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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	)	
	)	
1997 Annual Access Tariff Filings	)	CC Docket No. 97-149
	)	
	)	

REBUTTAL OF AMERITECH

Ameritech[1] submits this rebuttal to oppositions to its direct case (and to the direct cases of other local exchange carriers ("LECs")) filed by AT&T and MCI.

I. AMERITECH'S BASE FACTOR PORTION FORECAST IS REASONABLE.

Both AT&T and MCI complain that LECs underforecasted their base factor portion ("BFP") revenue requirements -- thus understating their subscriber line charge ("SLC") rates and overstating their carrier common line ("CCL") rates. Yet neither AT&T nor MCI have detailed the specifics of how their proposed substitutes for the LECs' 97/98 forecasts were developed. Because forecasts are just that -- forecasts, *i.e.*, estimates of future results -- there is no reason to believe that either MCI's or AT&T's methods would be any more accurate than the methods employed by individual LECs. Simple historical trend analysis may not

[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.

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necessarily be more accurate in predicting future results than another method that might take into account unique factors in estimating future results. This is demonstrated by the very fact that AT&T's and MCI's individual projections produce dramatically different results. Attachment A shows that their separate BFP growth projections, in every instance, differ from each other by an amount greater than the Commission's 10% benchmark.

Moreover, despite their complaints of LECs' underforecasting of their 97/98 BFP revenue requirements, both AT&T's and MCI's own estimates would indicate that, if Ameritech erred at all, it overforecasted the BFP revenue requirement -- allegedly resulting in CCL rates that are too low and SLC rates that are too high. While Ameritech's forecast is reasonable, if the Commission accepts either AT&T's or MCI's alternative forecasts and requires that adjustments be made, it must then permit Ameritech to raise its CCL rates accordingly.

II. NO TRUE-UP FOR PAST FORECAST "ERROR" IS APPROPRIATE.

Not only does AT&T challenge current 1997/1998 BFP forecasts, it also alleges that all prior forecasts have been inaccurate and that LECs must adjust their current CCL and SLC rates to remove the impact of past forecasting inaccuracies on a going-forward basis.[2] Such an adjustment, however, on the basis of AT&T's filing, would be completely inappropriate.

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[2] See AT&T at 15 and Appendix E, p. 1.

First, AT&T is simply wrong in alleging that past forecast deviations are embedded in any way in current rates. Each year the CCL rate is determined anew based on the difference between the capped CCL revenue, and the forecast of SLC revenues. Ameritech has prepared a simplified exhibit to demonstrate this concept. Attachment C, page 1 is the base case scenario and shows the premium terminating CCL rate cap calculation for 3 years (line 480) given the proposed multi-line SLC rates indicated on line 335. Attachment C, page 2, assumes a higher proposed multi-line SLC rate in year 1 (line 335) and then recalculates the premium terminating CCL rate cap in years 2 and 3. It should be noted that the premium terminating CCL rate cap in years 2 and 3 (line 480) are <u>identical</u> to the rate cap in years 2 and 3 base case even though there was a higher multi-line SLC rate in year 1. This analysis demonstrates that past forecast deviations are not embedded in current CCL rates contrary to AT&T's assertion.

Second, such an adjustment is clearly not contemplated by the Commission's rules. BFP revenue requirement is to be determined on a forecast basis, and there is no provision in the Commission's rules for any adjustments for any natural deviation of actual results from forecasts.

Third, AT&T's attempt to obtain adjustments for any alleged past forecast discrepancies is untimely. Forecasting issues involved in prior price cap annual filings were presumptively resolved with the closure of the investigation proceedings dealing with those filings. AT&T is requesting the virtual second bite at the apple in this case.

Fourth, AT&T conveniently omitted recent years data in Appendix E. In the case of Ameritech, when 96/97 and 97/98 data and data on actual tariff year billable lines is added, the sum total deviation drops from $50.5M to approximately $10.9M.[3] Also, the additional data shows that, for Ameritech, there has been no pattern of consistent underforcasting of per-line BFP revenue requirement.

Fifth, AT&T's proposed adjustment could cause disruption for LECs' end user customers who would find their SLC charges increased yet again, on top of the increases effectively mandated by the Commission's access reform proceedings.

In other words, AT&T's proposal for accumulative 6 year true-up should be rejected.

