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March 12, 1998

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FEDERAL COMMUNICATIONS COMMISSION
OFFICE OF THE SECRETARY

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Ms. Magalie Roman Salas
Secretary
Federal Communications Commission
1919 M Street N.W.
Washington, D.C. 20554

RE: Erratum -- Direct Case of Ameritech,
CC Docket No. 97-250, and Transmittal No. 1136

Dear Ms. Salas:

In filing its direct case, Ameritech inadvertently omitted Attachment D. Also, on page 14 of the direct case, Attachment D was erroneously referred to as "Attachment 3." Enclosed is Attachment D and a complete copy of the direct case in its entirety with the correction on page 14 included. We are sorry for any inconvenience this might have caused.

Sincerely,

Michael S. Pabian
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Exhibit 3

Attachment D

Ameritech
Account 6610 Marketing Expense
Exogenous Adjustment

Line No.	Item	Source	Illinois (a)	Indiana (b)	Michigan (c)	Ohio (d)	Wisconsin (e)	Total Ameritech (f = a ... e)
A	Total Marketing Expense (9000s)#	1996 ARMIS 43-04, Row 7000						
1	Total Common Line	" " Col (i)	$ 19,631	6,628	12,701	10,048	6,230	$ 55,238
2	Traffic Sensitive - Switching	" " Col (j)	5,125	1,300	2,368	1,877	1,202	11,872
3	Traffic Sensitive - Transport	" " Col (l)	7,898	1,565	4,122	3,577	1,834	18,994
4	Traffic Sensitive - Information	" " Col (m)	105	18	13	17	19	172
5	Sum of Above	L A.1 through L A.5	32,757	9,511	19,204	15,519	9,285	86,276
B	Price Cap Basket Effects #							
1	Carrier Common Line	L A. 1	(19,631,115)	(6,627,815)	(12,700,691)	(10,047,595)	(6,230,251)	(55,237,467)
2	Traffic Sensitive	L A.2 + L A.4	(5,229,567)	(1,318,538)	(2,381,635)	(1,894,783)	(1,221,279)	(12,045,802)
3	Trunking	L A.3	(7,895,795)	(1,564,934)	(4,121,549)	(3,577,008)	(1,833,588)	(18,992,874)
4	Marketing	L A.5	32,756,477	9,511,287	19,203,875	15,519,386	9,285,118	86,276,143
5	Sum of Above	L B.1 through L B.5	0	0	0	0	0	0
C	Current Revenue by Sub-Band	T R 1106						
1	L T 1 Zone 1		2,390,964	633,611	729,779	1,217,235	301,620	5,273,209
2	L T 1 Zone 2		2,580,286	-	1,850,301	437,830	424,830	5,293,249
3	L T 1 Zone 3		8,195,854	2,580,891	5,682,667	3,408,189	3,173,118	21,020,519
4	L T 3 Zone 1		3,309,101	832,806	603,328	3,379,032	692,942	8,817,211
5	L T 3 Zone 2		1,155,389	-	2,401,962	462,587	443,385	4,463,343
6	L T 3 Zone 3		972,863	1,378,233	2,988,990	1,428,680	1,599,358	8,368,124
7	Signalling Interconnection		43,139	2,272	213	2,484	4,367,091	4,415,179
8	RC		56,732,370	25,461,137	47,479,320	42,125,459	23,781,478	195,579,764
9	Tandem Zone 1		557,992	53,209	34,868	121,284	37,305	804,638
10	Tandem Zone 2		1,247,142	-	761,092	348,198	161,336	2,517,768
11	Tandem Zone 3		5,548,576	4,038,145	7,966,905	7,165,185	3,966,920	28,687,731
12	Total Switched Revenue	L C.1 through L C.11	80,733,678	34,958,106	70,499,445	60,096,123	38,951,383	285,238,735
D	Marketing Adjustment by Sub-Band							
1	Trunking Revenue Requirement	L B.3	(7,895,795)	(1,564,934)	(4,121,549)	(3,577,008)	(1,833,588)	(18,992,874)
2	L T 1 Zone 1	(L C.1 / L C.12) * L D.1	(233,838)	(28,362)	(42,664)	(72,452)	(14,198)	(391,514)
3	L T 1 Zone 2	(L C.2 / L C.12) * L D.1	(252,353)	0	(108,173)	(26,060)	(19,996)	(406,585)
4	L T 1 Zone 3	(L C.3 / L C.12) * L D.1	(805,958)	(114,752)	(332,221)	(202,860)	(149,371)	(1,405,161)
5	L T 3 Zone 1	(L C.4 / L C.12) * L D.1	(323,632)	(37,278)	(35,272)	(201,125)	(32,619)	(629,926)
6	L T 3 Zone 2	(L C.5 / L C.12) * L D.1	(112,966)	0	(140,425)	(27,534)	(20,872)	(301,828)
7	L T 3 Zone 3	(L C.6 / L C.12) * L D.1	(95,146)	(61,808)	(174,743)	(85,037)	(75,288)	(491,823)
8	Signalling Interconnection	(L C.7 / L C.12) * L D.1	(4,219)	(102)	(12)	(147)	(205,575)	(210,055)
9	RC	(L C.8 / L C.12) * L D.1	(5,548,455)	(1,139,695)	(2,775,743)	(2,507,368)	(1,119,484)	(13,090,744)
10	Tandem Zone 1	(L C.9 / L C.12) * L D.1	(54,572)	(2,382)	(2,038)	(7,218)	(1,756)	(67,966)
11	Tandem Zone 2	(L C.10 / L C.12) * L D.1	(121,971)	0	(44,495)	(20,725)	(7,595)	(194,786)
12	Tandem Zone 3	(L C.11 / L C.12) * L D.1	(542,854)	(180,758)	(485,782)	(426,482)	(186,832)	(1,802,486)
13	Total	L D.2 through L D.12	$ (7,895,795)	(1,564,934)	(4,121,549)	(3,577,008)	(1,833,588)	$ (18,992,874)

