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Before the
FEDERAL COMMUNICATIONS COMMISSION
Washington, DC 20554

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In the Matter of

1998 Biennial Regulatory Review –
Part 61 of the Commission's Rules
and Related Tariffing Requirements

CC Docket No. 98-131

COMMENTS OF BELL ATLANTIC

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SUMMARY

The Notice fails to meet the Commission's obligation under Section 11 of the Act to eliminate any rule that is no longer “necessary” or in the public interest. In these comments, Bell Atlantic proposes several changes to the Commission's Part 61 and related price cap rules that would improve competition and enhance the public interest by allowing more efficient pricing by the local exchange carriers.

The Commission should eliminate the Part 61 rules that continue to require price cap carriers to set rates for individual services based on regulatory costs. Specifically, the Commission should eliminate the rule that requires carriers to set subscriber line charges based on forecasts of base factor portion costs, and it should eliminate the requirement of a cost showing for new services. Limits on subscriber line charges should be based on allowable common line revenues per line. There should be no pricing constraints on the introduction of new services, as carriers already have an incentive to offer such services at attractive prices.

The Commission should eliminate the requirement that rates be effective for a specific period of time before they can be revised. The Commission's concern that customers need to be “protected” from “unnecessary rate churn” is misplaced in a competitive environment. Competition will prevent carriers from alienating their customers with excessive rate changes.

The Commission should adopt the United States Telephone Association's proposal to consolidate and streamline the structure of price cap baskets, service categories, and sub-categories. It should streamline the rate structure rules by eliminating

prescribed rate elements in the Traffic Sensitive and Trunking baskets, other than the transport interconnection charge (which will be eliminated anyway in the near future as the carriers target their X-factor reductions to this element). The Commission also should adopt proposals, such as those presented by Bell Atlantic and Ameritech, to allow price cap carriers additional pricing flexibility as their markets become more competitive.

Bell Atlantic supports USTA's proposal to clarify and streamline the tariff and price cap rules by (1) amending Part 61 to include tariff-filing rules that would be applicable to all carriers; (2) amending Part 69 to include rate structure and rate level rules that would be applicable only to rate-of-return carriers; and (3) adopting a new Part XX containing rules that would be applicable only to price cap carriers.

Finally, the Commission should make its tariff-filing procedures more efficient for all carriers by (1) adopting "all electronic" filing procedures, including electronic tariff "posting" and electronic submission of filing fees; and (2) eliminating the minimum notice periods for tariff filings by dominant carriers other than the notice periods mandated by Section 204(a)(3) of the Act.

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I. Introduction

The Notice proposes to make only superficial changes to the Commission's Part 61 tariff filing rules that would have little substantive effect for price cap carriers. This falls far short of the thorough housecleaning mandated by Act. Section 11 requires the Commission, starting in 1998, to review all of its regulations every two years – including all aspects of its Part 61 rules – and it states unequivocally that the Commission “shall repeal or modify any regulation it determines to be no longer necessary in the public interest.” 47 U.S.C § 161(b) (emphasis added).² This requires a cost/benefit analysis of each and every one of the Commission's substantive rules and the elimination, or

¹ The Bell Atlantic telephone companies (“Bell Atlantic”) are Bell Atlantic-Delaware, Inc.; Bell Atlantic-Maryland, Inc.; Bell Atlantic-New Jersey, Inc.; Bell Atlantic-Pennsylvania, Inc.; Bell Atlantic-Virginia, Inc.; Bell Atlantic-Washington, D.C., Inc.; Bell Atlantic-West Virginia, Inc.; New York Telephone Company; and New England Telephone and Telegraph Company.

² Similarly, Section 10 of the Act states that the Commission “shall” forebear from applying any regulation that is not “necessary” to ensure that rates are just and reasonable and to protect consumers. 47 U.S.C. § 160(a).

streamlining, of any rule that is no longer necessary to protect the public interest. In these comments, Bell Atlantic proposes several changes to the Commission's Part 61 and related rules that would eliminate unnecessary regulatory restrictions and that would enhance the public interest by allowing more efficient pricing by the local exchange carriers.

