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Before the
FEDERAL COMMUNICATIONS COMMISSION
Washington, DC 20554

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FEDERAL COMMUNICATIONS COMMISSION
OFFICE OF THE SECRETARY

In the Matter of	)
	)
Support Material for Carriers to File to	)
Implement Access Charge Reform	)
Effective January 1, 1998	)

97-249
97-250

REPLY COMMENTS OF U S WEST COMMUNICATIONS, INC.

Richard A. Karre
Suite 700
1020 19th Street, N.W.
Washington, DC 20036
303-672-2791

Attorney for

U S WEST COMMUNICATIONS, INC.

Of Counsel,
Dan L. Poole

December 17, 1997

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SUMMARY

In these Reply Comments, U S WEST Communications, Inc. ("U S WEST") responds to the Comments submitted by AT&T Corp. ("AT&T"), MCI Telecommunications Corporation ("MCI") and Sprint Communications Company, L.P. ("Sprint") in this proceeding. In several cases, the commenters have raised errors or differences in methodology that U S WEST agrees with. U S WEST has modified its tariff filing accordingly.

The commenters raise several issues with respect to the movement of revenue requirements from the Local Switching basket to the Common Line basket. None has merit. AT&T would have the Federal Communications Commission ("Commission") impose criteria for the use of proprietary cost models, a subject beyond the scope of this proceeding. AT&T and MCI complain about the wide variation in the non-traffic sensitive ("NTS") portion of Local Switching among the companies. These Reply Comments explain that such variations are the result of differences in the type and size of switches deployed by the local exchange carriers ("LECs"). We also demonstrate that the NTS portion of U S WEST's switching revenue requirement is in line with Commission expectations, despite the contrary suggestions of AT&T and MCI. Finally, AT&T and MCI both claim the LECs have erred by applying line port and trunk port percentages to their Local Switching revenue requirements, rather than the revenue. We note herein that the Commission expressly ordered the LECs to remove NTS switching "costs," which can only mean a revenue requirement, and we thus believe AT&T and MCI are clearly wrong. Because, however, this issue presents a straightforward

interpretation of a Commission order, we urge the Commission or the Common Carrier Bureau to resolve it before January 1, so that the LECs can know their tariffs reflect the proper interpretation.

In this Reply, U S WEST also addresses the other issues raised by the commenters. We demonstrate, despite MCI's claim to the contrary, that U S WEST correctly calculated its revenue requirement for tandem trunk ports and SS7. U S WEST also properly calculated its actual common transport usage, and that it properly increased its Transport Interconnection Charge ("TIC") in light of that actual usage, notwithstanding arguments to the contrary by AT&T and MCI. U S WEST also properly calculated the revenue requirements and exogenous adjustments for its Tandem-Switched Transport and its Common Transport Multiplexing, and it used an appropriate method to calculate the effect of the switch to the unitary rate structure for Tandem-Switched Transport. Finally, we demonstrate the error of Sprint's claim that information service provider ("ISP") lines should be exempt from the application of the Presubscribed Interexchange Carrier Charge ("PICC").

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REPLY COMMENTS OF U S WEST COMMUNICATIONS, INC.

U S WEST Communications, Inc. ("U S WEST") hereby submits this Reply to the Comments filed herein by AT&T Corp. ("AT&T"), MCI Telecommunications Corporation ("MCI") and Sprint Communications Company, L.P. ("Sprint").

I. UNCONTESTED ISSUES.

U S WEST does not contest the issues listed below. It has corrected each of them in the Access Charge Reform tariff filing ("ACR tariff filing") submitted contemporaneously with these Reply Comments.

- As AT&T notes (at 16), in calculating its tandem switching revenues, U S WEST used its projected Transport Interconnection Charge (or "TIC") revenues for the tariff year 1997-98, rather than the actual TIC revenues as of June 30, 1997. The ACR tariff filing corrects this error.
- AT&T contends (at 31-32) that no local exchange carrier ("LEC") apportioned the marketing and central office equipment ("COE") maintenance adjustments to the residual TIC for the 1996-97 tariff year. U S WEST actually apportioned these adjustments to the appropriate TIC, but made some errors in the process; the ACR tariff filing corrects

those errors.