ARMIS 43-04 data is reported rounded to thousands. Units detail is extracted from Ameritech Separations System which is ARMIS 43-04 source

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

In the Matter of	)	
	)	
Tariffs Implementing Access Charge Reform	)	CC Docket No. 97-250
	)	
	)	
Ameritech Operating Companies Tariff F.C.C. No. 2	)	Transmittal No. 1136

DIRECT CASE OF AMERITECH

Ameritech[1] submits this direct case in response to the Common Carrier Bureau's ("Bureau's") order designating issues for investigation.[2] On November 26, 1997, Ameritech filed its Transmittal No. 1135 to implement the requirements of the Commission's Access Reform Order.[3] On December 17, 1997, Ameritech subsequently amended and revised that filing in Transmittal No. 1136 to take into account changes required by the Commission in its Third Report and Order in the Access Reform docket[4] and in its order concluding the 1997 access tariff

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[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 Tariffs Implementing Access Charge Reform*, CC Docket No. 97-250, Order Designating Issues for Investigation and Order on Reconsideration, DA 98-151 (released January 28, 1998) ("Designation Order").

[3] *In the Matter of Access Charge Reform*, CC Docket No. 96-262, First Report and Order, FCC 97-158 (released May 16, 1997) ("Access Reform Order"); See also, Order on Reconsideration, FCC 97-247 (released July 10, 1997) and Second Order on Reconsideration, FCC 97-368 (released October 9, 1997).

[4] FCC 97-401 (released November 26, 1997).

investigation.[5] The changes proposed in that transmittal were suspended for one day and put under investigation by the Bureau's order of December 30, 1997.[6]

In this direct case, Ameritech responds to the specific questions posed by the Bureau in the Designation Order.

Issue ¶17: We therefore require each price cap LEC to identify the number of lines in each of the following categories: (1) primary residential lines; (2) single-line business lines; (3) non-primary residential lines; and (4) BRI ISDN lines. In addition, using the worksheet attached at Appendix B, each price cap LEC's direct case must delineate what, how, and in which order data were sorted and used in accordance with its definition to arrive at the primary and non-primary residential line count totals submitted pursuant to this order. We also direct each price cap LEC to include in its direct case an explanation of why its definition is reasonable.

Response: Following are the line counts requested by the Bureau. The information was also shown in Exhibit 34 of Ameritech's Transmittal No. 1139.

Ameritech Line Counts

Primary Residential (includes Lifeline)	131,753,228
Single Line Business	8,586,431
Non-Primary Residential	15,859,845
BRI ISDN	711,668

Also, included herewith as Attachment A is the information requested by the Bureau via Appendix B to the Designation Order.

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[5] CC Docket No. 97-149, FCC 97-403 (released December 1, 1997).

[6] *In the Matter of Tariffs Implementing Access Charge Reform,* CC Docket No. 97-250, Memorandum and Opinion and Order, DA 97-2724 (released December 30, 1997) ("Tariff Suspension Order"). On December 17, 1997, Ameritech Filed Transmittal No. 1136 to make changes required to accommodate contribution factors established by the Commission for the universal service fund. In addition, on January 20, 1998, Ameritech filed Transmittal No. 1139 to incorporate changes resulting from discussions with Commission staff.