III. HISTORICAL DATA SHOULD BE USED TO CALCULATE BFP REVENUE REQUIREMENTS IN THE FUTURE.

As Ameritech noted in its direct case, many issues could be avoided if forecasting were eliminated altogether in the calculation of the BFP revenue

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[3] See Attachment B. These figures take into account the fact that, in its Appendix E, AT&T miscalculates the alleged CCL under/overcharge by not rounding the actual and forecasted BFP revenue requirement per line (lines 6 and 7) to the nearest cent, the manner in which SLC charges are applied. AT&T makes the same error in Appendix B, page 6. Rounding the SLC rates in columns (D) and (E) changes the Annual Impact shown in column (I) from the $6.180 shown to $6.406M.

requirement. Specifically, Ameritech proposes that the mechanism that the Commission has already sanctioned in the Access Reform Order be implemented now. In that Order, the Commission has decided that, at the time the multi-line primary interexchange carrier charge ("PICC") no longer recovers common line revenue, the SLC would be set at the average per-line common line revenue permitted by the price cap rules.[4] Line counts would be based on historical figures. This method could be used today (with modification to account for revenues that are recovered via PICCs) and would eliminate all controversy associated with forecasting.

IV. A PCI ADJUSTMENT, RATHER THAN AN "R" ADJUSTMENT, IS APPROPRIATE FOR CALCULATING THE EXOGENOUS CHANGE FOR THE TERMINATION OF EQUAL ACCESS COST RECOVERY.

Both AT&T and MCI incorrectly insist that the exogenous cost change to be made to account for the termination of the amortization of the non-capitalized portion of equal access costs must include an adjustment to account for revenue growth since January 1, 1991, or not all equal access costs will be removed from price cap rates. In fact, such an "R" adjustment would result in more than those costs being removed from price cap rates. However, even if an "R" adjustment is not performed, the exogenous cost change will still be too great unless a "PCI" adjustment is also made.

[4] *In the Matter of Access Charge Reform*, CC Docket No. 96-262, First Report and Order, FCC 97-258 (released May 16, 1997) ("Access Reform Order") at ¶102.

It must be remembered that since the inception of price caps, costs are virtually irrelevant to a price cap carrier's rates. The nature of price caps is that price cap indexes ("PCIs") operate by formula -- in lieu of an annual examination of the carrier's costs -- to keep a carrier's rates just and reasonable. In effect, the Commission determined that the price cap formula via the X-factor will assume that a certain fraction of a carrier's costs will, or should, be eliminated through the carrier's own efficiency-enhancing efforts. In effect, the PCI operates to effectively "squeeze" costs out of a carrier's rates. Thus, a substantial portion of the costs in question that were included in pre-price cap rates have already been eliminated through the operation of the PCI.

It is simply illogical to assume that, for example, $100 of cost that were included in a carrier's rates on January 1, 1991, when the PCI equaled 100 is still fully included in the carrier's rates when the PCI today is, for example 72. The PCI has effectively told the carrier that it must have gotten rid of $28 of those costs or its shareholders will bear them. Reducing rates by the full $100 would effectively require the carrier to remove $28 of cost twice.

Moreover, this adjustment is substantially different from the adjustment involved in reversing a sharing obligation. Since sharing clearly involves a specific dollar amount of revenue that must be shared with access customers, it is appropriate to make an "R" adjustment when sharing is reversed to make sure that the same amount of <u>revenue</u> is added back to the indexes.

In this case, however, costs are not directly related to revenues -- especially in the price cap regime -- so no "R" adjustment is appropriate.

V. AMERITECH CORRECTLY DETERMINED THE NON-CAPITALIZED PORTION OF EQUAL ACCESS COST.

AT&T incorrectly insists that it was improper for Ameritech to use actual data to determine the amount of non-capitalized equal access costs included in pre-price cap rates. As explained in Ameritech's direct case, the total equal access revenue requirement forecast filed as part of Ameritech's 1990 annual access filing and appearing in the COS-5 Report did not have sufficient detail to determine the non-capitalized portion of those costs. Ameritech obtained actual data from its separation system showed that the actual non-capitalized portion of equal access costs was 35.68% of total equal access costs. That percentage was then applied to the forecast amount to determine the percentage of the forecast amount that represented non-capitalized equal access costs. The method is completely reasonable.

