

PART XX

**USTA
BIENNIAL REVIEW PETITION
SEPTEMBER 30, 1998**

Rule	Action	Justification
New	PART XX - RULES FOR INCUMBENT LOCAL EXCHANGE CARRIERS SUBJECT TO PRICE CAP REGULATION	New Part XX is created from existing sections of Part 61 and Part 69 to combine price management and appropriate access charges for Incumbent Local Exchange Carriers subject to price cap regulation.
New	Subpart A - General Creates new section. Also incorporates the following: <ol style="list-style-type: none"> 1. Eliminates study area averaging rule for price cap LECs. 2. Eliminates public interest petition filing requirement for price cap LECs. 	General rules for LECs subject to price cap regulation are duplicated and moved from Parts 61 and 69, and then revised. Section 61.41 moved to XX.1 and revised. Revisions made due to competitive environment and to incorporate previous USTA positions.

Rule	Action	Justification
<p>New</p>	<p>Subpart B - Price Cap Regulation and Computation of Charges for Price Cap LECs Creates new section and includes the following:</p> <ol style="list-style-type: none"> 1. Incorporates USTA proposed price cap basket/band structure: <ol style="list-style-type: none"> a. Network Services Basket <ol style="list-style-type: none"> i. Service Categories <ol style="list-style-type: none"> a. Tandem Switching and Transport b. Local Switching c. Database Services d. Common Line and Marketing ii. Pricing zones for Tandem Switching and Transport, Local Switching, Common Line and other service categories based upon equivalent demonstration 2. Eliminates codified rate structure requirements for all price cap services. <ol style="list-style-type: none"> a. Models new language after special access rule (current 69.114). 3. Exogenous adjustments limited to those permitted or required by rule, waiver, or declaratory ruling. Includes LFAM. 4. Eliminates CCL charge and revises max. SLC calculation to be common line revenue per line. PICC charge revised to be difference between max. SLC and any SLC cap imposed. PICC caps deleted. 5. Residual TIC now recovered through a new flat-rated trunk port charge. 	<p>The following sections form Part 61 are consolidated in Part XX, Subpart B: 61.42, 61.45, 61.46 and 61.47. Subpart C is moved from Part 69 and consolidated in Part XX, Subpart B and then greatly revised. Revisions are made due to competitive environment and to incorporate previous USTA positions.</p>

Rule	Action	Justification
<p>New</p>	<p>Subpart C - Pricing Flexibility Creates new rules to allow price cap LECs, based upon demonstration that appropriate criteria (to be determined) have been satisfied, to:</p> <ol style="list-style-type: none"> 1. Offer Volume and Term discounts, including customer specific contracts. 2. Provide promotional offerings. 3. Offer optional service packages and arrangements. 4. Remove services from price cap regulation. 5. Be granted forbearance from regulation for services/areas. 	<p>Incorporates USTA Pricing Flexibility proposal contained in Schmalensee/Taylor paper.</p>

USTA BIENNIAL REVIEW PROPOSAL

CODE OF FEDERAL REGULATIONS

TITLE 47 - TELECOMMUNICATIONS

CHAPTER I

FEDERAL COMMUNICATIONS COMMISSION

PART XX - RULES FOR INCUMBENT LOCAL EXCHANGE CARRIERS

SUBJECT TO PRICE CAP REGULATION

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Subpart A - General

§ XX.1 Application of Rules for Incumbent Local Exchange Carriers Subject to Price Cap Regulation.

(a) Charges for access services provided by incumbent local exchange carriers (ILECs) subject to price cap regulation shall be computed, assessed and collected as provided in this Part. Access service tariffs shall be filed and supported as provided under Part 61 of this chapter.

(b) Section XX.1 shall apply as follows:

(1) Only to such ILECs, as defined in Section 251(h)(1) and as specified by Commission Order and only to services offered in non-competitive areas.

(2) On an elective basis, to ILECs, other than those specified in paragraph (b)(1) of this section, that are neither participants in any Association tariff, nor affiliated with any such participants, except that affiliation with average schedule companies shall not bar a carrier from electing price cap regulation provided the carrier is otherwise eligible.