Ameritech has adopted the "service location" definition of primary lines, which was described in its comments in response to the Commission's Notice of Proposed Rulemaking concerning the definition of primary lines.[7] It is also described in Ameritech's tariff.[8] Under this definition, the first residential line at a given service location is considered the primary residential line. All subsequent lines installed at that same location are classified as non-primary.

This definition is reasonable because it is unambiguous and easy to administer. The classification is based on an objective and easily verifiable standard and it is not susceptible to "gaming" by subscribers who, in search of a lower end user common line ("EUCL") charge, might otherwise subscribe to a number of lines at the same location in different names. In addition, the definition is non-intrusive -- it does not require an inquiry into relationships between parties at the same location (i.e., for the definition of a "household"). Finally, it is fair and consistent with universal service principles. The first residential line at a given service location will be considered primary in all cases regardless of the number of other lines that are later installed at that location. While universal service principles might favor the subsidization of the first residential line at a location, it cannot be argued that it would be consistent with

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[7] *In the Matter of Defining Primary Lines,* CC Docket No. 97-181, Notice of Proposed Rulemaking, FCC 97-316 (released September 4, 1997) ("Primary Lines NPRM"). A copy of those comments is included as Attachment B.

[8] See Sections 3.8 and 4.1.6 of Ameritech's Tariff FCC No. 2.

universal service principles to subsidize additional lines if, for example, roommates decide to install additional lines in their own names because it is easier to keep track of individual usage and billing.

While the Bureau claims that non-primary residential line counts are lower than it would have expected,[9] it must be remembered that the figures included in the Bureau's Figure 1 reflect a lower ratio because non-primary residential lines are compared to all residential and single-line business lines, making the ratio lower than it would be if the comparison was to residential lines alone.

At this point, Ameritech cannot comment on the Solomon Brothers Study cited by the Bureau,[10] since the report offers no back-up or support for its estimates other than to note that there may be at least two reasons why the report cited higher figures. First, it appears to report secondary lines as a percentage of primary lines rather than as a percentage of all residential lines. Second, it appears to be dealing with estimates for 1997 rather than the 1996 historical counts required to be used in the tariff filing.

* * *

Issue ¶25: We therefore tentatively conclude that Ameritech and CBT are required by the Commission's rules to include those [inward-only lines] in their SLC and PICC counts. We seek comment on this tentative conclusion. We direct these LECs to include in their direct cases an explanation as to why their practices with respect to determining PICC demand should be considered reasonable and consistent with the Access Charge Reform Order.

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[9] Designation Order at ¶16.

[10] Designation Order at note 40.

Response: As Ameritech has noted previously,[11] these services which are inward-only do not receive dial tone and cannot originate calls. With respect to these services, the customer does not select a presubscribed interexchange carrier ("PIC"), not because of choice, but because of the nature of the service.

In addressing the issue in the Access Reform Order, the Commission noted:

> We adopt the Joint Board's recommendation that incumbent LECs may collect directly, from any customer who does not select a presubscribed carrier, the PICC that could otherwise be assessed against the presubscribed interexchange carrier. Assessing the PICC directly against end users that do not presubscribe to a long distance carrier should eliminate the incentive for customers to access long distance services solely through "dial-around" carriers in order to avoid long distance rates that reflect the PICC.[12]

This section indicates the Commission's intention that the PICC could be assessed against the customer who chooses not to select a presubscribed carrier. If the customer has no choice and in fact cannot select a PIC, the policy basis for assessing the PICC to that customer does not apply.

In addition, it should be noted that, because of their nature, virtually all of these inward-only lines are multi-line business lines. As the Commission itself noted:

> Unlike the SLC, in most instances, the multi-line business PICC will not recover loop costs of multi-line businesses. Instead it will contribute to the

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[11] See Ameritech's Opposition to Petitions to Reject or Suspend or Investigate its Transmittal No. 1135, which opposition was filed December 17, 1997 ("December 17 Reply").

[12] Access Reform Order at ¶92.

recovery of the cost of single-line business and residential loops, which have lower SLC and PICC caps.[13]

Therefore, these inward-only services are not subsidized by not assessing the PICC on those services. Rather, the customers of these services are simply spared the burden of contributing to the subsidization of single-line services.

The following table shows the number of multi-line business lines including and excluding inward-only lines. The data was derived from PICC and EUCL counts shown in Transmittal No. 1139, Exhibit 34.