- As noted by AT&T (at 30), U S WEST failed to remove the EOS/STP SS7 link and marketing expense in calculating the TIC true-up. The ACR tariff filing rectifies the error.
- MCI points out (at 5) that U S WEST failed to adjust its Local Switching to reflect additional COE expenses prior to computing line and trunk port costs. The ACR tariff filing incorporates the appropriate adjustments.
- AT&T observes (at 33-34) that U S WEST miscalculated the exogenous adjustments associated with the deaveraging of transport by not reassigning the revenue differential to each zone in proportion to existing revenues. U S WEST agrees that this is the appropriate methodology, and the ACR tariff filing utilizes it.

II. ISSUES RELATED TO THE REMOVAL OF LINE AND TRUNK PORT COSTS FROM THE LOCAL SWITCHING BASKET.

In the Access Charge Reform Order, the Federal Communications ("Commission") ordered the price cap LECs to remove the non-traffic sensitive ("NTS") costs of line-side and trunk-side ports from the Local Switching basket and place them in the Common Line basket.[1] AT&T and MCI raise several complaints about the manner in which the LECs calculated these adjustments.

[1] See Access Charge Reform, CC Docket No. 96-262, First Report and Order, FCC 97-158, rel. May 16, 1997, at ¶¶ 125, 127 ("Access Charge Reform Order" or "Order"), appeals pending sub nom. Southwestern Bell Telephone Company, et al. v. Federal Communications Commission, Nos. 97-2618, et al. (8th Cir.).

A. The LECs' Use Of Proprietary Cost Models.

AT&T argues (at 6) that the LECs' use of proprietary cost models is "inappropriate for rate-setting purposes." AT&T would have the Commission require the LECs to provide the input values and cost scenarios behind the models. The Commission should reject AT&T's demand. These cost models are proprietary, not only because they contain the LECs' proprietary information, but also because they contain the proprietary information of the equipment manufacturers. AT&T may no longer have any concerns about the release of such data, but the equipment manufacturers certainly do. Moreover, Section 222(a) of the Communications Act obliges every telecommunications carrier "to protect the confidentiality of proprietary information of, and relating to, . . . equipment manufacturers."[2] The Commission could not, consistent with Section 222(a), simply order the LECs to reveal the proprietary information of their equipment suppliers.[3]

B. U S WEST's Line And Trunk Port Percentages Do Not Reflect Unreasonable Variations.

To determine the amount they must move from the Local Switching basket, the LECs calculated the percentage of their switching costs that are attributable to line and trunk ports. In light of "widely varying estimates in the record," the

[2] 47 U.S.C. § 222(a).

[3] More broadly, AT&T argues (at 6-9) that the Commission should establish objective criteria for cost models and prohibit a model's use in ratemaking unless it meets those criteria. Whatever its merits, this proposal has no place in this proceeding; if the Commission is to consider AT&T's proposal, it must do so in the context of a rulemaking proceeding.

Commission expected the NTS costs to vary among LEC switches.[4] Nonetheless, AT&T (at 9) complains that U S WEST's line port percentages show too great a variation.

Though U S WEST has not performed a formal study, a review of the available data suggests that the overall NTS percentage of a state's switching revenue requirement is determined by the mix of switch types and sizes within that state. For example, Oregon has 40 DMS 10 switches, which have a very high NTS percentage (65%). Utah, on the other hand, has only three such switches, but has 18 DMS 100 switches (26% NTS) and 17 5E switches (34% NTS). Not surprisingly, Oregon's combined line and trunk port NTS percentage is significantly higher (52.0%) than Utah's (44.3%).

In any event, AT&T's true complaint appears to be that many LECs did not report as high an NTS percentage as AT&T expected, citing estimates presented to the Commission that the NTS portion of a digital switch might exceed 50% (AT&T at 10; see also, MCI at 3). That worry is misplaced, at least as to U S WEST. Company wide, the combined revenue requirement for line ports, line port maintenance and trunk ports (including both digital and analog switches) totals 50.2% of U S WEST's switching revenue requirement (see, Attachment A).