Respectfully submitted,

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Dated: September 24, 1997
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Attachment A

Analysis of AT&T's and MCI's BFP Projections

(000's)

	Direct Case 1996/97 BFP Actual (a)	Projected 1997/98 AT&T 5 YR method (b)	Projected 1997/98 MCI Linear method (c)	AT&T Growth Projection d=b/a-1	MCI Growth Projection e=c/a-1	FCC Benchmark > 10% f=(d-e)/d	FCC Benchmark pass/fail (g)
Ameritech	1,033,471	1,090,960	1,085,154	5.56%	5.00%	10.10%	fail
Bell Atlantic	1,293,245	1,348,364	1,321,898	4.26%	2.22%	48.02%	fail
Bell South	1,867,910	1,994,011	2,009,270	6.75%	7.57%	-12.10%	fail
NYNEX	1,191,331	1,263,229	1,387,612	6.04%	16.48%	-173.00%	fail
Pacific Bell	916,947	909,162	914,864	-0.85%	-0.23%	73.24%	fail
Nevada Bell	21,738	22,565	21,868	3.80%	0.60%	84.28%	fail
SWBT	1,137,438	1,212,051	1,185,806	6.56%	4.25%	35.17%	fail
U S West	1,276,355	1,430,883	1,351,658	12.11%	5.90%	51.27%	fail

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Attachment B

Restatement of AT&T's Exhibit E, Page 2 of 9*

Comparison of Actual vs. Projected Per Line BFP Revenue Requirement
For Tariff Years 1991/92 Through 1996/97

	Description	Source	91/92	92/93	93/94	94/95	95/96	96/97
1	Actual BFP Rev. Req.	Dir. Case Exh. 6, P. 2-2	787,187,000	820,991,000	952,858,000	1,037,718,000	1,022,699,000	1,033,471,000
2	Forecasted BFP Rev. Req.	Dir. Case Exh. 6, P. 2-2	735,746,000	757,906,000	833,823,000	1,006,213,000	1,028,026,000	1,106,711,000
3	Under/Over Forecast of BFP	Line 8 - Line 7	-51,441,000	-63,085,000	-119,035,000	-31,505,000	5,327,000	73,240,000
4	Actual Total Billable Lines	ARMIS 43-01 Table 2 (Tariff Year)	15,932,463	16,374,090	17,198,659	17,705,078	18,544,076	19,111,803 #
5	Forecasted Total Billable Lines	Direct Case Exh. 7	15,998,268	16,289,911	16,698,770	17,328,870	17,677,967	18,993,721
6	Actual BFP RR Per Line@	Line 1/Line 4/12	4.12	4.18	4.62	4.88	4.60	4.51
7	Forecasted BFP RR Per Line@	Line 2/Line5/12	3.83	3.88	4.16	4.84	4.85	4.86
8	MLB Cap Per Actual Data@	Line 6 or < 6.00	4.12	4.18	4.62	4.88	4.60	4.51
9	MLB Cap Per Projected Data@	Line 7 or < 6.00	3.83	3.88	4.16	4.84	4.85	4.86
10	Difference@	Line 8 - Line 9	0.29	0.30	0.46	0.04	-0.25	-0.35
11	Forecasted MLB	Direct Case Exh. 7	4,180,439	4,369,999	4,599,477	4,972,888	5,139,397	5,863,617
12	Actual MLB	Direct Case Exh. 7	4,116,110	4,346,273	4,762,073	5,066,603	5,495,511	5,931,472
13	CCL Under/Over Charge	Line 10 • Line 12 • 12	14,324,063	15,646,583	26,286,643	2,431,969	-16,486,533	-24,912,182
14	Sum of CCL Under/Over Charge		14,324,063	29,970,646	56,257,289	58,689,258	42,202,725	17,290,543
15	Less: 97/98 Alleged CCL Undercharges ^							-6,405,990
							Total	$ 10,884,553

* Restated to include actual billable lines by tariff year (Line 4), forecast and actual BFP revenue requirement for 96/97, and the alleged BFP forecasting error in the 1997/98 annual filing

Because ARMIS is filed on an annual basis, Actual Total Billable Lines for 96/97 includes an estimate of billable lines for the first half of 1997

@ Subscriber line charges are rounded to the nearest cent in the same manner in which they are charged