Multi-line Business Lines

	Excluding Inward-Only	Including Inward-Only	Difference
Illinois	17,044,716	17,871,613	826,897
Indiana	3,253,173	3,419,473	166,300
Michigan	10,226,169	10,808,945	582,776
Ohio	6,601,012	7,055,638	454,626
Wisconsin	4,379,022	4,605,140	226,118

* * *

Issue ¶27: For the purposes of calculating its maximum CCL charge, we tentatively conclude that Ameritech's PRI ISDN SLC and PICC line counts should be identical. We seek comment on this tentative conclusion. We direct Ameritech to include in its direct case an explanation as to why its practice is reasonable and consistent with the Access Charge Reform Order.

Response: There may be some confusion over Ameritech's EUCL and PICC line counts because, in its December 17 Reply, Ameritech incorrectly stated that it is assessing five EUCL charges but one PICC for each ISDN-PRI line. In fact, the

[13] Second Reconsideration Order at ¶35.

line count for ISDN-PRI for both the PICC and the EUCL charge are the same. The rate for the ISDN-PRI EUCL, however, is five times the multi-line business EUCL rate.

Ameritech's practice is reasonable and consistent with the Access Reform Order because it used the ISDN PRI line counts to calculate the maximum CCL charge in exactly the manner that the Commission tentatively concluded that it should. This is clearly shown in Ameritech's Transmittal No. 1139, Description and Justification, Exhibit 34, Demand and Rates by Rate Element, which lists the demand for PICC - ISDN PRI and EUCL- ISDN PRI for each state (on pages 1-3). As is shown, the line counts for each of these elements are identical :

Illinois	
PICC - ISDN PRI	23,928
EUCL - ISDN PRI	23,928
Indiana	
PICC - ISDN PRI	4,128
EUCL - ISDN PRI	4,128
Michigan	
PICC - ISDN PRI	7,092
EUCL - ISDN PRI	7,092
Ohio	
PICC - ISDN PRI	11,064
EUCL - ISDN PRI	11,064
Wisconsin	
PICC - ISDN PRI	4,680
EUCL - ISDN PRI	4,680

In addition, the heading for Line 120 of the CAP-1 forms in Transmittal 1139 states, "Total MLB & PRI ISDN (include PRI * 5, & exclude Centrex)." This heading applies to all columns, the EUCL and the PICC columns. The fact that the line counts differ in the EUCL and PICC columns is due to the difference in the multi-line business line counts. As stated in Ameritech's Opposition to Petitions to Reject or Suspend and Investigate Transmittal No. 1136, filed December 29, 1997, ("December 29 Reply") the multi-line business line counts differ between EUCL and PICC because the direct inward dialing multi-line business lines are not assessed a PICC because they are inward-only lines. The difference in line counts is shown on page 6.

* * *

Issue ¶¶46-52: In the Access Charge Reform Order, the Commission adopted rules stating that price cap LECs shall assign "line side port *costs*" to the Common Line rate element and that price cap LECs shall "separate from the projected annual revenues for the Local Switching element those *costs* projected to be incurred for ports . . . on the trunk side of the local switch." . . .

As an initial matter we note that the Commission has never adopted by rulemaking a single methodology for computing exogenous cost changes that result from a reallocation of cost recovery among price cap service categories, baskets, or rate elements. It is therefore appropriate for us to determine the proper methodology for these exogenous cost changes in a tariff investigation under Section 204 of the Communications Act, 47 U.S.C. §204 . . .

After seven years of price caps, it is likely that Part 69 revenue requirements have a very attenuated relationship to the costs actually recovered through any particular rate element. Therefore, we tentatively conclude that revenues, and not Part 69 revenue requirements, are the best measure of the costs recovered through a particular price cap rate element. We seek comment from all interested parties on this tentative conclusion.

If after reviewing the record in response to this designation order, we conclude that the Access Charge Reform Order required that LECs use revenue requirement, rather than revenues to make the exogenous cost changes, we

tentatively conclude that actual basket earnings must be used to calculate that revenue requirement. . . We seek comments from all interested parties on this tentative conclusion.

We believe that the best method for removing rate elements or services out of a basket or service category would be a method that left exactly zero permitted revenues in the basket or service category after all services or rate elements were removed. . . The result of having zero revenues in the basket or service category after all services are removed can be accomplished by using revenues, as we tentatively conclude as preferable, or by using revenue requirements calculated on the basis of actual basket earnings. We seek comment on this approach.