(c) If an ILEC, or any one of a group of ILEC affiliates, files a price cap tariff in one study area, that ILEC and its ILEC affiliates, except its average schedule affiliates, must file price cap tariffs in all their study areas.

(d) The following rules apply to ILECs subject to price cap regulation which are involved in mergers, acquisitions, or similar transactions.

(1) Any ILEC subject to price cap regulation that is a party to a merger, acquisition, or similar transaction shall continue to be subject to price cap regulation notwithstanding such transaction.

(2) Where an ILEC subject to price cap regulation acquires, is acquired by, merges with or otherwise becomes affiliated with an ILEC that is not subject to price cap regulation, the latter ILEC shall become subject to price cap regulation no later than one year following the effective date of such merger, acquisition, or similar transaction and shall accordingly file price cap tariffs to be effective no later than that date in accordance with the applicable provisions of Part 61.

(3) Notwithstanding the provisions of § XX.1(d)(2) above, when an ILEC subject to price cap regulation acquires, is acquired by, merges with, or otherwise becomes affiliated with an ILEC that qualifies as an average schedule company, the latter company may retain its average schedule status or become subject to price cap regulation in accordance with § 61.51(e)(3) and the requirements referenced in that section.

§ XX.2 Definitions.

(a) *Access Minutes* or *Access Minutes of Use* is that usage of exchange facilities in interstate or foreign service for the purpose of calculating chargeable usage. On the originating end of an interstate or foreign call, usage is to be measured from the time the originating end user's call is delivered by the telephone company and acknowledged as received by the interexchange carrier's facilities connected with the originating exchange. On the terminating end of an interstate or foreign call, usage is to be measured from the time the call is received by the end user in the terminating exchange. Timing of usage at both the originating and terminating end of an interstate or foreign call shall terminate when the calling or called party disconnects, whichever event is recognized first in the originating and terminating end exchanges as applicable;

(b) *Access Service* includes services and facilities provided for the origination or termination of any interstate or foreign telecommunication;

(c) *Act*. The Communications Act of 1934 (48 Stat. 1004; 47 U.S.C. chapter 5), as amended.

(d) *Actual Price Index (API)*. An index of the level of aggregate rate element rates in a basket, which index is calculated pursuant to § XX.105.

(e) *Band*. A zone of pricing flexibility for a service category, which zone is calculated pursuant to § XX.106.

(f) *Base period*. For ILECs subject to price cap regulation, the 12-month period ending six months prior to the effective date of annual price cap tariffs. Base year or base period earnings shall not include amounts associated with exogenous adjustments to the PCI for the lower formula adjustment mechanism.

(g) *Basket*. Any class or category of tariffed service or charge:
(1) Which is established by the Commission pursuant to price cap regulation;

(2) The rates of which are reflected in an Actual Price Index;
and

(3) The related costs of which are reflected in a Price Cap Index.

(h) *Change in rate structure*. A restructuring or other alternation of the rate components for an existing service.

(i) *Charges*. The price for service based on tariffed rates.

(j) *Commission*. The Federal Communications Commission.

(k) *Concurring carrier*. A carrier (other than a connecting carrier) subject to the Act which concurs in and assents to schedules of rates and regulations filed on its behalf by an issuing carrier or carriers.

(l) *Connecting carrier*. A carrier engaged in interstate or foreign communication solely through physical connection with the facilities of another carrier not directly or indirectly controlling or controlled by, or under direct or indirect common control with, such carrier.

(m) *End Office* means the ILEC office from which the end user receives exchange service.

(n) *End User* means any customer of an interstate or foreign telecommunications service that is not a carrier except that a carrier other than an ILEC shall be deemed to be an "end user" when such carrier uses a telecommunications service for administrative purposes and a person or entity that offers telecommunications services exclusively as a reseller shall be deemed to be an "end user" if all resale transmissions offered by such reseller originate on the premises of such reseller;

(o) *Expenses* include allowable expenses in the Uniform System of Accounts, Part 32, apportioned to interstate or international services pursuant to the Separations Manual and allowable income charges apportioned to interstate and international services pursuant to the Separations Manual.

(p) *GDP Price Index (GDP-PI)*. The estimate of the "Fixed Weight Price Index for Gross Domestic Product, 1997 Weights" published by the United States Department of Commerce, which the Commission designates by Order.