C. U S WEST Properly Applied Its Line Port Percentage To Its Revenue Requirement.

AT&T (at 11) and MCI (at 4-5) claim the LECs uniformly erred by applying their line port percentages to their Local Switching revenue requirements, rather

[4] Access Charge Reform Order ¶ 128.

than to their Local Switching revenues. The simple answer is that the Access Charge Reform Order expressly requires the LECs to move "all line-side port costs"[5] and all "the costs of a dedicated trunk port."[6]

The Commission obviously knows the difference between costs (in this context, revenue requirements) and revenues. If it had intended the latter, it would have said so.[7]

AT&T further complains (at 11) that the LECs' use of forward-looking costs understates the embedded costs originally assigned. That, however, depends on how those forward-looking costs are utilized. In U S WEST's case, the forward-looking costs serve simply as an allocator of the Local Switching revenue requirement, which represents embedded costs. There is nothing inappropriate with that.

III. OTHER ISSUES.

A. U S WEST Correctly Calculated Its Revenue Requirements For Tandem Trunk Ports And SS7.

In its First Transport Order, the Commission required price cap LECs to recover 80% of their tandem switching revenue requirement through the Transport

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[5] Id. ¶ 125 (emphasis added).

[6] Id. ¶ 127 (emphasis added).

[7] U S WEST urges the Commission or the Common Carrier Bureau to resolve this issue promptly, so that the LECs may file their January 1 tariffs with assurances that they have performed this calculation properly. Because it represents a straightforward interpretation of the Access Charge Reform Order, resolving this issue should not require significant time.

Interconnection Charge.[8] The Access Charge Reform Order requires the price cap LECs to reallocate that revenue requirement to Tandem-Switched Transport over a period of three years; that Order prescribes a specific methodology to account for the effects of the productivity factor on the tandem switching revenue requirement in the intervening years.[9]

The Order also requires the price cap LECs to calculate the portion of the tandem-switching revenue requirement currently in the TIC that they reallocate to other rate elements, including SS7 signaling and tandem ports.[10] MCI claims (at 7-8) the LECs should adjust these latter revenue requirements in the same manner as the Order requires them to adjust the total tandem-switching revenue requirement. MCI is wrong.

The Order is very specific in requiring the price cap LECs to adjust their overall tandem switching revenue requirements. In discussing the removal of SS7 signaling and tandem port costs from the portion of the tandem switching revenue requirement that is allocated to the TIC, however, it makes no mention of such an adjustment. Moreover, the portions of the Order that require the price cap LECs to establish separate charges for dedicated tandem ports and to reallocate SS7 costs to the traffic-sensitive basket do not specify any adjustment of this sort.[11] Because the Commission has not required the adjustment MCI calls for, it should disregard

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[8] Access Charge Reform Order ¶ 197, citing First Transport Order, 7 FCC Rcd. 7006, 7019 ¶ 25 (1992); see also id. ¶ 174.

[9] Id. ¶ 197.

[10] Id. ¶ 198.

MCI's argument here.

B. U S WEST Properly Calculated Its Common Transport Usage And Appropriately Increased Its TIC To Reflect That Actual Usage.

The Access Charge Reform Order requires the price cap LECs to cease assuming usage of 9,000 minutes per common trunk in setting their rates for Common Transport; instead, they are to use actual minutes of use ("MOU") in these calculations.[12]

MCI (at 12-13) challenges U S WEST's determination that its actual usage is 11,353 MOU per common trunk per month, claiming U S WEST erred by including intrastate MOU. MCI is correct that U S WEST counted all usage on its common trunks, but doing so was not error for the simple reason that it has no impact on the outcome. Because the separations process allocates common trunks between jurisdictions on the basis of usage, the result – a number of equivalent interstate trunks – does not change. If U S WEST had counted only the interstate usage, it would then convert that usage to a number of equivalent interstate trunks, using 11,353 MOU per trunk, the exact result it reached using its method, which allocates all common trunks on the basis of usage to calculate the number of equivalent interstate trunks.[13]

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[11] Id. ¶¶ 174, 217.

[12] Id. ¶ 206.