Furthermore, we seek comment on whether the methodology discussed here for ports should also be applied to other reallocations required by the Access Charge Reform Order. . . We direct each LEC to include in its direct case a comprehensive list of all the exogenous adjustments it has made since it has entered price cap regulation that had the purpose of reallocating costs among baskets, categories, rate elements, or between price cap and non price cap services. LECs should list the method used in each instance.

Finally, if costs are reallocated using revenues as a surrogate for costs, we tentatively conclude that common line rate development should be done in the following manner. Price cap LECs should use local switching revenues for the purpose of determining the amount of an exogenous cost adjustments to the Traffic-Sensitive and Common Line baskets, but price cap LECs should use their Part 69 revenue requirements to recalculate the BFP, because the BFP is still calculated pursuant to fully-distributed embedded costs and revenue requirements. We seek comment from all interested parties on this tentative conclusion.

Response: The Access Reform Order and the Commission's rules require that exogenous cost adjustments be done to price cap carrier rates based on "costs." Clearly it is reasonable to interpret "cost" -- insofar as defining what should be removed from a particular rate element -- as the original "cost" associated with that item in rates going into price caps. That cost, of course, would include embedded, permissibly recovered costs, plus the authorized rate of return.

Attachment C includes a list of exogenous (ΔZ) changes made by Ameritech to reallocate costs among baskets, categories or rate elements. Revenue requirement -- cost -- was the basis of the majority of the reallocations.

Further, it would be inappropriate for the Bureau to require the reallocations to be based on cost plus actual earnings. Certainly, any examination of "actual earnings" attributable to a given rate element or basket is problematic since the Commission has specifically abandoned any further earnings regulation in the price cap environment and since it is impossible to determine "earnings" on a rate element basis.

* * *

Issue ¶¶67-68: [W]e direct the price cap LECs to provide supporting documentation justifying the amount that was removed from the TIC as COE maintenance and marketing expenses. In particular, the price cap LECs must provide detailed information substantiating the amount of COE maintenance and marketing costs that were removed from the trunking basket, and the portion of that amount that was removed from the TIC. Price cap LECs should explain their theory for determining the portion removed from the TIC. We seek comment on whether the portion removed from the TIC should be based on the relative revenues in each category or the relative switched access revenues in each category, or a more detailed analysis of the source of the costs.

In addition, we tentatively conclude that the price cap LECs must allocate these exogenous cost changes to the TIC as it existed prior to July 1, 1997. Otherwise, the targeting effect that occurred in the July 1, 1997, tariffs could skew the amount of reallocation costs ascribed to the facilities-based TIC. We seek comment on this tentative conclusion.

Response: In determining the portion of COE maintenance expense to be removed from the TIC, Ameritech followed the Commission's rules as articulated

in the Access Reform Order and the subsequent TRP Order.[14] Ameritech determined the amount of the exogenous adjustment and applied it at the basket level. The Access Reform Order explains how the amount of the exogenous adjustment should be determined but does not explain how to apply the exogenous adjustment.[15] In other cases, the Commission specified a particular way in which an exogenous change was to be made where that change did not follow a normal pattern.[16] In this case, the Commission did not specify a particular method. Therefore, Ameritech followed the normal methodology that has been used in the past and which flows naturally from the TRP itself -- i.e., that the portion of an exogenous change allocated to a basket is further allocated to the sub-bands in that basket on the basis of relative sub-band revenues. Therefore, Ameritech applied the exogenous change to the Trunking basket in accordance with the TRP released by the Commission: the SBI upper bounds were affected based on the relative revenue (at the time of the last PCI update) of

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[14] DA 97-2345 (released November 6, 1997).

[15] Access Reform Order at ¶223.

[16] See, *e.g.*, *id.* at ¶197 regarding the removal of tandem switched costs from the TIC.

each SBI to the basket total. Thus, of the $36,248,141 exogenous adjustment made to the Trunking basket, the TIC category was allocated $9,649,539 (or 26.6%). The data for this calculation is in the TRP:

Description	Source	Amount
TIC Revenue	RTE-1 L 1080, Col E	$195,579,765
Basket Revenue	RTE-1 L 4970, Col E	$734,688,250
COE Exog for Trunking	EXG-1 L 560, Col 7	$36,248,141

(195,579,765/734,688,250)*36,248,141 = $9,649,539.