(q) *Incumbent Local Exchange Carrier (ILEC)*. Any carrier that is engaged in the provision of telephone exchange service or exchange access as defined in Section 251(h)(1) of the Act.

(r) *Line or Trunk* includes, but is not limited to, transmission media such as radio, satellite, wire, cable and fiber optic means of transmission;

(s) *Local interconnection trunk*. A trunk which connects the networks of two competing local exchange carriers for the purpose of exchanging switched traffic (originating and terminating).

(t) *Price Cap Index (PCI)*. An index of costs applying to carriers subject to price cap regulation, which index is calculated for the Network Services basket pursuant to § XX.104.

(u) *Price cap tariff*. Any tariff filing involving a service that is within the Network Services price cap basket, or that requires calculations pursuant to § XX.104, XX.105 and XX.106.

(v) *Productivity factor*. An adjustment factor used to make annual adjustments to the Price Cap Index to reflect the margin by which a carrier subject to price cap regulation is expected to improve its productivity relative to the economy as a whole.

(w) *Rate*. The tariffed price per unit of service.

(x) *Regulations*. The body of carrier prescribed rules in a tariff governing the offering of service in that tariff, including rules, practices, classifications, and definitions.

(y) *Restructured service*. An offering which represents the modification of a method of charging or provisioning a service; or the introduction of a new method of charging or provisioning that does not result in a net increase in options available to customers.

(z) *Service Band Index (SBI)*. An index of the level of aggregate rate element rates in a service category, which index is calculated pursuant to § XX.106.

(aa) *Service category*. Any group of rate elements subject to price cap regulation, which group may be subject to a band.

(bb) *Serving Wire Center* means the telephone company central office designated by the telephone company to serve the geographic area in which the interexchange carrier or other person's point of demarcation is located.

(cc) *Tariff*. Schedules of rates and regulations filed by common carriers.

(dd) *Tariff year*. The period from the day in a calendar year on which a carrier's annual access tariff filing is scheduled to become effective through the preceding day of the subsequent calendar year.

(ee) *United States*. The several States and Territories, the District of Columbia, and the possessions of the United States.

(ff) *WATS Access Line* means a line or trunk that is used exclusively for WATS service.

**Subpart B - Price Cap Regulation and Computation of
Charges for Price Cap Local Exchange Carriers**

§ XX.101 Applicability.

(a) This subpart shall apply only to local exchange carriers (LECs) which are subject to the price cap regulations set forth in this chapter.

(b) Each ILEC subject to price cap regulation shall exclude from the Network Services basket, described in § XX.102 below, such services or portions of such services as the Commission has designated or may hereafter designate by order; new services; and those services removed from price cap regulation pursuant to § XX.204.

§ XX.102 Price Cap Basket and Service Categories.

(a) Each local exchange carrier subject to price cap regulation shall establish a Network Services price cap basket with the following service categories:

(1) A service category for common line interstate access charges including those in §§ XX.108 and XX.109 of this chapter, and that portion of the interstate access charge described in § XX.111 of this chapter that recovers common line interstate access revenues;

(2) A service category for Database interstate access charges, including charges for the use of equipment or facilities that are associated with Information, Database access services, Line Information Database (LIDB), and Billing Name and Address (BNA) services.

(3) A service category for local switching interstate access charges for the use of equipment or facilities that are associated with local switching services and local switching trunk ports.

(4) A service category for tandem switching and transport interstate access charges and that portion of the interstate access charge described in § XX.110 of this chapter that recovers residual interconnection charge revenues;

(b) Pricing zones, as described in § XX.113, may be established for individual services or appropriate service categories.

§ XX.103 Exogenous Adjustments.

(a) Exogenous Adjustments are included as a term in Price Cap Index (PCI) and Service Band Index (SBI) formulas. The exogenous changes represented by the term "A Z" in the formula detailed in §§ XX.104 of this section shall be limited to those changes that the Commission shall permit or require by rule, rule waiver, or declaratory ruling.

(1) Subject to further order of the Commission, those exogenous changes shall include changes caused by:

(i) Retargeting the PCI to the level specified by the Commission for carriers whose base year earnings are below the level of the lower adjustment mark.

