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Before the
FEDERAL COMMUNICATIONS COMMISSION
Washington, D.C. 20554

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FEDERAL COMMUNICATIONS COMMISSION
OFFICE OF THE SECRETARY

In the Matter of	)	
	)	
Implementation of the	)	CC Docket No. 96-128
Pay Telephone Reclassification	)	
and Compensation Act of 1996	)	

REPLY COMMENTS OF THE
UNITED STATES TELEPHONE ASSOCIATION

The United States Telephone Association ("USTA") hereby files these reply comments to comments raised in response to the Commission's *Public Notice*.[1] USTA is the principal trade association for the local exchange carrier industry ("LECs").

COMPENSATION AND ASSET VALUATION ISSUES WHICH MUST BE ADDRESSED

In the Public Notice, the Commission requested comments on whether "LECs that carry toll traffic ... [should also] ... pay interim compensation ...."[2] USTA's comments and reply comments filed in this proceeding supported the concept that the carrier pays compensation to the payphone service provider ("PSP").[3] USTA agreed with the Commission's position that "[t]his method is the most efficient and least costly means to ensure that the carrier who receives

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1 *Public Notice* DA 97-1673 released August 26, 1997.

2 *Id.* at 3.

3 USTA Comments at 5 (July 1, 1996); USTA Reply Comments at 6 (July 16, 1996).

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the primary economic benefit from the call be responsible for compensating the payphone service provider."[4] The Court affirmed the Commission's "carrier pays" compensation requirement.[5]

USTA supports the comments expressed by the RBOC/GTE/SNET Payphone Coalition ("Payphone Coalition") that LECs with toll revenues of $1 million per month or less should be exempt from interim payphone contributions. As the Payphone Coalition stated:

> The Commission simply cannot be expected to calculate exact allocations of per-call compensation for even the smallest of carriers, especially in the absence of any reliable data regarding the volume (or the types) of calls they carry. Accordingly, carriers with less than $1million in toll revenues per month should be exempt. On average, their contribution to the interim-compensation plan would be too insubstantial to justify the administrative effort necessary to identify them, estimate their share, and ensure payment.[6]

By adopting the recommendation of the Payphone Coalition, small, mid-size and rural LECs will avoid costly administrative burdens.

USTA has consistently urged the Commission to fairly compensate all payphone service providers for all completed payphone calls, including 0+ calls.[7] The position argued by the Payphone Coalition that 0+ calls, including inmate calls, be subject to interim compensation is appropriate, and USTA urges the Commission to adopt this recommendation.[8] Moreover,

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4 USTA Reply Comments at 6 (July 15, 1996).

5 *Illinois Public Telecommunications Ass'n v. FCC*, Nos. 96-1394 *et al.* (D.C. Cir. July 1, 1997).

6 RBOC/GTE/SNET Payhone Coalition Comments at 34.

7 USTA Comments at 2-4 (July 1, 1996); USTA Reply Comments at 3-5 (July 1, 1996).

8 RBOC/GTE/SNET Payphone Coalition Comments at 35-37.

USTA supports the position of the Payphone Coalition that the Commission should "make adjustments to interim compensation on 0+ calls and inmate payhones retroactive to the start of the interim compensation period (for LECs April 15, 1997)."[9] As the Payphone Coalition stated in its Comments, "Because the Commission is without authority to refuse to provide the compensation that Congress required, its decision regarding compensation on 0+ calls and inmate payphones must be retroactive to April 15."[10] USTA also supports the Payphone Coalition argument that "changes to the per-call compensation amount also should be retroactive...."[11]

Regarding the appropriate valuation of LEC payphone assets transferred to separate subsidiaries, USTA supports the net book value approach. In its July 1, 1996 Comments, USTA stated:

> Net book value is appropriate for a number of reasons. Net book value is currently used by incumbent exchange carriers pursuant to the Joint Cost Order. The organization and administrative cost of establishing independent valuation would be significant for assets which have such a limited market in which to be purchased. Finally, because the transfer is mandatory, the impact of the transfer should be neutral: neither the customers of regulated services nor the future customers of nonregulated services should receive a benefit from the transfer.[12]

USTA supports the well-reasoned comments of the Payphone Coalition urging the Commission to adopt net book valuation for the transfer of LEC payphone assets to separate

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[9] *Id.* at 38.

[10] *Id.*

[11] *Id.*

[12] USTA Comments at 7-8.

subsidiaries. As the Payphone Coalition opines, "the Commission must use net book value, the methodology it consistently has used when detariffing CPE in the past, that is mandated under GAAP, and that repeatedly has been used and approved by the courts."[13]

IMPLEMENTATION OF CODES REQUIRED TO IDENTIFY PAYPHONE CALLS AND COMPENSATION FOR SUCH CALLS INVOLVES ISSUES WHICH ARE INSEPARABLE

USTA also reiterates that administrative and technical obstacles make it impossible for LECs to provide specific codes for identifying payphone calls for which PSPs receive compensation by the October 7, 1997 deadline established by the Commission. The Commission should allow LECs to use existing technology to provide information to interexchange carriers ("IXCs") that will lead to the identification of payphone calls for which the PSPs will receive compensation. A one-size-fits-all approach is inappropriate given the vast differences in network configurations and capabilities of LECs and IXCs. Moreover, Commission must be permitted to recover all costs involving network upgrades required to implement the Commission's mandate for the provision of specific codes which identify payphone calls.

This subject is quite relevant to the instant proceeding because the network costs incurred in identifying the payphone calls subject to compensation are part of the costs of those calls. USTA expects that payphone providers will be billed directly for those network costs in many instances. If there are situations where the IXC is billed for the costs associated with identifying the calls, USTA expects that those network costs will somehow be passed along by the IXC to the payphone provider. Consequently, while some costs -- such as coin collection -- are not

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[13] Payphone Coalition Comments at 40.

relevant here, other costs -- such as the network functions needed to identify the calls -- must be considered by the FCC in establishing the compensation payed to payphone providers. The compensation level set in this proceeding must cover the network costs incurred by local carriers and that are passed onto to payphone providers. It is important that local carriers be able to use the most cost effective technology to track these calls, so that this portion of the cost of 0+ calls does not become unduly burdensome or a disproportionate part of the cost structure of any payphone provider.

Respectfully submitted,

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I, Jennifer Jennings, do certify that on September 9, 1997 copies of the foregoing Reply Comments of the United States Telephone Association were either hand-delivered, or deposited in the U.S. Mail, first-class, postage prepaid to the persons on the attached service list.

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