In fact, making the exogenous adjustment any other way would be contrary to the Access Reform Order. In paragraph 228 (Price Cap Implementation Issues), the concluding paragraph for the section titled, "Reallocation of costs in the TIC", the Commission instructs the LECs :

> The upward or downward adjustment to the PCIs and upper SBIs shall be calculated as the percentage of revenues being added or subtracted from a basket or category, divided by the total revenues recovered through the basket or category **at the time of the adjustment**. [Emphasis added.]

In that regard, the Bureau's proposal to use the pre-July 1, 1997, revenue for TIC in determining the allocation of the Trunking portion of the COE maintenance and marketing expense exogenous change is completely inappropriate, at odds with the Commission's rules and precedent and would result in an inconsistent overall exogenous change. The Commission's rules dictate that exogenous changes are to be applied to basket PCI's and sub-band SBIs based on the current (t-1) index values.[17] There is no precedent for applying

[17] See §§61.45, 61.47 of the Commission's rules.

a change based on a prior index or revenue figure simply because the result is preferable. Moreover, it would produce inconsistent results if the changes to the other baskets and to the other sub-bands in the Trunking basket were based on "t-1" revenue and index values. Instead, all changes should be based on index and revenue figures current at the time of the tariff filing -- or immediately prior to the time the tariff takes effect.

The Bureau asks whether costs should be removed from the TIC based on the relative switched access revenues in each category. This method is entirely inappropriate because the COE maintenance reduction is based on the rule change that caused the reallocation of COE maintenance from both switched access and special access. Since COE maintenance costs are being removed from the special access categories of the trunking basket, it would be inconsistent to exclude special access from a revenue-based allocation and perform the allocation using only switched access revenues.

With respect to the exogenous marketing expense change, Exhibit 3 from Ameritech's Transmittal No. 1135 provides detail by state and sub-band and is included as Attachment D for convenience. Line D1 shows that an adjustment of approximately $19M was made to the Trunking basket. Of this amount, $13M was allocated to the TIC, as shown on Line D9. As can be seen in this exhibit, only switched access revenues were used to allocate the marketing expense exogenous adjustment within the Trunking basket. Unlike the COE maintenance

expense exogenous adjustment, the Access Reform Order specifically directs how the LECs are to allocate the marketing expense exogenous adjustment based on switched access revenues. Paragraph 323 of the Access Reform Order states:

> The service bands indices (SBIs) within the trunking basket shall be decreased based on the amount of Account 6610 marketing expenses allocated to switched services included in each service category to reflect the exogenous adjustment to the PCI for the trunking basket. [Emphasis added.]

This is the methodology Ameritech used which is displayed on Attachment D.

* * *

Issue ¶¶77-80: When the Commission ordered price cap LECs to recalculate rates for the common transport portion of tandem-switched transport using actual minutes of use for circuit loading rather than assuming 9,000 minutes of use per month, . . . [t]he Commission did not contemplate that price cap LECs would adjust any other inputs into this calculation to reflect current data . . .

We recognize that the Commission did not amend §69.111(c) of the Commission's rules to state explicitly that 1993 data rather than current data should be used for other elements of the formula in that section of the Commission's rules. That rule, however, must be read in context with §69.1(c) f the Commission's rules, which states that §69.111(c) only applies to price cap LECs for purposes of computing initial charges for new rate elements. Thus amendment to §69.111(c) applies only to rate-of-return carriers, which recalculate their tandem-switched transport rates each year with updated data. . . We tentatively conclude that price cap carriers should not recalculate their tandem-switched transport rates pursuant to §69.111(c). We seek comment on this conclusion.

Further, we tentatively conclude that to satisfy the Access Charge Reform Order, the price cap LECs should recalculate tandem-switched transport rates using the same data that was used when they were first established in 1993, except using actual minutes of use for circuit loading rather than assuming 9,000 minutes of use per month. . . They then should . . . make an exogenous adjustment to their June 30, 1997 TIC SBI. . . We seek comment on this approach, or on any other alternative approach a company requests the Commission to consider. We also seek comments on whether price cap LECs should be permitted to increase their TIC, or whether they should only be permitted to reduce their TIC. If price cap LECs were not permitted to increase

their TIC to reflect actual minutes of use above 9,000, then none of the SBIs trunking basket would be affected by the use of actual minutes. . .

[W]e seek comment on whether multiplexer costs on the end office and serving wire center side are relevant in the computation of the tandem-switch(sic) transport rate. LECs should demonstrate that the weighted (by total DS1 and DS3 lines) average of DS1 and DS3 rates divided by actual minutes of use per voice-grade circuit is effected by the multiplexers at the tandem switch.