II. The Commission Should Consolidate and Streamline The Price Cap Rules.

A. The Commission Should Eliminate Regulatory Accounting Cost As A Basis For Pricing Under Price Caps.

The Commission should eliminate the Part 61 rules that still use cost as a basis for setting individual rate levels. The Commission adopted the price cap system to encourage efficiency by breaking the link between prices and costs. LEC Price Cap Order, 5 FCC Rcd 6786, ¶ 22 (1990). Yet, the price cap rules continue to require the local exchange carriers to set prices for subscriber line charges using forecasts of their base factor portion costs. In addition, the new services test requires price cap carriers to calculate direct and indirect costs based on the results of the Commission's regulatory cost accounting, separations, and Part 69 allocation rules. This perpetuates the alleged need for regulatory accounting systems, it complicates and increases the burden of the annual access tariff filings, it requires the Commission staff, the industry, and others to expend considerable resources in analyzing the forecasts, and it has resulted in disallowances and refunds where the Commission has determined after the fact that it

would have preferred a different forecast. *See, e.g., 1997 Annual Access Tariff Filings*, 13 FCC Rcd 3815 (1997).

Forecasts of base factor portion costs clearly are not “necessary” under the price cap regime. In the LEC Price Cap Order, the Commission decided to retain the existing procedures for establishing limits on subscriber line charges, including the requirement to forecast base factor portion costs in the annual access tariff filings, based on vague references to maintaining the existing balance of economic efficiency vs. the goals of universal service and affordable rates. LEC Price Cap Order, ¶ 58. However, the rationale of the price cap system is that economic efficiency is promoted by not tying prices to costs derived from the Commission's accounting, separations, and access charge cost allocation rules. Id., ¶ 35. Moreover, in its Access Charge Reform and Universal Service orders, the Commission clearly relied on the \$3.50 cap on primary residential line subscriber line charges, rather than on the use of base factor portion costs, to achieve its universal service goals. *See Access Charge Reform*, 12 FCC Rcd 15982, ¶ 73 (1997); Federal-State Joint Board on Universal Service, 12 FCC Rcd 8776, ¶ 762 (1997).

For these reasons, the Commission should eliminate the requirement that price cap local exchange carriers perform annual forecasts of base factor portion costs. Rather, the Commission should provide that maximum subscriber line charges should be calculated by dividing the maximum allowable common line revenues, as determined by the price cap formula, by the base year number of common lines. To the extent that caps on the subscriber line charges for certain classes of customers are below the allowable common line revenue per line, the difference would be recovered through the

presubscribed interexchange carrier charge and, to a lesser extent, the carrier common line charge.

As a second-best alternative, the Commission could rely on historical costs for the base year to determine the base factor portion. This would eliminate disagreements about the accuracy of forecasts, and it would greatly simplify the annual access tariff filings. The Commission rejected this approach in its 1991 reconsideration of the LEC Price Cap Order, finding that there was insufficient evidence that consumers would not be harmed. LEC Price Cap Reconsideration Order, 6 FCC Rcd 2637, ¶¶ 165-66 (1991). However, after almost eight years of experience under price caps, it is clear now that use of historical rather than forecast data would have little impact on the absolute level of the subscriber line charges paid by consumers, but it would reduce significantly the burden of the annual access tariff filings on both the industry and the Commission staff.

The Commission also should eliminate the new services test. This test, which requires price cap carriers to justify their rates for new services with reference to the direct and overhead costs produced by the Commission's rules, contradicts the Commission's own findings that the Commission's cost assignment rules do not result in efficient pricing. LEC Price Cap Order, ¶ 35. While the Commission has allowed the carriers some degree of flexibility in recovering overhead costs from new services, there is no reason why any cost test should be applied when a carrier proposes a new service. *See* A. Kahn, Letting Go: Deregulating the Process of Deregulation (1998), p. 59. By definition, a price for a new service cannot harm customers, since the new service offers them an option that would not otherwise exist, and which they will purchase only if they

find that the benefits of the service exceed the price. Whether the carrier offering a new service is the incumbent local exchange carrier or a new entrant, it will want to offer an attractive price that will gain as many customers as possible to offset the costs of introducing the service. Elimination of the new services test would promote efficient pricing and enhance the incentive for incumbent local exchange carriers to undertake the financial risks of introducing new services.

B. The Commission Should Eliminate The Effective Period Required Before Tariff Changes.

For non-dominant carriers, the Commission proposes to reduce to 15 days, from the current 30 days, the minimum period that a tariff must remain in effect before it is revised. Notice, ¶¶ 8-9. The Commission should eliminate this requirement entirely for all carriers, both dominant and non-dominant.

