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EX PARTE

September 29, 1997

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

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FEDERAL COMMUNICATIONS COMMISSION
OFFICE OF THE SECRETARY

Re: CC Docket No. 96-262

Dear Mr. Caton:

On Monday, September 29, 1997, USTA representatives, Whit Jordan of BellSouth, Jay Bennett of SBC and Frank McKennedy of the United States Telephone Association (USTA) met with Commission Competitive Pricing Division staff members Jim Schlichting, Rich Lerner, Jane Jackson, Aaron Goldschmidt, Claudia Fox, Lynne Milne and Dana Bradford.

The purpose of the meeting was to discuss the USTA Petition for Reconsideration issues including the recovery of retail marketing expenses all lines, application of PICCs on centrex lines based on trunk equivalency, and the not applying the price cap productivity factor to universal service contributions.

An original and a copy of this letter and the materials handed out at the meeting are being filed in the Office of the Secretary today. Please include this material in the record of the above referenced proceeding.

Respectfully submitted,

Frank G. McKennedy
Director - Legal and Regulatory Affairs

cc without attach: Jim Schlichting
Jane Jackson
Rich Lerner
Dana Bradford
Claudia Fox
Aaron Goldschmidt
Lynne Milne

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Retail Marketing Expenses Should Be Recovered From All lines

- **Order requires recovery of marketing expenses from only multi line business and non-primary lines SLCs and PICCs**
 - **No factual basis to restrict recovery to only multi line and non-primary lines**
 - **Distorts market**
 - **Not cost causative**

- **USTA proposes recovery from all lines**
 - **To determine a uniform per line charge, Interstate marketing expenses would be divided by SLC line count**
 - **Amounts above the SLC caps would be recovered from PICCs up to their caps**
 - **Residual would be recovered from originating MOU charges and terminating MOU charges**

- **USTA Plan**
 - **Recognizes marketing costs incurred for all service categories**
 - **Does not cause pricing distortions for competitive lines**



Retail Marketing Expenses Should Be Recovered From All Lines (cont.)

- **USTA study of 9 major ILECs shows costs incurred for all services**
- **Majority of parties support USTA position:**
 - **Ad Hoc, Sprint, Bell Atlantic, Ameritech, US West, Southern New England, BellSouth**
- **Only opposition filed by MCI**
 - **USTA and Bell Atlantic studies show clearly MCI allegations are wrong**



Application of PICCs on Centrex lines must be on an equitable manner to reflect trunk equivalency

- **Order requirement to recover PICCs on a per line basis will result in disproportionate assessment on Centrex lines competing with similarly sized PBX arrangements**
 - **FCC requirement disadvantages Centrex as a competitive alternative to PBX arrangements**
 - **Not technologically neutral**
 - **Not more cost causative than using trunk equivalents**

- **There is no legal basis to discriminate against Centrex customers**

- **USTA ex parte filed September 26 proposes a single line to trunk equivalency ratio of 9 to 1 to assess Centrex PICCs to IXC**
 - **Based on weighted average trunk equivalency tables from state tariffs and NARs relationship to Centrex Lines**
 - **Simple to administer and verify**
 - **Addresses concerns regarding complexity and consistency**



Application of PICCs on Centrex lines must be on an equitable manner to reflect trunk equivalency (cont.)

- **Use of trunk equivalency ratio**
 - **Neutralizes market distortions caused by FCC PICC application**
 - **Reduces rate shock to existing customers**
 - **Sustains the competitive alternatives**

- **Majority of parties support USTA proposal for use of trunk equivalency:**
 - **Ad Hoc, American Petroleum Institute, Ameritech, Bell Atlantic, Boston University, National Centrex Users Group, Southern New England Tel., US West**

- **Opponents - AT&T, Time Warner, and TCG - provide no evidence justifying discrimination against Centrex users by the current plan**



The price cap X-Factor should not be applied to universal service contributions

- **Based on the Order, price cap mechanics require the application of the productivity offset (X-factor) to the exogenous cost adjustment for universal service contributions**
 - **Prohibits legitimate opportunity to recover mandated universal services contributions**
 - **Applies the X-factor to costs not affected by LEC productivity growth**

- **USTA Proposes that the PCI for each price cap basket be increased by an amount sufficient to offset the X-factor impact on USF contributions and allow the LECs and opportunity to recover their costs**



UNITED STATES
TELEPHONE
ASSOCIATION

EX PARTE

September 25, 1997

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

Re: CC Docket No. 96-262

Dear Mr. Caton:

In its Petition for Reconsideration and/or Clarification (Petition) in this proceeding, the United States Telephone Association (USTA) proposed that the Commission reconsider its decision in the *Order*¹ requiring the recovery of the Presubscribed Interexchange Carrier Charge (PICC) from IXCs serving Centrex customers on the same basis as Subscriber Line Charges for Centrex services.² USTA states in its Petition that this requirement will result in a disproportionate assessment on Centrex lines as opposed to competing PBX arrangements and the recovery of significantly more revenues from Centrex customers than from similarly sized PBX customers. This places Centrex services at a significant competitive disadvantage. To remedy this distortion in pricing for Centrex customers, USTA recommended that the Commission allow the local exchange carriers (LECs) to use a line to trunk equivalency relationship in determining the assessment of PICCs for IXCs serving Centrex customers or use Network Access Registers instead of station lines.³

¹ Access Charge Reform First Report and Order, CC Docket No. 96-262, FCC 97-158 (released May 16, 1997), 62 Fed. Reg. 31868, June 11, 1997 (Order).