^ This amount differs from that shown in AT&T's Appendix B, page 6 of 6, because EUCL rates shown in columns (D) and (E) of that appendix have been rounded to the nearest cent to reflect the manner in which SLC charges are applied

Ameritech
Anaylsis of Going Forward Common Line Adjustment
Year 1 Proposed Multiline SLC Rate revised to $4.75

Base Case

		Year 1	Year 2	Year 3
	Step 1:			
100	Terminating CCL Premium MOU	10,000,000,000	10,000,000,000	10,000,000,000
110	Terminating CCL Non-Premium MOU	650,000	650,000	650,000
120	Chargeable Terminating CCL MOU	10,000,292,500	10,000,292,500	10,000,292,500
130	Originating CCL Premium MOU	7,000,000,000	7,000,000,000	7,000,000,000
140	Originating CCL Non-Premium MOU	19,000	19,000	19,000
150	Chargeable Originating CCL MOU	7,000,008,550	7,000,008,550	7,000,008,550
160	Terminating CCL Prem Capped Rates at last PCI Update	0.005000	0.005511	0.005656
170	Originating CCL Premium Capped Rates at last PCI Update	0.005000	0.005511	0.005656
180	Multiline Business EUCL Lines	25,000,000	25,000,000	25,000,000
190	Res & Single Line Business EUCL Lines	49,000,000	49,000,000	49,000,000
200	Lifeline EUCL Lines	0	0	0
210	Special Access Surcharge Lines	16,000	16,000	16,000
220	Multiline Business EUCL Rates at last PCI Update	5.00	4.50	4.25
230	Res & Single Line Business EUCL Rates at last PCI Update	3.50	3.50	3.50
240	Lifeline EUCL Rates at last PCI Update	0.00	0.00	0.00
250	Special Access Surcharge Rates at last PCI Update	25.00	25.00	25.00
255	Other CCL Revenue	0	0	0
260	CL Revenue at capped (t-1) rates	381,901,505	378,090,687	374,305,784
	Step 2:			
270	CL Revenue at capped (t-1) rates	381,901,505	378,090,687	374,305,784
280	CCL MOU for Base Year	17,000,669,000	17,000,669,000	17,000,669,000
290	CL Rev/MOU (t-1)	0.022464	0.022240	0.022017
	Step 3:			
300	CL PCI (t)	80.5308	79.7255	78.9282
310	CL PCI (t-1)	81.3442	80.5308	79.7255
320	1 + % Change CL PCI	0.9900	0.9900	0.9900
330	CL Rev/MOU (t)	0.022239	0.022017	0.021797
	Step 4:			
335	**Proposed Multiline SLC Rate (Res & SL Bus @ $3.50)**	**4.50**	**4.25**	**4.00**
340	Base Demand * Proposed SLCs + Other Common Line Proposed Revenu	284,400,000	278,150,000	271,900,000
350	CCL MOU for Base Year	17,000,669,000	17,000,669,000	17,000,669,000
360	1+g/2	1.0000	1.0000	1.0000
370	SLC Rev/MOU (t)	0.016729	0.016361	0.015993
380	CCL Rev/MOU (t)	0.005511	0.005656	0.005803
	Step 5:			
390	CCL MOU for Base Year	17,000,669,000	17,000,669,000	17,000,669,000
400	**CCL Rev at CCL Rev/MOU (t)**	**93,690,687**	**96,155,784**	**98,654,882**
410	Chargeable Originating MOU	7,000,008,550	7,000,008,550	7,000,008,550
420	Originating CCL Rev (Rate = $0.01)	70,000,086	70,000,086	70,000,086
430	Residual CCL Revenue	23,690,601	26,155,698	28,654,797
440	Chargeable Terminating MOU	10,000,292,500	10,000,292,500	10,000,292,500
450	Hypothetical Premium Terminating Rate Cap #1 (Prem Orig = $0.01)	0.002369	0.002615	0.002865
460	Total Chargeable MOU	17,000,301,050	17,000,301,050	17,000,301,050
470	Hypothetical Premium Terminating Rate Cap #2 (if OrigRate = TermRate	0.005511	0.005656	0.005803
480	**Premium Terminating Rate Cap**	**0.005511**	**0.005656**	**0.005803**
490	Proposed Premium Terminating Rate	0.005511	0.005656	0.005803