The Commission's concern that customers need to be "protected" from "unnecessary rate churn" is misplaced in a competitive environment. Regardless of whether a carrier is classified by the Commission as dominant or non-dominant, it has a strong business incentive to avoid annoying its customers with confusing and disruptive rate changes that might motivate them to seek alternative providers. Regulatory time limits on rate changes inhibit price competition by slowing the pace at which carriers can respond to a customer's needs and seek to match, or beat, a competitor's prices. In addition, most rate changes concern interstate access charges paid by interexchange carriers, who are sophisticated customers that have good lines of communication with the local exchange carriers about rate changes. Finally, eliminating this requirement would

avoid the need for requests for waivers and special tariff permission to make rate changes in less than the prescribed effective period, which would reduce the administrative burden on the carriers and the bureau staff.

C. The Commission Should Consolidate And Simplify The Price Cap Baskets And Service Categories.

The Commission should consolidate and simplify the rules for price cap baskets and service bands. While the price cap system was originally designed to provide a large degree of pricing flexibility within groups of similar services, the proliferation of baskets, service categories, and sub-service categories over the years has severely reduced this flexibility, forcing the price cap carriers to concentrate more on meeting indices than responding to the market. As a result, a system that was designed to simplify regulation has become increasingly complex and restrictive. Consolidation and streamlining of the price cap basket and band structure would give carriers the ability to tailor their prices more closely to market conditions and to pass along the resulting efficiencies to their customers.

The Commission should adopt the proposal submitted by the United States Telephone Association (“USTA”) to consolidate access services into a single “Network Services” basket, with four service categories; (1) tandem switching and transport; (2) local switching; (3) database services; and (4) common line and marketing. *See* USTA Petition for Rulemaking, (filed Sep. 30, 1998), p. 53. This would place services that perform similar functions and that are subject to similar competitive pressures in the same service categories, which would obviate concerns that carriers would use rates for less-

competitive services to cross-subsidize more competitive services. *See* LEC Price Cap Order, ¶ 200. In addition, the Commission should adopt USTA's proposals to apply the zone pricing rules to all service categories. Such pricing flexibility would allow price cap carriers to respond to the higher degree of competition and lower cost structure in high-density areas.

D. The Commission Should Streamline The Price Cap Rate Structure Rules.

The Commission should streamline the rate structure rules applicable to price cap carriers. The current rules prevent the carriers from responding to competition and from developing rate plans that meet their customers' needs. To introduce a new switched access service that is not already listed in Part 69 or already offered by another carrier, a price cap carrier must obtain a waiver under the public interest standard, which is a burdensome process with no time limit for Commission approval. *See* 47 C.F.R. § 69.4(g)(1). This introduces unnecessary delay in meeting customer demand and makes it impossible for a local exchange carrier to predict when it will be able to introduce a new service.

For price cap carriers, the Commission should eliminate rules prescribing specific rate elements in the Traffic Sensitive and Trunking baskets, other than the rules for the transport interconnection charge (which will disappear soon, in any event, as the carriers continue targeting X-factor reductions to this element). This would avoid the need for a public interest showing every time a price cap carrier wants to introduce a new service in these categories. The only rate element rules that the Commission should retain are those

applicable to the “public policy” elements in the Common Line basket – the subscriber line charge, the presubscribed interexchange carrier charge, the carrier common line charge, and the special access surcharge. Since these rate elements reflect policy decisions, rather than cost causation or market factors, they would not exist without regulatory rules. In contrast, rates for services such as local switching and tandem-switched transport are subject to competition by collocated carriers, which eliminates any need for the Commission to prescribe individual rate elements. The Commission can rely on the forces of competition to ensure that the local exchange carriers develop rate elements and rate structures for these services that are responsive to their customers’ needs.

E. The Commission Should Exclude Universal Service Contributions From The Price Cap Formula.

The Commission should amend its price cap rules to exclude universal service fund contributions from application of the productivity offset, or “X-factor.” In the Universal Service Order, the Commission found that the local exchange carriers have a right to recover the full amount of their universal service contributions through their interstate access charges. *See* Federal-State Joint Board on Universal Service, ¶ 829. However, by including universal service contributions as exogenous adjustments to the price cap indices, the Commission has subjected these amounts to the annual productivity adjustment. *See* Access Charge Reform, CC Docket No. 96-262, USTA Petition for Reconsideration (filed July 11, 1997). This is illogical, since a carrier’s universal service

contribution is an external amount, which is unaffected by any change in the carrier's productivity.

