by stating that a relatively higher total assessment of multi-line PICCs on Centrex users is justified by costs caused by Centrex's use of more loops.[5] That argument, however, carries no weight since the multi-line PICC will not recover the costs of multi-line loops. Given the differential caps on the single line and multi-line subscriber line charges ("SLCs") and the way in which costs are recovered via the PICCs, if the multi-line PICC recovers any loop cost at all, it would be the cost of the primary residence and single line business loops whose SLC caps are lower. Moreover, PICCs will be the vehicle by which local exchange carriers ("LECs") recover their contributions to universal service funding -- costs in no way associated with Centrex loops.

Simply put, the PICC is a subsidy vehicle, and trunk-equivalency is necessary to avoid an inequitable assessment of the cost of this subsidy. Although the PICCs are assessed to interexchange carriers ("IXCs"), it is safe to assume that any differences in total PICC cost imposed on the IXCs will be reflected in their charges to multi-line business customers -- especially in the case of large accounts. Unless multi-line PICCs are assessed on a trunk-equivalency basis, the

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[4] See API at 9-10, Boston University *passim*, Ad Hoc at 9-11, Bell Atlantic at 14-16, SNET at 2, GTE at 19-20, City of New York Dept. of Information Technology and Telecommunications *passim*.

[5] AT&T at 13.

end result would be to burden Centrex customers with a subsidy cost that is ten times higher than the subsidy burden that would be imposed upon a PBX customer with an equal number of stations and an equivalent long distance calling pattern. This result is certainly not competitively neutral. Moreover, it is also undesirable because it would have a disproportionate effect on government, educational institutions, and health care organizations which represent more than a third of the Centrex lines in Ameritech territory.

While Time Warner argues that imposing the multi-line PICC on Centrex is simply part of the Commission's access charge transition to a more cost-causative rate structure,[6] that is no reason to place a disproportionate subsidy on Centrex customers because of their choice of technology that has nothing whatsoever to do with the costs being recovered by the PICC itself.

Therefore, the Commission should grant the request to assess PICCs relative to Centrex lines on a trunk-equivalency basis.

III. MARKETING EXPENSES SHOULD BE RECOVERED FROM ALL LINES.

Several parties supported USTA's request that the Commission reconsider its decision to recover retail marketing expenses only on multi-line PICCs.[7]

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[6] Time Warner at 8.

[7] Ad Hoc at 3-4, Sprint at 2, BellSouth at 2-3, Bell Atlantic at 11-14, SNET at 3; see also August 14, 1997, letter from the National Centrex Users Group.

Opposition was minimal and non-persuasive. For example, MCI opposed USTA's proposal because it "does not adhere to the principles of cost-causation."[8] However, as USTA has shown in its reply comments, a substantial portion of retail marketing expense is attributable to marketing activity that is not related to multi-line business accounts. The Commission's proposal, therefore, deviates from the principles of cost-causation to a greater degree than USTA's proposal ever could. To minimize the severity of this distortion, therefore, the Commission should permit the recovery of retail marketing expenses via charges on all lines.

IV. THE COMMISSION CORRECTLY REQUIRED FOR THE REALLOCATION OF TANDEM SWITCHING COSTS TO THE TANDEM SWITCHING RATE ELEMENT.

Several IXCs have requested that the Commission reverse its decision to reallocate all tandem switching costs from the TIC to the tandem switching charge.[9] TRA supports those petitions.[10] CompTel and MCI argue instead for the Commission to prescribe the tandem switching charge to TELRIC levels.[11] These comments, however, ignore the fact that the Commission's decision in this regard was a rational and logical part of an overall reconfiguration of the access charge regime to a more cost-causative structure.

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[8] MCI at 24-25.

[9] See PFRs of WorldCom, CompTel, ACTA, Call America, USLD, and Frontier.

[10] TRA at 11-14.

[11] CompTel at 7-9, MCI at 11-12.