[13] Indeed, when U S WEST calculated previous estimates of its actual usage, it divided interstate MOU by total trunks resulting in a low estimate of usage. In addition, U S WEST counted usage at the tandem switch, which requires a doubling of the MOU that both originate and terminate at end offices because such traffic

When the Commission ordered the price cap LECs to move to actual usage, it did so with the expectation that actual usage would run considerably less than 9,000 MOU.[14] U S WEST's actual usage (11,353 MOU) is significantly higher. As a result, its tandem transmission rates decline in the ACR tariff filing, which in turn, increases the TIC revenue requirement by nearly $18 million. Though it has no quarrel with the reduction in tandem transmission rates, AT&T claims (at 18-19) U S WEST may not increase its TIC to recover the revenue shortfall. AT&T is wrong.

The Commission undoubtedly expected many LECs to have actual usage of less than 9,000 MOU,[15] and it required the LECs to use "any increase in common transport revenues" to reduce the TIC.[16] But the Order nowhere links the Commission's expectations to the methodology the LECs were to use. As to that, the Order is quite clear: the LECs are to develop common transport rates "using actual voice-grade circuit loadings."[17] That result is not contingent on any particular result, and the Commission nowhere expresses an intent to deprive the LECs of revenues they are otherwise entitled to simply because their actual usage exceeds 9,000 MOU. The Commission should reject AT&T's argument.

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traverses two facilities, but passes through the tandem only once. U S WEST had originally overlooked this step, increasing the error.

[14] Access Charge Reform Order ¶ 222.

[15] Id. ¶ 206.

[16] Id. ¶ 208.

[17] Id.

C. U S WEST Properly Calculated The Revenue Requirements And Exogenous Adjustments For Its Tandem-Switched Transport And Common Transport Multiplexing.

In the Access Charge Reform Order, the Commission determined that the price cap LECs were recovering the costs associated with both dedicated multiplexers (on the serving wire center side of their tandem switches) and shared multiplexers (on the end office side of those tandems) in the TIC; it ordered the LECs to establish appropriate rate elements to recover the costs of these multiplexers, and to reduce the TIC accordingly.[18] AT&T complains (at 22) that U S WEST has not demonstrated the removal of its dedicated multiplexers from the TIC.

U S WEST's tariffs have included a separate charge for dedicated multiplexing for several years.[19] That charge will remain in effect, so that U S WEST has no revenue requirement to remove from the TIC on this account.

D. U S WEST Properly Calculated The Effect Of The Unitary Rate Structure For Tandem Switched Transport.

In the Access Charge Reform Order, the Commission ordered the price cap LECs to institute a three-part charge for tandem-switched transport, in lieu of the existing "unitary" charge, in their access filings to be effective July 1, 1998;[20] the

[18] Id. ¶ 167.

[19] Tariff F.C.C. No. 5, §§ 6.1.2.A.4.f., 6.8.1.E.5.

[20] Access Charge Reform Order ¶ 175.

ACR tariff filings are to provide an estimate of the impacts of that change.[21] MCI complains (at 11) that U S WEST underestimated the revenue it will recover because it determined how the affected carriers would optimize their networks, rather than relying on base period demand quantities.

In fact, U S WEST performed this calculation essentially as MCI suggests. Today, carriers who purchase tandem-switched transport pay a single, per-minute rate for that transport. Under the three-part rate structure, these carriers will pay a per-minute charge for common transport between the LEC end office and tandem, a per-minute charge for tandem switching, and a flat-rated charge for dedicated tandem transport between the tandem and the serving wire center serving the carrier.[22] The charge for this last element will obviously vary, depending on the type of facility the carrier needs to handle its traffic. Based on the existing numbers of trunks and the existing network configuration, U S WEST determined what mix of facilities would best meet the carriers' needs in each situation, and calculated the resulting impact of the three-part rate structure. Each carrier that uses tandem-switched transport will have to make these choices, so it is wholly appropriate to replicate those decisions in this process.[23]

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[21] See Access Charge Reform, CC Docket No. 96-262, Second Order on Reconsideration and Memorandum Opinion and Order, FCC 97-368, rel. Oct. 9, 1997, at ¶ 64 ("Second Access Reform Reconsideration Order"), appeals pending sub nom. AT&T Corp., et al. v. Federal Communications Commission, Nos. 97-1678, et al. (D.C. Cir.).