² USTA Petition for Reconsideration, Page 2.

³ *id.*

USTA herein proposes that a single industry line to trunk equivalency ratio of 9 to 1 be adopted by the Commission to determine the assessment of PICCs on Centrex services.⁴ This ratio is a broad industry average that would more fairly apply the PICCs on Centrex services without arbitrarily disadvantaging this competitive service and the Centrex customers. The application of the rates would not have a significant impact on other PCCC rates nor the residual minute of use rates.

A summary of the calculation of the data points used to determine the 9.0 ratio were:

1. A calculation of the average relationship between Network Access Registers (NARs) and Centrex lines for two RBOCs -- US West and BellSouth. This yields a weighted average of 4.37.⁵
2. A calculation of the weighted average trunk equivalence ratio for Ameritech of Illinois which yields 12.24.
3. A calculation of the weighted average trunk equivalence ratio for GTE of Texas which yields 7.81.
4. A calculation of the weighted average trunk equivalence ratio for Bell Atlantic of New England which yields 10.88.⁶

The average of the four data points is 8.83 rounded to 9 for use in the ratio.

Attached are schedules which show the calculation for each of the weighted average trunk equivalency ratios.⁷ The calculation of the weighted average trunk equivalency ratios for Ameritech of Illinois, GTE of Texas and Bell Atlantic of New England are based on trunk equivalency tables tariffed in each of those states, the information for which is attached for each of these states.

USTA submits that the adoption of a single ratio for all price cap LECs would address concerns expressed by the Commission's Common Carrier Bureau staff regarding the complexity and verification problems of using individual state tariffs or individual company ratios. Use of the single industry ratio simplifies the assessment of PICCs on

⁴ Order, para. 116

⁵ NARs ratios are lower than line to trunk ratios such as shown in the subsequent data points. Generally, NARs are less costly and the LECs charge proportionately less for them than for PBX trunks. Therefore it is more economical for the Centrex customer to have more NARs installed to reduce blockage.

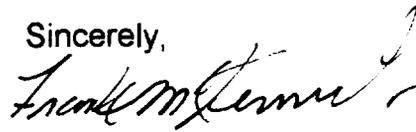
⁶ The attached trunk equivalency table for New England is the reference used for the example that a 70 Centrex lines are equivalent to 13 PBX trunks shown in USTA's Petition for Reconsideration at page 3.

⁷ The NARs ratio is calculated by dividing the total BellSouth and US West NARs into the total of both companies' Centrex lines. That is, 1878 lines ÷ 430 NARs equals 4.37.

Centrex lines by eliminating the use of multiple ratios from multiple tables or state tariffs. Further, the use of a single ratio would provide the IXCs an assurance that the PICCs assessed were calculated correctly and streamline any verification process for them.

For these reasons, USTA proposes that the Commission adopt on reconsideration a simple, single line to trunk equivalency ratio of 9 to 1 for assessment of PICCs on Centrex services in lieu of the per line basis originally set out in the access order.

Sincerely,

A handwritten signature in black ink, appearing to read "Frank McKennedy". The signature is fluid and cursive, with a large initial "F" and "M".

Frank McKennedy

Director - Legal and Regulatory Affairs

cc: Rich Lerner
Richard Metzger
Jim Schlichting
Jane Jackson

Ameritech - Illinois

Calculation of Average Trunk Equivalence

Installed Base	Total Lines	Midpoint Lines	Trunk Equivalence for Midpoint Lines	Average Trunk Equivalence	Weighting	Calculation of Average Trunk Equivalence
2 to 40	3,236,020	21	3	7.00	0.248	1.74
41 to 100	1,425,590	70	8	8.75	0.109	0.96
101 to 400	1,971,190	250	25	10.00	0.151	1.51
401 to 1000	1,510,150	700	49	14.29	0.116	1.66
1001 to 4000	2,185,850	2500	149	16.78	0.168	2.82
4000+	2,699,430	4000	233	17.17	0.207	3.56
	13,028,230					12.24

Lines by installed base taken from Phillips InfoTech 4/15/97 report reflecting total US Centrex market. This is a source of market research information which gives a reflection of the number of stations within various line size segments.

Used the Ameritech - Illinois Telephone equivalency table to calculate the Trunk Equivalence for the average lines per installed segment.