Exempting the tandem switching charge from this reconfiguration or treating it differently from the way in which other elements are reconfigured would only cause further distortions. Failing to increase the tandem switching charge so that it can assume a proper portion of the burden currently borne by the TIC would result in a continuation of the subsidy of tandem-switched transport. Assigning costs to the tandem switching charge on a TELRIC basis would be, as the Commission noted,[12] inconsistent with the Commission's readjustment of other rate elements on an embedded cost basis. Moreover, as the Commission noted, it would be premature to begin prescribing access rates to TELRIC levels.[13] Readjusting the access charge rate structure to a more cost-causative configuration should have the result of stimulating economic competition. Prescribing TELRIC rates for access services will likely ensure that competition for access service will develop that much more slowly since potential competitors would have greater difficulty competing against lower prescribed rates and because of distortions in the TELRIC approach itself.

Further, CompTel and TRA[14] mistakenly support the claim in WorldCom's PFR that the Commission's decision with respect to the allocation of overhead loadings to the tandem switching rate element violates the CompTel court

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[12] Access Reform Order at ¶199.

[13] *Id.*

[14] CompTel at 8, TRA at 13-14.

decision.[15] The Commission adequately explained that using investment to allocate overhead loadings is consistent across switching functions and across transport functions,[16] thus satisfying the requirements of the court's ruling. Therefore, no change in overhead allocation is required.

In any event, if the Commission does decide to retreat from its decision to reallocate tandem switching revenues to the tandem switching rate element, it must nonetheless permit LECs to recover those costs in a competitively neutral manner -- *e.g.*, via PICCs. The Commission should not continue to require the recovery of these costs indefinitely in the TIC as an effective surcharge on LEC-provided local switching. That would obviously only distort the market for the competitive provision of switched access services and would be contrary to the very purpose of this docket.

V. THE COMMISSION SHOULD NOT RECONSIDER ITS DECISION TO ELIMINATE THE UNITARY RATE STRUCTURE.

CompTel and TRA[17] support petitions that have asked the Commission to reconsider its decision to eliminate the unitary option for tandem-switched transport.[18] These comments ignore the simple fact that the distortions of the

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[15] 83 F.3d 522 (D.C. Cir. 1996).

[16] Access Reform Order at ¶203.

[17] CompTel at 9-12, TRA at 6-11.

[18] Petitions of CompTel, Telco., Frontier, USLD, Call America, WorldCom.

unitary option encouraged inefficient behavior by IXCs. It provided no incentive either for IXCs to locate their POPs in proximity to the tandems that they required the LECs to use to provide tandem-switched transport service or for resellers to share facilities from the tandem to the POPs of the underlying facilities-based IXCs. Moreover, since the tandem-to-serving wire center portion of tandem-switched transport is dedicated, the more cost-causative rate structure that is the goal of the Commission's access reform efforts in the first place must encompass a requirement that the charges for this link be the same as for other dedicated transport.[19]

VI. THE COMMISSION SHOULD NOT RECONSIDER ITS DECISION TO CREATE RATE ELEMENTS FOR TANDEM MULTIPLEXING IN CONNECTION WITH TANDEM-SWITCHED TRANSPORT.

CompTel supported WorldCom's request that the Commission reconsider its decision to create charges for multiplexing at the tandem in connection with tandem-switched transport.[20] WorldCom complains that, since there is no charge for any intermediate multiplexing for direct trunked transport, there should be none for tandem-switched transport. This complaint, however, is misplaced.

The complaint ignores the fact that, even if dedicated transport is physically routed through the tandem, there may be no multiplexing involved. If there is

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[19] See AT&T at 3-7.

[20] CompTel at 13 supporting WorldCom PFR at 18-19.

any intermediate multiplexing, it is at the discretion of the LEC and done only in those cases in which it would increase network efficiency and reduce cost. In the case of tandem-switched transport on the other hand, multiplexing on the end office side of the tandem must be performed in all cases because of the IXC's request to route the traffic through the tandem switch, despite network inefficiencies that may be created by that request. Thus, it is appropriate that the access customer requesting tandem-switched transport be required to pay for the costs necessarily incurred as a result of that decision.