Response: Ameritech's determination that the principles of §69.111(c) (which does not specify the use of 1993 data) are applicable to the recalculation of tandem-switched rates is a reasonable one especially since the words were repeated verbatim by the Commission in its discussion of the actual minutes of use modifications.[18] The Access Reform Order explicitly directs the LECs to develop new tandem-switched transport rates not only using actual current voice-grade circuit loadings, but also "using a weighted average of DS1 and DS3 rates reflecting the relative numbers of DS1 and DS3 circuits in use in the tandem-to-end office link," and "based on the prior year's annual use." [19] While some might argue that the latter clause was intended only to modify "actual minutes of use," it is set off by a comma and is positioned at the end of the sentence and could logically refer to the whole of the sentence that has gone before it. In any event, there is nothing in the order that would indicate an intent that current data <u>not</u> be used. Moreover, the Commission goes on to indicate that it is reforming access charges so that they more closely reflect the costs imposed by individual access

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[18] *Id.* at ¶206.

[19] Access Reform Order at ¶¶206, 208.

customers.[20] Clearly, the use an updated fiber/copper mix and current DS1/DS3 rates is consistent with that goal.

As Ameritech noted in its response to the previous issue, the Bureau's proposal to make adjustments to a non-current TIC SBI is unprecedented and completely contrary to the Commission's rules. And it is at odds with corresponding changes being made to other elements of trunking baskets that are being made on the basis of current indices. Again, all changes should be based on index/revenue figures current at the time of the tariff filing.

Further, there is nothing in the Access Reform Order that states that the TIC should not be permitted to be increased. The TIC is simply another price cap rate element and there is not even a hint that the Commission intended that LECs not be permitted to increase their TIC SBI upper limits. Such a limitation would amount to a rule change and could not be imposed by the Bureau in the context of a tariff investigation.

With respect to multiplexers, the costs on the end office side at the tandem office are not relevant to tandem-switched transport rates since these costs are recovered via the new common tandem multiplexer element. Likewise, multiplexer costs on the serving wire center side of the tandem are not relevant to tandem-switched transport rates since these multiplexer costs are now recovered via the dedicated LT-3 to LT-1 multiplexer element.

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[20] *Id.* at ¶209.

* * *

Issue ¶¶93-96: We conclude that the price cap LECs' allocation of USF contributions among the common line, interexchange, and trunking baskets warrant further review. . .

These two methodologies allocate different amounts of the universal service fund obligation to individual price cap baskets for any given price cap LEC . . .

In order to assess the merits of each of the two methodologies, we require all LECs to submit explanations detailing why the methodologies each has used more accurately reflects the distribution of interstate end user revenues across baskets. As part of this explanation each price cap LEC must explain in detail the methodology it uses and any assumptions it makes to determine these allocations. Price cap LECs must report the interstate end user revenues they derived from each basket during the accounting period they used to calculate their universal service contribution. If the portions of the USF contributions that LECs allocate for recovery from the common line, trunking and interexchange baskets differ from the proportions of the total interstate end-user revenues they report for these baskets, they must explain the reason for this difference. In addition, we seek comment on whether there are any other methodologies superior to the two used by the price cap LECs. We also seek comment on whether we should require all price cap LECs to use the same methodology and, if so, which methodology we should adopt.

Ameritech's allocation to the trunking basket . . . is derived from data . . . that reports trunking basket interstate end-user revenues of $1.2 Million . . . Ameritech, however, has provided company records that show interstate end-user revenues generated within the trunking basket of $67.7 Million. . . We require Ameritech to explain in detail in its direct case the reason for this difference.

Response: Ameritech used a two-step procedure to allocate its universal service fund obligation to the price cap bands. The first step in the allocation of the exogenous amount to the different baskets was to develop a percentage of appropriate revenues by basket. Ameritech used the same end user revenues that were used to compute USF contribution amounts in FCC Form 457 to develop these percentages and then mapped the revenues to the price cap baskets as follows:

Basket	Interstate Revenue	Form 457 Line(s)
Common Line	Subscriber Line	35
Interexchange	Toll & Long Distance	43,44,45,47
Trunking	Other Local Service	38

Other Local Service revenues were used to allocate the USF exogenous amounts to the Trunking basket. This number represents the amount of FCC Form 457 interstate end user revenue not attributable to either Common Line or Interexchange, based on the instructions for FCC Form 457. This method is appropriate for allocating the USF exogenous amounts by basket since it utilizes the same revenues for allocation as were utilized for computing Ameritech's total USF obligation. Basically, the method allocates the USF obligation back to the baskets in a manner that mirrors the proportion of that obligation "caused" by each basket.