Note: Average trunk equivalence = 12.24

Illinois Trunk Equivalency Tariff

<u># Lines</u>	<u>Trunk Equivalency</u>
2-19	2
20-28	3
29-38	4
39-47	5
48-57	6
58-66	7
67-76	8
77-85	9
86-95	10
96-104	11
105-114	12
115-123	13
124-132	14
133-142	15
143-151	16
152-161	17
162-170	18
171-180	19
181-189	20
190-199	21
200-207	22
208-225	23
226-243	24
244-262	25
263-281	26
282-300	27

1 additional trunk for each 18 stations over 300

GTE of the Southwest - Texas

Calculation of Average Trunk Equivalence

Installed Base	Total Lines	Midpoint Lines	Trunk Equivalence for Midpoint Lines	Average Trunk Equivalence	Weighting	Calculation of Average Trunk Equivalence
2 to 40	3,236,020	21	7	3.00	0.248	0.75
41 to 100	1,425,590	70	12	5.83	0.109	0.64
101 to 400	1,971,190	250	25	10.00	0.151	1.51
401 to 1000	1,510,150	700	70	10.00	0.116	1.16
1001 to 4000	2,185,850	2500	250	10.00	0.168	1.68
4000+	2,699,430	4000	400	10.00	0.207	2.07
	13,028,230					7.81

Lines by installed base taken from Phillips InfoTech 4/15/97 report reflecting total US Centrex market. This is a source of market research information which gives a reflection of the number of stations within various line size segments.

Used the GTE of the Southwest - Texas Telephone equivalency table to calculate the Trunk Equivalence for the average lines per installed segment.

Note: Average trunk equivalence = 7.81

GTE SOUTHWEST INCORPORATED
 TEXAS GENERAL EXCHANGE TARIFF
SECTION 47
 Original Sheet No. 10D

CentraNet® Service

MONTHLY CHARGES (Continued)

Simulated Facility Group

The following access path quantities are included with CentraNet® Service to provide a P.01 grade-of-service.

SFG SIZING					
Lines	SFG	Lines	SFG	Lines	SFG
02	2	46 - 55	10	176 - 200	20
03 - 04	3	56 - 66	11	201 - 225	22
05 - 08	4	67 - 77	12	226 - 250	25
09 - 13	5	78 - 89	13	251 - 275	27
14 - 19	6	90 - 100	14	276 - 300	29
20 - 27	7	101 - 125	15	301 - 325	32
28 - 37	8	126 - 150	16	326 - 350	35
38 - 45	9	151 - 175	18	351 - 375	38
				376 - 400	40

INTERIM APPROVAL GRANTED PENDING FINAL ORDER IN DOCKET NO. 14132

ISSUED: July 10, 1995 EFFECTIVE: August 11, 1995

By Oscar C. Gomez, Vice President - Regulatory & Governmental Affairs
 500 E. Carpenter Freeway, Irving, TX 75062

Bell Atlantic - New England

Calculation of Average Trunk Equivalence

Installed Base	Total Lines	Midpoint Lines	Trunk Equivalence for Midpoint Lines	Average Trunk Equivalence	Weighting	Calculation of Average Trunk Equivalence
2 to 40	3,236,020	21	7	3.00	0.248	0.75
41 to 100	1,425,590	70	13	5.38	0.109	0.59
101 to 400	1,971,190	250	25	10.00	0.151	1.51
401 to 1000	1,510,150	700	49	14.29	0.116	1.66
1001 to 4000	2,185,850	2500	149	16.78	0.168	2.82
4000+	2,699,430	4000	233	17.17	0.207	3.56
	13,028,230					10.88

Lines by installed base taken from Phillips InfoTech 4/15/97 report reflecting total US Centrex market. This is a source of market research information which gives a reflection of the number of stations within various line size segments.

Used the New England Telephone equivalency table to calculate the Trunk Equivalence for the average lines per installed segment.

Note: Average trunk equivalence = 10.88

New England Telephone and Telegraph Company

Exhibit 4.1.3-2—PBX Trunk Equivalency Table Unlimited Service Usage	
NUMBER OF MAIN STATION LINES	EQUIVALENT PBX TRUNKS
1	1
2	2
3	3
4-6	4
7-10	5
11-15	6
16-21	7
22-28	8
29-36	9
37-45	10
46-54	11
55-64	12
65-75	13
76-86	14
87-98	15
99-111	16
112-125	17
126-139	18
140-155	19
156-171	20
172-189	21
190-207	22
208-225	23
226-243	24

New England Telephone and Telegraph Company

Exhibit 4.1.3-2—PBX Trunk Equivalency Table Unlimited Service Usage	
NUMBER OF MAIN STATION LINES	EQUIVALENT PBX TRUNKS
244-262	25
263-281	26
282-300	27
Each Additional 18 Main Station Lines or Fraction Thereof	1