In any event, on the serving wire center side of the tandem switch, tandem-switched transport, like dedicated transport, will incur a multiplexing charge only where the connecting dedicated transport is requested at a level other than DS1.

VII. THE TIC EXEMPTION FOR NON-LEC TRANSPORTED MINUTES SHOULD NOT TAKE EFFECT PRIOR TO JANUARY 1, 1998.

Several parties[21] support AT&T's and TCG's request that the Commission reconsider its decision to set January 1, 1998, as the effective date for the TIC exemption for non-LEC transported minutes.[22] The Errata Order simply clarifies what was previously implicit -- that the TIC exemption should not commence until a substantial portion of the costs contained in the TIC have been transferred to other rate elements on a cost-causative basis. Prior to that time, nothing would

[21] TRA at 15, MCI at 15, Hyperion *passim*, Time Warner at 15.

[22] See Errata Order of June 4.

have changed with respect to the nature of the TIC itself and there would have been no reason to change the manner in which it is assessed. That being the case, accelerating the exemption to July 1, 1997, would be inappropriate, and those requests should be denied.

VIII. UNTIL THEY ARE ASSIGNED TO THE TANDEM SWITCHING RATE ELEMENT, TANDEM SWITCHING COSTS CONTAINED IN THE TIC SHOULD BE CONSIDERED PART OF THE RESIDUAL TIC AND, THEREFORE, ASSIGNABLE TO PICCs.

In the Access Reform Order, the Commission provided for the transfer of costs currently recovered in the TIC, that can be specifically associated with other rate elements, to those rate elements. In all cases, except for tandem switching costs, the transfer is to take place on a flash-cut basis effective January 1, 1998.[23] For tandem switching related costs, the reallocation is to take place in three approximately equal annual steps beginning January 1, 1998.[24] Effectively, after the January 1, 1998, tariff changes, all specifically identified costs will be removed from the TIC except for approximately 2/3 of costs specifically associated with tandem switching.

With respect to these costs, MCI has challenged the assumption contained in NYNEX's Petition for Stay that these costs could be transferred to the PICCs,

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[23] Access Reform Order at ¶¶217-223.

[24] *Id.* at ¶218.

subject to appropriate caps, along with the balance of the residual TIC.[25] MCI claims that only "residual interconnection charge revenues" may be recovered through the PICCs and that the Commission's Order has defined the residual interconnection charge as an amount that excludes revenues that are expected to be reassigned on a cost-causative basis in the future.

On the other hand, MCI also criticizes the assumption contained in the RCN's PFR that, because the TIC exemption for non-LEC transported minutes is limited to the residual interconnection charge, it does not apply to the yet-to-be-transferred tandem switching costs that remain in the TIC after January 1, 1998.

While MCI's comments do point to an ambiguity in the Commission's rules, MCI seems to want to have it both ways. When it comes to whether these costs may be assigned to the PICCs, MCI would exclude these costs from the definition of residual interconnection charge revenues. However, when it comes to the application of the TIC exemption, MCI would include these amounts in residual interconnection charge revenues subject to the exemption.

To Ameritech, it seems that it would be reasonable for the Commission to include these amounts, as NYNEX assumed, in "residual interconnection charge revenues." Thus, they would be subject to the TIC exemption but, at the same time, assignable (within cap limits) to the PICCs. This would avoid the necessity of creating another rate element that could be assessed on non-LEC transported

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[25] MCI at 13-14.

minutes to recover these amounts, since they would not be included in the residual TIC exemption.