To ensure that price cap carriers have an opportunity to recover the full amount of their contributions to the universal service fund, the Commission should allow a price cap carrier to recover its universal service contribution through a true-up process that compares the revenue lost via the GDP-PI minus X reduction to the revenue gained through demand growth, for the period during which the exogenous amount for universal service was incorporated in the carrier's rates.

F. The Commission Should Establish Price Cap Rules Allowing Additional Pricing Flexibility As Local Exchange Markets Become More Competitive.

The Commission should adopt rules that would allow price cap carriers increasing pricing flexibility, and ultimately remove services from price caps, as markets for access services become more competitive. The current rules deny the public the benefits that would result from vigorous price competition. Competitors can use the tariff filing process to delay the introduction of new services by the local exchange carriers and to obtain advance notice of their pricing initiatives. The inability of the local exchange carriers to depart from their published prices on a case-by-case basis creates market inefficiencies by insulating competitors from the full effects of price competition and by preventing customers from obtaining the best possible prices. As a result, customers receive incorrect pricing signals and cannot identify the most efficient service, or supplier, for their needs.

In CC Docket 96-262, the Commission recently requested additional comments on several issues, including pricing flexibility proposals submitted by Bell Atlantic and Ameritech.³ Among other things, these proposals would allow price cap carriers to deaverage their rates and to offer contract-type tariffs as new entrants develop a presence in a market, and they would allow carriers to remove a service from price caps entirely when competitive carriers are capable of providing service to 75 percent of a selected market area for that service. The Commission should adopt such a proposal in its price cap rules so that individual petitions for waiver or forbearance would not be necessary as each market becomes competitive.

III. The Commission Should Remove The Price Cap Rules From Parts 61 and 69 And Incorporate Them Into A New Part XX.

The Commission proposes to reorganize Part 61 to separate the tariff-filing rules that apply to non-dominant carriers from the rules that apply to dominant carriers. Notice, ¶¶ 10-11. While this would reduce some of the confusion created by the current rules, it would not deal with the awkward division of price cap rules between Part 61 and Part 69. Part 61 includes the rules for price cap baskets, bands, and indexes, while Part 69 contains additional rules concerning rate structure and rate levels for both price cap carriers and rate-of-return carriers. Since Part 69 was originally written to establish rates for each access service under a rate-of-return environment, it exempts price cap carriers from many of the rate structure and level rules. *See* 47 C.F.R. § 69.1(c). Clearly, these

³ *See* Public Notice, FCC 98-256 (rel. Oct. 5, 1998).

rules would be easier to understand, and apply, if they were reorganized to recognize the fundamental differences between rate-of-return and price caps.

The Commission should adopt the proposal submitted by USTA to clarify and streamline the Commission's rules by (1) amending Part 61 to include tariff-filing rules that would be applicable to all carriers; (2) amending Part 69 to include rate structure and rate level rules that would be applicable only to rate-of-return carriers; and (3) adopting a new Part XX containing rules that would be applicable only to price cap carriers. *See* USTA Petition for Rulemaking, (filed Sep. 30, 1998), pp. 39-43, 49-55.⁴

IV. The Commission Should Make Its Tariff-Filing Procedures More Efficient For All Carriers.

A. The Commission Should Adopt Full Electronic Filing Procedures For Tariffs And Tariff Filing Fees.

The Commission should adopt its proposals to allow electronic “posting” of tariffs and to codify its rules for submitting tariff filing fees electronically. Notice, ¶¶ 4-7. Adopting an “all electronic” posting and filing system for tariffs would reduce the administrative burden on both the filing carriers and the Commission's staff, while making tariff information more accessible to the public.⁵

⁴ If the Commission retains the current Part 61 organizational structure, which it should not, it should correct several technical errors in its proposed revisions to Part 61. The attachment hereto provides technical corrections to the rule revisions proposed in Appendix A of the Notice.

⁵ The Commission should adopt its proposal to require carriers to provide telephone numbers for public inquiries about information in the tariffs. Notice, ¶ 7. In addition, the Commission should require carriers to provide e-mail addresses so that customers would have the option of submitting electronic inquiries about tariffs.