(2) Exogenous changes within the Network Services price cap basket shall be apportioned on a cost-causative basis between the appropriate service categories.

(b) ILECs subject to price cap regulation shall file adjustments to the PCI for the Network Services basket as part of the annual price cap tariff filing, and shall maintain an updated PCI to reflect the effect of any mid-year exogenous changes.

§ XX.104 Adjustments to the PCI for the Network Services Basket.

(a) Subject to paragraphs (b) and (c) of this section, adjustments to the ILEC Network Services basket PCI shall be made pursuant to the following formula:

$$PCI_t = PCI_{t-1} [1 + w(\text{GDPPI} - X) + \text{A Z}/R]$$

where:

GDPPI = the percentage change in the GDPPI between the quarter ending six months prior to the effective date of the new annual tariff and the corresponding quarter of the previous year,

X = productivity factor of 6.5%,

AZ = the dollar effect of current regulatory changes when compared to the regulations in effect at the time the PCI was updated to PCI_{t-1}, measured at base period level of operations,

R = base period quantities for each rate element "i", multiplied by the price for each rate element "i" at the time the PCI was updated to PCI_{t-1},

w = R(access rate in effect at the time the PCI was updated to PCI_{t-1} times base period demand) - AZ, all divided by R,

PCI_t = the new PCI value, and

PCI_{t-1} = the immediately preceding PCI value.

(b) The "w(GDPPI - X)" component of the PCI formula shall be employed only in the adjustment made in connection with the annual price cap filing.

(c) In the event that a price cap tariff becomes effective, which tariff results in an API value (calculated pursuant to § XX.105) that exceeds the currently applicable PCI value, the PCI value shall be adjusted upward to equal the API value.

§ XX.105 Adjustments to the API for the Network Services Basket.

(a) Except as provided in paragraph (b) of this section, in connection with any price cap tariff filing proposing rate changes, the carrier must calculate an API for the Network Services basket pursuant to the following formula:

$$API_t = API_{t-1} \frac{\sum_i (r_{i,t})}{\sum_i (r_{i,t-1})}$$

where:

API_t = the proposed API value,

API_{t-1} = the existing API value,

r_{i,t} = the proposed revenue for rate element "i",

r_{i,t-1} = the existing revenue for rate element "i".

(b) Any price cap tariff filing proposing rate restructuring shall require an adjustment to the API pursuant to the general methodology described in paragraph (a) of this section. This adjustment requires the conversion of existing rates into rates of equivalent value under the proposed structure, and then the comparison of the existing rates that have been converted to reflect restructuring to the proposed restructured rates. This calculation may require use of carrier data and estimation

techniques to assign customers of the preexisting service to those services (including the new restructured service) that will remain or become available after restructuring.

**§ XX.106 Adjustments to SBIs in the Network Services Basket;
Service Bands.**

(a) In connection with any price cap tariff filing proposing changes in the rates of each affected service category or pricing zone, the price cap ILEC must calculate an SBI value for each affected service category or pricing zone pursuant to the following formula:

$$SBI_t = SBI_{t-1} \frac{\sum_i (r_t)_i}{\sum_i (r_{t-1})_i}$$

where:

SBI_t = the proposed SBI value,

SBI_{t-1} = the existing SBI value,

r_t = the proposed revenue for rate element "i" ,

r_{t-1} = the existing revenue for rate element "i" .

(b) Any price cap tariff filing proposing rate restructuring shall require an adjustment to the affected SBI pursuant to the general methodology described in paragraph (a) of this section in the same manner described in § XX.105 b).

(c) Service bands shall be established each tariff year for each affected service category and pricing zone within the Network Services basket as specified below. Each service band shall limit the pricing flexibility of the service category or pricing zone, as reflected in the SBI, to an annual increase of a specified percent (listed below) relative to the percentage change in the PCI for the Network Services basket, measured from the levels in effect on the last day of the preceding tariff year. Service bands are not required at the service category level when pricing zones are implemented.

(1) No lower service band limit for all service categories and pricing zones

(2) 10% upper service band limit for all service categories, except for common line, and for all pricing zones.