IX. THE COMMISSION SHOULD NOT EXPAND ITS NON-RECURRING CHARGE WAIVER PROVISIONS.

In the Access Reform Order, the Commission provided that, with the elimination of the unitary rate option, LECs should provide for a six-month waiver of NRC for IXCs that shift from tandem switched transport to direct trunked transport access service.[26] As the Commission noted, this waiver is essentially identical to the one that the Commission adopted on the implementation of the interim transport rate structure.[27]

Via PFRs, parties have asked the Commission to expand the scope of the NRC waiver requirement to those instances in which an IXC shifts its service to a competitive provider[28] and to those situations in which IXCs relocate their POPs.[29] The supporting comments[30] have provided no additional justification for the Commission to expand the waiver requirement.

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[26] Access Reform Order at ¶176.

[27] *In the Matter of Transport Rate Structure and Pricing,* CC Docket No. 91-213, Report and Order and Further Notice of Proposed Rulemaking, FCC 92-442 (released October 16, 1992) 7 FCC Rcd. 7006 at ¶60.

[28] WorldCom PFR.

[29] Telco, Excel, RCN PFRs.

[30] MCI at 16, KMC at 7-8 supporting WorldCom; CompTel at 14 supporting Telco, Excel, and RCN.

No prior Commission order has required that NRCs be waived any time an access customer shifts its service to a competitor. When an access customer shifts from one LEC service to another, such as when an IXC changes from tandem switched transport to direct trunked transport, the revenues from that second service still remain to partially offset the non-recurring costs associated with that reconfiguration. That is obviously not the case when a customer transfers its access service to a competitive provider. If the economic reconfigurations of the Commission's Access Reform Order make the services of a CAP more attractive to an IXC, the LEC should not have to subsidize the move by waiving any applicable charges (and its right to compensation for costs actually incurred).

With respect to the relocation of POPs, the Commission has not previously required the waiver of NRCs under those circumstances. Moreover, access customers have known that for some time that the Commission's interim transport rate structure was just that -- interim. Waiving NRCs for relocation of POPs would effectively subsidize the economic costs of an IXC's decision to locate its POP in an economically inefficient location.

In summary, the Commission's NRC waiver requirement is an extreme one and should not be expanded to situations that have not been covered before.

X. THE COMMISSION SHOULD NOT IMPOSE A "FRESH LOOK" REQUIREMENT ON LEC ACCESS SERVICES.

TCG's request that the Commission impose a "fresh look" requirement to release access customers from their contractual obligations for LEC access service received support from LBC and KMC.[31] The circumstances in this docket, however, are substantially different from those that were involved the last time the Commission imposed a fresh look requirement.

In its expanded interconnection proceeding,[32] the Commission was interested in removing what it perceived as a barrier to the competitive provision of access services. In that context, to facilitate the development of that competition after the removal of the perceived hurdle, it provided that termination charges should be limited on those LEC access arrangements with terms of three years or longer for a period of time after the date the first expanded interconnection arrangement became operational in a given central office.[33]

This docket, on the other hand deals with a related, but substantially different issue -- that of rearranging the LECs' access charge rate structure to a more cost-causative one to permit competition to occur on economically rational

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[31] LBC at 2-3, LMC at 1-6.

[32] CC Docket No. 91-141.

[33] *In the Matter of Expanded Interconnection with Local Telephone Company Facilities,* CC Docket No. 91-141 First Report and Order and Notice of Proposed Rulemaking, FCC 92-440 (released October 19, 1992) 7 FCC Rcd. 7369 at ¶201

terms. The biggest resulting rate changes -- for tandem switching and tandem-switched transport -- relate to usage sensitive charges which are assessed on a month-to-month basis in any event so that no fresh look would be applicable. Moreover, even if some contract rates were increased, that would only be an indication that the access customer received a "bargain" heretofore and that its subsequent move to a competitive provider should not be subsidized.

XI. THE COMMISSION SHOULD CONTINUE TO PERMIT THE IMPLEMENTATION OF UNBUNDLED SS7 CHARGES.

WorldCom has asked the Commission to reconsider its decision to establish new unbundled charges to recover SS7 costs.[34] It complains primarily that charging the IXCs for costs would amount to double recovery. USTA's comments,[35]

[34] WorldCom PFR at 21.

[35] USTA at 8.