The Commission's current requirement that a carrier maintain, or “post,” a paper copy of its tariff in a business office in each state in which it operates does little or nothing to inform the public. Bell Atlantic, for one, receives few requests from the public to view the tariff at its business offices. The Commission's new electronic tariff filing system, which makes interstate tariffs of all local exchange carriers available on the Commission’s Internet web site, makes the tariffs accessible to any interested party, and without the cost and inconvenience of traveling to a carrier’s business office.

The Commission’s proposal to codify its rules for submitting tariff filing fees electronically (Notice, ¶ 4) is worthwhile, but does not go far enough. The bureau’s procedures for submitting fees electronically require the carriers to continue to submit paper copies of the tariff transmittal letter and the Form 159 to the bureau.⁶ This is an unnecessary burden, and it stands in the way of an all-electronic filing system. The Commission should allow carriers that file fees electronically to file electronic copies of the tariff transmittal and the Form 159, with electronic signatures as provided in Section 1.52 of the Commission's rules.

⁶ *See* Electronic Tariff Filing System (ETFS), 13 FCC Rcd 12335 (Com. Car. Bur., 1998), ¶ 10. Although it was not clear from the order, the bureau later informed the carriers that paper copies of the tariff transmittal letter and the Form 159 were required to be filed with the bureau even where the fee was transmitted electronically to the Mellon Bank. The Commission proposes to codify this requirement in its draft changes to Section 61.32(b).

B. The Commission Should Eliminate Minimum Notice Periods For Tariff Filings By Dominant Carriers Other Than Those Mandated By Section 204(a)(3) Of The Act.

The Commission correctly notes that its current rules establishing notice periods for certain types of tariff filings (*e.g.*, 90 days for annual access tariff filings by local exchange carriers, 45 days for new services) are inconsistent, and in fact are superseded by, the notice periods in Section 204(a)(3) of the Act, which allows local exchange carriers to file “streamlined” tariff revisions for rate reductions on 7 days’ notice, and for all other changes on 15 days’ notice.⁷ Section 204(a)(3) leaves it entirely up to the carrier whether it should subject itself to notice periods longer than 7 or 15 days. By retaining the rules that were in effect prior to enactment of Section 204(a)(3), the Commission inhibits the carriers from making filings on longer notice, since there is such a large gap between the Section 204(a)(3) notice periods and the periods required for non-streamlined filings. In addition, retaining the old rules requires burdensome requests for waivers when carriers seek to file non-streamlined tariffs on less than the currently-prescribed notice periods. For these reasons, the Commission should eliminate all notice periods, other than those mandated by Section 204(a)(3).

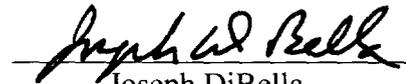
⁷ Notice, ¶ 12. The Commission has made it clear that a local exchange carrier may file any type of tariff under Section 204(a)(3). *See Implementation of Section 402(b)(1)(A) of the Telecommunications Act of 1996*, 12 FCC Rcd 2170, ¶ 31 (1997).

V. Conclusion

The Commission should streamline its Part 61 tariff filing rules as proposed above.

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Technical Corrections To The Proposed Rules In Appendix A

Item 20. As written, § 61.33(a) does not accommodate electronic filing of tariffs.

Revise as follows:

§61.33(a) Except as specified in § 61.32(b), all publications filed with the Commission must be numbered consecutively by the issuing carrier beginning with Number 1, and must be accompanied by a letter of transmittal, **either filed electronically or** (21 cm x 29.7 cm) or 8 ½ by 11 inches (21.6 cm x 27.9 cm) in size.

Item 38. As written, in § 61.45(b)(1) the definition of R is incorrect when it tries to add the appropriate PICC quantity.

Revise as follows:

R = an amount calculated by multiplying base period quantities for each rate element in the basket by the price for that rate element at the time the PCI was updated to PCI_{t-1} , summing the results **including the portion of the EUCL and PICC revenues associated with the basket** and ~~adding the products of base period quantities for each PICC established in Section 69.153 of this Chapter and the portion of that PICC that is associated with the basket.~~

Item 38. As written, in § 61.45(b)(1) the “w” formula is incorrect by including the calculation for imputed revenues for the interexchange basket.

Revise as follows:

$W = R$ ~~-(access rate in effect at the time the PCI was updated to PCI_{t-1} , multiplied by base period demand)~~ + ΔZ , all divided by R.

Item 38. As written, in § 61.45(b)(2) the rule language after the first sentence is left over from AT&T price regulation. It should be deleted with only the first sentence remaining.