§ XX.107 Allowable Common Line Revenues

Allowable common line revenues are calculated as follows:

$$R_t = ((R_{t-1}) (PCI_t / PCI_{t-1}))$$

where:

R_t = the proposed revenue for the service category, and
 R_{t-1} = the existing revenue for the service category.

§ XX.108 End User Common Line Charges.

(a) A charge that is expressed in dollars and cents per line per month shall be assessed upon end users that subscribe to local exchange telephone service. Such charge shall be assessed for each line between the premises of an end user, or public telephone location, and a Class 5 office that is or may be used for local exchange service transmissions.

(b) Except as provided in paragraphs (d) through (h) of this section, the maximum subscriber line rate or charge shall be computed:

(1) By dividing the allowable common line revenue, as calculated in § XX.107, by the total number of local exchange service subscriber lines in use during the the base period.

(2) Provided, however, that the charge for each local exchange service subscriber line shall not exceed \$9.00 as adjusted by the inflation factor computed under paragraph (j) of this section.

(c) The charge for each subscriber line associated with a public telephone shall be equal to the monthly charge computed in accordance with paragraph (b) of this section.

(d) Beginning January 1, 1998, the maximum monthly charge for each primary residential or single line business local exchange service subscriber line shall be the charge computed in accordance with paragraph (b) of this section, or \$3.50, whichever is lower

(e) The maximum monthly charge for each non-primary residential local exchange service subscriber line shall be the lower of:

(1) The maximum charge computed in accordance with paragraph (b) of this section; or

(2) \$5.00. On January 1, 1999, this amount shall be adjusted by the inflation factor computed under paragraph (j) of this section, and increased by \$1.00. On July 1, 2000, and on each subsequent July 1 thereafter, this amount shall be adjusted by the inflation factor computed under paragraph (j) of this section, and increased by \$1.00.

(3) Where the ILEC provides a residential line to another carrier so that the other carrier may resell that residential line to a residence that already receives a primary residential line, the ILEC may collect the non-primary residential charge described in paragraph (e)(1) and (e)(2) above from the other carrier.

(f) The charge for each primary residential local exchange service subscriber line shall be the same as the charge for each single line business local exchange service subscriber line.

(g) A line shall be deemed to be a residential subscriber line if the subscriber pays a rate for such line that is described as a residential rate in the local exchange service tariff.

(h) A line shall be deemed to be a single line business subscriber line if the subscriber pays a rate that is not described as a residential rate in the local exchange service tariff and does not obtain more than one such line from a particular ILEC.

(i) No charge shall be assessed for any WATS access line.

(j) (1) On January 1, 1999:

(i) The ceiling for multi-line business subscriber lines under paragraph (b)(2) of this section will be adjusted to reflect inflation as measured by the change in GDPPI for the 18 months ending September 30, 1998.

(ii) The ceiling for non-primary residential subscriber lines under paragraph (e)(2) of this section will be adjusted to reflect inflation as

measured by the change in GDPPI for the 12 months ending September 30, 1998.

(2) On July 1, 2000, the ceiling for multi-line business subscriber lines and non-primary residential subscriber lines will be adjusted to reflect inflation as measured by the change in GDPPI for the 18 months ending on Dec 31, 1999.

(3) On July 1 of each subsequent year, the ceiling for multi-line business subscriber lines and non-primary residential subscriber lines will be adjusted to reflect inflation as measured by the change in GDPPI for the 12 months ending on Dec 31 of the year prior to the year the adjustment is made.

(k) (1) ILECs shall assess no more than one end user common line charge as calculated under the applicable method under paragraph (e) of this section for Basic Rate Interface integrated services digital network (ISDN) service.

(2) ILECs shall assess no more than five end user common line charges as calculated under paragraph (b) of this section for Primary Rate Interface ISDN service.

§ XX.109 Presubscribed Interexchange Carrier Charge (PICC).

(a) A charge expressed in dollars and cents per line may be assessed upon the subscriber's presubscribed interexchange carrier to recover the difference in the maximum subscriber line rate set forth in § XX.108(b)(1) and the maximum subscriber line rates set forth in §§ XX.108(b)(2), XX.108(d) and XX.108(e).

(b) If an end-user customer does not have a presubscribed interexchange carrier, the ILEC may collect the PICC directly from the end user.