Ameritech
Anaylsis of Going Forward Common Line Adjustment
Base Case

Adjusted by Reducing Proposed SLC in Year 1

		Year 1	Year 2	Year 3
	Step 1:			
100	Terminating CCL Premium MOU	10,000,000,000	10,000,000,000	10,000,000,000
110	Terminating CCL Non-Premium MOU	650,000	650,000	650,000
120	Chargeable Terminating CCL MOU	10,000,292,500	10,000,292,500	10,000,292,500
130	Originating CCL Premium MOU	7,000,000,000	7,000,000,000	7,000,000,000
140	Originating CCL Non-Premium MOU	19,000	19,000	19,000
150	Chargeable Originating CCL MOU	7,000,008,550	7,000,008,550	7,000,008,550
160	Terminating CCL Prem Capped Rates at last PCI Update	0.005000	0.005143	0.005656
170	Originating CCL Premium Capped Rates at last PCI Update	0.005000	0.005143	0.005656
180	Multiline Business EUCL Lines	25,000,000	25,000,000	25,000,000
190	Res & Single Line Business EUCL Lines	49,000,000	49,000,000	49,000,000
200	Lifeline EUCL Lines	0	0	0
210	Special Access Surcharge Lines	16,000	16,000	16,000
220	Multiline Business EUCL Rates at last PCI Update	5.00	4.75	4.25
230	Res & Single Line Business EUCL Rates at last PCI Update	3.50	3.50	3.50
240	Lifeline EUCL Rates at last PCI Update	0.00	0.00	0.00
250	Special Access Surcharge Rates at last PCI Update	25.00	25.00	25.00
255	Other CCL Revenue	0	0	0
260	CL Revenue at capped (t-1) rates	381,901,505	378,084,441	374,305,784
	Step 2:			
270	CL Revenue at capped (t-1) rates	381,901,505	378,084,441	374,305,784
280	CCL MOU for Base Year	17,000,669,000	17,000,669,000	17,000,669,000
290	CL Rev/MOU (t-1)	0.022464	0.022239	0.022017
	Step 3:			
300	CL PCI (t)	80.5308	79.7255	78.9282
310	CL PCI (t-1)	81.3442	80.5308	79.7255
320	1 + % Change CL PCI	0.9900	0.9900	0.9900
330	CL Rev/MOU (t)	0.022239	0.022017	0.021797
	Step 4:			
335	**Proposed Multiline SLC Rate (Res & SL Bus @ $3.50)**	**4.75**	**4.25**	**4.00**
340	Base Demand * Proposed SLCs + Other Common Line Proposed Revenu	290,650,000	278,150,000	271,900,000
350	CCL MOU for Base Year	17,000,669,000	17,000,669,000	17,000,669,000
360	1+g/2	1.0000	1.0000	1.0000
370	SLC Rev/MOU (t)	0.017096	0.016361	0.015993
380	CCL Rev/MOU (t)	0.005143	0.005656	0.005803
	Step 5:			
390	CCL MOU for Base Year	17,000,669,000	17,000,669,000	17,000,669,000
400	**CCL Rev at CCL Rev/MOU (t)**	**87,434,441**	**96,155,784**	**98,654,882**
410	Chargeable Originating MOU	7,000,008,550	7,000,008,550	7,000,008,550
420	Originating CCL Rev (Rate = $0.01)	70,000,086	70,000,086	70,000,086
430	Residual CCL Revenue	17,434,355	26,155,698	28,654,797
440	Chargeable Terminating MOU	10,000,292,500	10,000,292,500	10,000,292,500
450	Hypothetical Premium Terminating Rate Cap #1 (Prem Orig = $0.01)	0.001743	0.002615	0.002865
460	Total Chargeable MOU	17,000,301,050	17,000,301,050	17,000,301,050
470	Hypothetical Premium Terminating Rate Cap #2 (if OrigRate = TermRate	0.005143	0.005656	0.005803
480	**Premium Terminating Rate Cap**	**0.005143**	**0.005656**	**0.005803**
490	Proposed Premium Terminating Rate	0.005143	0.005656	0.005803

CERTIFICATE OF SERVICE

I, Todd H. Bond, do hereby certify that a copy of the foregoing Rebuttal of Ameritech has been served on the parties listed below, via first class mail, postage prepaid, on this 24th day of September, 1997.

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