Revise as follows:

(2) The “w(GDP-PI - X)” component of the PCI formula specified in paragraph (b)(1) of this section shall be employed only in the adjustment made in connection with the annual price cap filing. ~~In calculating the “w” variable in the formula detailed in paragraph (b)(1) of this section, the access costs that must be subtracted from the “R” variable shall be apportioned among the baskets specified in Sections 61.42(d)(2), (3), (4), and (6) as follows:~~

~~(i) The net change in total non traffic sensitive access costs for all capped services (in all baskets), calculated at base period demand, shall be allocated among the baskets in proportion to each basket's share of total base period non-traffic sensitive minutes of access (both originating and terminating);~~

~~(ii) The net change in total traffic sensitive access costs for all capped services (in all baskets), calculated at base period demand, shall be allocated among the baskets in proportion to each basket's share of total base period traffic sensitive minutes of access;~~

~~(iii) Changes in special access costs, calculated at base period demand, shall be assigned directly to the trunking basket specified in Section 61.42(d)(3).~~

Item 38. As written, in § 61.45(b)(4), the PCI formula leaves out the adjustment for the imputation of access charges (ΔY).

Revise as follows:

Adjustments to local exchange carrier PCIs for the interexchange basket designated in Section 61.42(d)(4) shall be made pursuant to the **following** formula ~~set forth in paragraphs (b)(1) and (2) of this Section. Notwithstanding that formula, the value of X for this basket shall be 3.0 percent :~~

$$PCI_t = PCI_{t-1} [1 + w(GDP-PI - X) + \Delta Y/R + \Delta Z/R]$$

where

GDP-PI = the percentage change in the GDP-PI 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 3%,

ΔY = (new access rate - access rate at the time the PCI was updated to PCI_{t-1}) x (base period demand),

ΔZ = 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} ,

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

PCI_t = the new PCI value, and

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

Item 40. As written, in § 61.45(c)(1) the definition of R is incorrect when it tries to add the appropriate PICC quantity.

Revise as follows:

R = an amount calculated by multiplying base period quantities for each rate element in the basket by the price for that rate element at the time the PCI was updated to PCI_{t-1} , summing the results **including the portion of the EUCL and PICC revenues associated with the basket** and ~~adding the products of base period quantities for each PICC established in Section 69.153 of this Chapter and the portion of that PICC that is associated with the common line basket,~~

Item 41. As written, § 61.45(c)(2) should be revised to clarify that g will equal 0 in non-annual tariff filings or there will be rate impacts in the CAP-1 calculations.

Revise as follows:

(c)(2) The " $w[(GDP-PI - X - (g/2))/(1 + (g/2))]$ " component of the PCI formula contained in paragraph (c)(1) of this section shall be employed only in the adjustment made in connection with the annual price cap filing. **In non-annual price cap filings, g will be equal to 0.**

Item 45. § 61.45(i)(1) should state explicitly that reductions to the PCI associated with " w ", " $GDP-PI$ " and " X " will not be applied to the common line and traffic sensitive baskets in the annual filing to the extent that the price cap LEC is recovering residual interconnection charge revenues through per-minute rates. In addition, the rule as currently written does not allow the recovery of exogenous costs in the calculations.

Revise the rule as follows:

(i)(1) Notwithstanding the provisions of paragraphs (b) and (c) of this section, and subject to the limitations of paragraph (j) of this section, price cap local exchange carriers that are recovering interconnection charge revenues through per-minute rates pursuant to § 69.124 or § 69.155 of this chapter shall target, to the extent necessary to eliminate the recovery of any residual interconnection charge revenues through per-minute rates, any PCI reductions associated with the baskets designated in § 61.42(d)(1) and (2) that result from the application of the formulas in § **61.45(b)(1) and**

(c)(1) but excluding from the calculations the $\Delta Z/R$ component of the PCI for the basket designated in § 61.42(d)(3), with no adjustment being made to the PCIs for the baskets designated in § 61.42(d)(1) and (2) as a result of the application of the formulas in § 61.45(b)(1) and (c)(1) but excluding from the calculations the $\Delta Z/R$ component. These reductions are to be made after the adjustment is made to the PCI for the basket designated in § 61.42(d)(3) resulting from the application of those formulas. Any PCI changes associated with the baskets designated in § 61.42(d)(1) and (2) shall include the $\Delta Z/R$ component but exclude the “w”, “GDP-PI”, and “X” components to the extent that they have been targeted to the basket designated in § 61.42(d)(3).