(c) ILECs shall assess no more than one PICC as calculated under the applicable method under paragraph (a) of this section for Basic Rate Interface integrated services digital network (ISDN) service.

(d) ILECs shall assess no more than five PICCs as calculated under the applicable method under paragraph (a) of this section for Primary Rate Interface ISDN service.

(e) If an ILEC receives low income universal service support on behalf of a customer under § 54.403(d) of this chapter, and the subscriber elects toll blocking, then the ILEC shall not recover a primary residential presubscribed interexchange carrier charge from that end-user customer or its presubscribed interexchange carrier. Any amounts recovered under § 54.403(d) of this chapter by the ILEC shall be treated as if they were recovered through the presubscribed interexchange carrier charge.

§ XX.110 Interconnection Charge.

(a) ILECs may recover the residual interconnection charge through a flat-rated trunk port charge assessed upon interexchange carriers or competitive access providers, as appropriate.

(b) To the extent that the ILEC has a non-service related TIC, the ILEC will target all price cap productivity factor reductions to this charge until it is eliminated.

(c) Targeting of productivity factor reductions will not be applied to tandem switching revenues recovered in the TIC.

§ XX.111 Marketing Expenses.

(a) ILECs shall recover interstate marketing expenses pursuant to § 32.6610 of this chapter by including these expenses in the common line service category.

§ XX.112 Connection Charges for Expanded Interconnection.

(a) Appropriate connection charges shall be established for the use of equipment and facilities that are associated with offerings of expanded interconnection for special access and switched transport services, as defined in Part 64, Subpart N of this chapter. To the extent that the same equipment and facilities are used to provide expanded interconnection for both special access and switched transport, the same connection charges shall be used.

(1) A cross-connect charge shall be established for the cross-connect cable and associated facilities connecting the equipment owned by or dedicated to the use of the interconnector with the ILEC's equipment and facilities used to provide interstate special or switched

access services. Charges for the cross-connect charge shall not be deaveraged within a study area that is used for purposes of jurisdictional separations.

(2) Charges associated with physical collocation or virtual collocation, other than the charge described in paragraph (a)(1) of this section and charges recovering the cost of the virtual collocation equipment described in § 64.1401(e)(1) of this chapter, may reasonably differ in different central offices.

(b) Connection charges shall be initially computed based upon the costs associated with the equipment and facilities that are included in such charges, including no more than a just and reasonable portion of the ILEC's overhead costs.

(c) Connection charges shall be assessed upon all interconnectors that use the equipment or facilities that are included in such charges.

(d) Except as provided in paragraphs (e) and (f) of this section, ILECs shall not offer direct-trunked transport rates based on term discounts or volume discounts for multiple DS3s or any other service with higher volume than DS3.

(e) Except in the situation set forth in paragraph (f) of this section, ILECs may offer term and volume discounts in direct-trunked transport charges within each study area, in which interconnectors have taken either:

(1) At least 100 DS1-equivalent cross-connects for the transmission of switched traffic (as described in paragraph (a)(1) above) in offices in the study area that the ILEC has assigned to the lowest priced pricing zone (zone 1) under an approved pricing zone plan as described in § XX.113 of this section.

(2) An average of at least 25 DS1-equivalent cross-connects for the transmission of switched traffic per office assigned to the lowest priced pricing zone (zone 1).

(f) In study areas in which the ILEC has implemented pricing zones, but no offices have been assigned to the lowest priced pricing zone (zone 1), ILECs may offer term and volume discounts in direct-trunked transport charges within the study area when interconnectors have taken at least 5 DS1-equivalent cross-connects for the transmission of switched traffic (as

described in paragraph (a)(1) above in offices in the study area.

(g) Connection charges for expanded interconnection shall not be subject to price cap regulation.

§ XX.113 Pricing Zones.

(a) ILECs may establish a reasonable number of pricing zones within each study area for the Common Line, Local Switching, Tandem Switching and Transport service categories and for other service categories as appropriate.

(b) Pricing zones may vary by service or by service category.

(c) Such a system of pricing zones shall be designed to reasonably reflect cost-related characteristics, such as the density of total interstate traffic in central offices located in the respective zones.