The second stage of the allocation process took the USF exogenous amount allocated to the Trunking basket and split it among the service bands. Ameritech based this allocation on revenues that result from direct billing of special access to end users. These annual 1996 revenues ($67.7M) were divided according to the type of service (*e.g.*, LT-1, audio) and are displayed in Revised Exhibit 4 that accompanied Ameritech's Transmittal No. 1136. In comparison, total interstate special access revenues are identified in the TRP as the sum of lines 180, 190, and 200 of RTE-1 in the amount of $483.4M. These revenues include not only revenues that result from direct billing of special access to end users, but also

special access revenues from interexchange carriers, resellers, cellular providers, wireless providers, and other local exchange companies.

While the $67.7M revenue is appropriate to allocate USF trunking exogenous amounts to the service bands within the trunking basket, it is not appropriate for allocating the USF exogenous amount to the trunking basket in the first instance. Instead, the revenues used for the initial allocation to the trunking basket should be consistent with the revenues used to determine Ameritech's universal service obligation -- *i.e.*, revenues included in FCC Form 457.

* * *

Since Ameritech has made a good faith effort to conform its access reform filing to the letter and the spirit of the Commission's orders and rules, if the Bureau, by way of clarification, determines that any changes are required, those changes should prospective only. Otherwise, significant inconvenience to customers would result.

Respectfully submitted,

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[MSP0102.doc]

ATTACHMENT A

FCC Appendix B: Line Count Worksheet

I. Line Count Data Formation

	Sources	Search	Collection	Time Period
For all line types	D3	S1	C0	T2

C0: Data available per NPA/NXX
T2: Monthly data summed over calendar year 1996

II. Line Count Data Identification

Process Description:

Ameritech did not use a sort on existing data as the method to identify primary and non-primary residential line counts. USOCs and FIDs are assigned to lines at the time the service order is placed. As primary and non-primary residential lines share the same USOC, a FID is used to designate additional lines. For purposes of this data request, USOCs and FIDs associated with individual lines were summed at the NPA/NXX level for use in determining the number of access lines by class of service (bus, res, etc.). Primary lines were calculated by subtracting the count of residential lines designated as "additional lines" via the appropriate FID from the total count of residential lines.

FCC Appendix B: Implementation of Definition Worksheet

Customer	Billing/ Account No.	Line Location	Phone Numbers	Installation Date (Order)	Service/Inv. Work Order No.	Billing Address	P/NP Decision
N. Adams	555-1111 6789	123 Elm #1	555-1111	1/1/96 (1)	6789 - 1111	P. O.	P*
			555-1112	1/1/96 (2)	6789 - 1112	Box 123	NP
P. Adams	555-2222 6789	123 Elm #1	555-2221	5/5/96	6789 - 2221	P. O.	NP
			555-2222	4/5/96	6789 - 2222	Box 123	NP
P. Adams	555-3333 4567	123 Elm #2	555-3333	3/3/96	4567 - 3333	P. O. Box 123	P*
P. Boyd-Adams	555-4444 5678	123 Elm #2	555-4444	4/5/96	5678 - 4444	P. O.	NP
			555-4448	7/5/96	5678 - 4448	Box 123	NP
F. Boyd-Adams	555-4447 5678	123 Elm #2	555-4447	5/5/96	5678 - 4447	P. O. Box 123	NP

* Assumes no previously installed lines in service at this location.

Attachment B

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

In the Matter of	)	
	)	CC Docket No 97-181
Defining Primary Lines	)	

COMMENTS OF AMERITECH

Ameritech[1] submits these comments in response to the Commission's Notice of Proposed Rulemaking in this docket.[2]

In its Access Charge Reform Order,[3] the Commission created separate subscriber line charge ("SLC") caps for non-primary residential and multi-line business lines. In addition, the Commission created a presubscribed interexchange carrier charge ("PICC") that will be set at one level for primary residential and single-line business lines and at other levels for non-primary residential and multi-line business lines. In the NPRM, therefore, the Commission addresses the issues involved in defining "single-line business line" and "primary residential line," for the purpose of applying these charges.

In the NPRM, the Commission evidences a great concern about the conceptual accuracy of the categorization of each line -- especially as it relates to the distinction between primary and non-primary residential lines. For example, the Commission asks whether the

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[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 Defining Primary Lines,* CC Docket No. 97-181, Notice of Proposed Rulemaking, FCC 97-316 (released September 4, 1997) ("NPRM").

[3] *In the Matter of Access Charge 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 Charge Reform Order").