Item 45. § 61.45(i)(2) should state explicitly that reductions to the PCI associated with “w”, “GDP-PI” and “X” will not be applied to the marketing basket in the annual filing to the extent that the price cap LEC is recovering residual interconnection charge revenues through per-minute rates.

Revise as follows:

(i)(2) Notwithstanding the provisions of paragraph (b) of this section, and subject to the limitations of paragraph (j) of this section, price cap local exchange carriers that are recovering interconnection charge revenues through per-minute rates pursuant to § 69.155 of this chapter shall target, to the extent necessary to eliminate the recovery of any residual interconnection charge revenues through per-minute rates, any PCI reductions associated with the basket designated in § 61.42(d)(6) that result from the application of the formula in § 61.45(b) **but excluding from the calculations the $\Delta Z/R$ component, with no adjustment being made to the PCIs for the basket designated in § 61.42(d)(6). This adjustment, including any adjustment due to the $\Delta Z/R$ component, will be made after any adjustment made pursuant to paragraph (i)(1) of this section.**

Item 45. § 61.45(i)(4) should be clarified to reflect a ratio of the sum of the dollar effects of the PCI reductions (excluding reductions due to exogenous adjustments) that would have applied to the common line, traffic-sensitive, and marketing expense baskets to the revenues applicable to the trunking basket. **NOT correcting this error could incorrectly force the trunking basket PCI to zero in the next annual filing.**

Revise as follows:

(4) Effective January 1, 1998, the reduction in the PCI for the trunking basket designated in Section 61.42(d)(3) that results from paragraphs (i)(1) and (i)(2) of this section shall be determined by multiplying the PCI for the trunking basket by one minus the ratio of the **sum of the dollar effects of the PCI reductions otherwise applicable to the common line, traffic-sensitive, and marketing expense baskets, to the revenues applicable to dollar effect of the PCI reduction for the trunking basket.**

Item 46. § 61.45(j)(2) should be revised to reflect the ΔZ component of the formulas, including the marketing basket. The rule should clarify that all such exogenous adjustments should be reflected in the PCIs and SBIs as they would be if there were no targeting.

Revise as follows:

(2) exclude the amount of any exogenous adjustments **in the ΔZ component of the formulas** permitted or required for the common line, ~~and~~ traffic sensitive, **and marketing** baskets, defined in Sections 61.42(d)(1), ~~and~~ (d)(2), **and (d)(6)**, from the retargeting adjustment to the PCI for the trunking basket defined in Section 61.42(d)(3). **Any such exogenous adjustments shall be reflected in the PCIs and SBIs in the same manner as they would have been reflected if there were no targeting.**

Item 49. §§ 61.47(i)(2)(i), (ii) and (iii) should be revised to add SBI formulas for annual access tariff filings. Currently, only SBI formulas for non-annual access tariff filings are displayed. In addition, all references in the current SBI formulas to exogenous cost “reductions” should be changed to exogenous cost “adjustments” since exogenous adjustments can be either positive or negative.

Revise as follows:

61.47 (i)(2) Any exogenous cost change that is untargeted within the meaning of Section 61.45(d)(4) of this Chapter shall be reflected in other service band indices for service categories in the traffic sensitive and trunking baskets as follows:

(i) For annual access tariff filings:

(A) For annual access tariff filings, the following formula will be used to calculate the upper pricing limit for the Local Switching, Database, Information, and Billing Name and Address service categories in the Traffic Sensitive Basket, and for the Voice Grade, Audio/Video, total High Capacity, Wideband, Tandem-Switched Transport, Interconnection, and Signalling for Tandem Switching service categories in the Trunking basket. The upper pricing band for these service categories shall limit the annual SBI upward pricing flexibility to the percents defined in (e), above.

$$SBI_{ul} = \frac{PCI_t}{PCI_{t-1}} * SBI_{t-1} * (1 + ul\%) * \left(1 + \frac{\left(T + \frac{R_{Svc,t-1} * U_{bskt}}{R_{Bskt,t-1}} \right)}{R_{Svc,t-1}} \right)$$

where :

- SBI_{ul} = the new SBI upper limit
 $SBI_{ul,t-1}$ = the immediately preceding SBI upper limit
 $tPCI_t$ = the targeting-PCI for the basket, as defined in paragraph 61.45(m) of this chapter
 PCI_{t-1} = the immediately preceding PCI for the basket
 SBI_{t-1} = the immediately preceding SBI for the service category
 $ul\%$ = the upper limit percentage for a given service category, subservice category, or density zone
 T = the sum of the exogenous charges targeted to the specific service category, subservice category, or density zone
 $RBskt_{t-1}$ = the R-value for the basket, calculated as 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}
 $RSvc_{t-1}$ = the R-value for the service category, calculated as 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}
 U_{Bskt} = the untargeted exogenous adjustment associated with the basket.