(d) The establishment of the same initial prices within the pricing zones in a study area shall be based on traffic density. The establishment of different initial prices within the pricing zones in a study area for End User Common Line charges shall be based upon a demonstration of costs.

(e) Pricing zones shall be established using the following criteria:

(1) Common Line and Local Switching: At least one local interconnection trunk is operational.

(2) Switched Transport: At least one interconnector has taken a cross-connect for Switched Transport.

(3) Special Access: At least one interconnector has taken a cross-connect for Special Access.

(4) Equivalent criteria must be demonstrated to establish pricing zones in other service categories.

Subpart C - Pricing Flexibility

§ XX.201 General.

(a) This section is applicable to price cap ILECs which have made a demonstration that the appropriate criteria described herein have been sufficiently satisfied so that pricing flexibility is warranted.

§ XX.202 Pricing Flexibility Criteria.

For services and areas for which an ILEC subject to price cap regulation complies with §§ XX.202(a), (b), (c), (d), (e) and (f) below, additional pricing flexibility shall be granted as described in §§ XX.203, XX.204 and XX.205 for those services and areas.

(a) [HERE DESCRIBE PHASE 1 CRITERIA AND CONDITIONS UPON WHICH CRITERIA HAVE BEEN SUFFICIENTLY SATISFIED]

(b) [HERE DESCRIBE PHASE 1 CRITERIA AND CONDITIONS UPON WHICH CRITERIA HAVE BEEN SUFFICIENTLY SATISFIED]

(c) [HERE DESCRIBE PHASE 2 CRITERIA AND CONDITIONS UPON WHICH CRITERIA HAVE BEEN SUFFICIENTLY SATISFIED]

(d) [HERE DESCRIBE PHASE 2 CRITERIA AND CONDITIONS UPON WHICH CRITERIA HAVE BEEN SUFFICIENTLY SATISFIED]

(e) [HERE DESCRIBE PHASE 3 CRITERIA AND CONDITIONS UPON WHICH CRITERIA HAVE BEEN SUFFICIENTLY SATISFIED]

(f) [HERE DESCRIBE PHASE 3 CRITERIA AND CONDITIONS UPON WHICH CRITERIA HAVE BEEN SUFFICIENTLY SATISFIED]

§ XX.203 Phase 1 Pricing Flexibility.

(a) Price cap ILECs which comply with §§ XX.202(a) and (b) shall be allowed to offer volume and term discounts (including customer-specific contracts), optional service packages and arrangements, and promotional offerings.

§ XX.204 Phase 2 Pricing Flexibility

(a) Price cap ILECs which comply with §§ XX.202(c) and (d) shall be allowed to remove such services and areas from price cap regulation.

§ XX.205 Phase 3 Pricing Flexibility

(a) Price cap ILECs which comply with §§ XX.202(e) and (f) shall be granted forbearance from regulation for such services and areas.

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**ECONOMIC STANDARDS
FOR THE BIENNIAL REVIEW OF
INTERSTATE TELECOMMUNICATIONS REGULATION**

by

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September 30, 1998

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ECONOMIC STANDARDS FOR THE BIENNIAL REVIEW OF INTERSTATE TELECOMMUNICATIONS REGULATION

Robert W. Hahn and William E. Taylor¹

I. EXECUTIVE SUMMARY.

The 1996 Telecommunications Act launched a complex set of proceedings to open local telecommunications markets and interLATA long distance markets to competition. To balance this regulatory complexity, Section 11 of the Act requires that

[i]n every even-numbered year (beginning with 1998) the Commission (1) shall review all regulations issued under this Act in effect at the time of the review that apply to the operations or activities of any provider of telecommunications service; and (2) shall determine whether any such regulation is no longer necessary in the public interest as the result of meaningful economic competition between providers of such service. The Commission shall repeal or modify any regulation it determines to be no longer necessary in the public interest. (47 U.S.C. 161)

We have been asked by the United States Telephone Association to supply a set of practical economic principles for identifying rules that should be eliminated or modified and to provide an assessment of the likely economic benefits from this endeavor.

As observed by A.E. Kahn, there are two key circumstances in which regulation could enhance economic welfare: where the persistence of monopoly requires continued regulation

- to protect captive, principally residential and small business customers; [and]

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