[22] Access Charge Reform Order ¶ 175.

[23] The TRP filing referred to this as a "least cost methodology," which may have conveyed greater meaning than U S WEST intended.

E. Commission Should Not Exempt ISP Lines From The PICC.

Sprint argues (at 2) that the LECs' access tariffs should exempt lines provided to information service providers ("ISPs") from the Presubscribed Interexchange Carrier Charge ("PICC"), arguing that the Access Charge Reform Order continues to exempt ISP lines from access charges (other than the Subscriber Line Charge). As Sprint notes, it has pending before the Commission a Petition for Reconsideration and Clarification raising this very issue.

Sprint claims the Access Charge Reform Order continues the exemption of ISP lines from the payment of access charges. But the cited passage states that "ISPs should not be subject to interstate access charges;"[24] it says nothing of ISP lines. Because the PICC is charged to an end user's presubscribed interexchange carrier, it in no way contradicts the notion of exempting ISPs from the payment of access charges. What Sprint truly seeks here is an exemption for the interexchange carriers, including, of course, itself. Moreover, the PICC is similar to the Subscriber

[24] Access Charge Reform Order ¶ 345.

Line Charge, which ISPs have always paid. There is simply no good reason not to charge the interexchange carriers a PICC for access to ISP lines.

Respectfully submitted,

U S WEST COMMUNICATIONS, INC.

By: _____

Richard A. Karre
Suite 700
1020 19th Street, N.W.
Washington, DC 20036
303-672-2791

Its Attorney

Of Counsel,
Dan L. Poole

December 17, 1997

Attachment A

	Line Port	Trunk Port	Line Port Maintenance	Total NTS	Total Switching	NTS Percentage
Arizona	16,374	5,547			49,933	
Utah	5,880	1,473			16,609	
Minnesota	12,635	3,436			35,428	
Colorado	18,138	5,514			50,534	
North Dakota	1,879	355			5,195	
El Paso	43	14			117	
Nebraska	4,247	884			11,216	
New Mexico	5,861	1,432			15,456	
Iowa	7,857	1,472			20,360	
Wyoming	1,987	354			5,069	
Washington	15,612	3,994			39,356	
Oregon	9,739	2,498			23,546	
South Dakota	3,134	539			7,005	
Montana	3,751	659			8,304	
Idaho South	3,534	767			7,813	
Idaho North	408	93			879	
Malheur	363	86			769	
Total	111,442	29,117	8,908	149,467	297,589	50.2%

CERTIFICATE OF SERVICE

I, Kelseau Powe, Jr., do hereby certify that on this 17th day of December, 1997, I have caused a copy of the foregoing **REPLY COMMENTS OF U S WEST COMMUNICATIONS, INC.** to be served, via hand delivery, upon the persons listed on the attached service list.

Kelseau Powe, Jr.

*Served via United States mail, postage pre-paid

(CC96262K-COS)

A. Richard Metzger, Jr.
Federal Communications Commission
Room 500
1919 M Street, N.W.
Washington, DC 20554

James D. Schlichting
Federal Communications Commission
Room 518
1919 M Street, N.W.
Washington, DC 20554

International Transcription
Services, Inc.
1231 20th Street, N.W.
Washington, DC 20036

Alan Buzacott
MCI Telecommunications Corporation
1801 Pennsylvania Avenue, N.W.
Washington, DC 20006

Richard Juhnke
Norina T. Moy
Sprint Communications Company, L.P.
Suite 1110
1850 M Street, N.W.
Washington, DC 20036

Gene C. Schaerr
Scott M. Bohannon
Carl D. Wasserman
Sidley & Austin
1722 I Street, N.W.
Washington, DC 20006

AT&T

*Mark C. Rosenblum
Peter H. Jacoby
Judy Sello
AT&T Corp.
Room 3245I1
295 N. Maple Avenue
Basking Ridge, NJ 07920

(CC96262K-DK/ss)
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