(B) For annual access tariff filings, the following formula will be used to calculate the upper pricing limit for 800 Database Vertical Services subservice in the Traffic Sensitive basket, the DS1 and DS3 subservices in the Trunking basket, and the density pricing zones for voice grade services and tandem-switched transport permitted by Sections 61.47(h)(1)(iii) and (iv). The upper pricing band for these subservice categories shall limit the annual SBI upward pricing flexibility to the percents defined in (e), above.

$$SBI_{ul} = \frac{t PCI_t}{PCI_{t-1}} * SBI_{t-1} * (1 + ul\%) * \left(1 + \frac{\left(T + \frac{R_{SbSvc,t-1} * U_{Bskt} + R_{Svc,t-1} * U_{Svc}}{R_{Bskt,t-1}} \right)}{R_{SbSvc,t-1}} \right)$$

where:

- $RSbSvc_{t-1}$ = the R-value for the subservice category, calculated as 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}
 U_{Svc} = the untargeted exogenous adjustment associated with the service category of which the subservice or density zone is a part

(C) For annual access tariff filings, the following formula will be used to calculate the upper pricing limit for DS1 and DS3 Density Zones in the Trunking basket. The upper pricing band for these density zones shall limit the annual SBI upward pricing flexibility to the percents defined in (e), above.

$$SBI_{ul} = \frac{tPCI_t}{PCI_{t-1}} * SBI_{t-1} * (1 + ul\%) * \left(1 + \frac{\left(T + \frac{R_{DZ_{t-1}}}{R_{bskt_{t-1}}} * U_{bskt} + \frac{R_{DZ_{t-1}}}{R_{Svc_{t-1}}} * U_{Svc} + \frac{R_{DZ_{t-1}}}{R_{SbSvc_{t-1}}} * U_{SbSvc} \right)}{R_{DZ_{t-1}}} \right)$$

where:

- RDZ_{t-1}** = the R value for the Density Zone, calculated as 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}
- U_{SbSvc}** = the untargeted exogenous adjustment associated with the subservice category of which the density zone is a part

(i) For non-annual access tariff filings:

..... (unchanged except for section numbers)

(2)(i) * * * **Change section number to 61.47(i)(2)(ii)(A)**

U_{bskt} = the untargeted exogenous cost ~~adjustment reduction~~ to be associated with the basket.

(2)(ii) * * * **Change section number to 61.47(i)(2)(ii)(B)**

U_{svc} = the untargeted exogenous cost ~~adjustment reduction~~ to be associated with the service category.

(2)(iii) * * * **Change section number to 61.47(i)(2)(ii)(C)**

U_{subsvc} = the untargeted exogenous cost ~~adjustment reduction~~ to be associated with the service subcategory.

In addition, a new Section 61.45(m) should be added detailing a “targeting PCI”, as referenced in Section 61.47(i)(2)(i)(A). The new Section 61.45(m) should read as follows:

61.45(m) For annual access tariff filings only, a second form of PCI, to be called a “targeting PCI”, will be developed. This targeting PCI will be used as the means of developing upper limits for service bands, subservice bands, and/or density zones. The targeting PCI (tPCI_t) is calculated as a PCI without exogenous changes, using the following formula:

(i) Until targeting to the TIC (as described in xx.xx) is completed, the formula for this calculation will be:

$$tPCI_t = PCI_{t-1} * \left(1 + \frac{(InitialTargetedReduction - ActualTargetedReduction)}{R_{t-1}} \right)$$

where:

tPCI_t = the new targeting PCI for the basket, as defined above,

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

Initial Targeted Reduction = the total possible dollar value of the (GDP-PI - X) reductions,

Actual Targeted Reduction = the actual dollar value of the (GDP-PI - X) reductions that will be targeted to the TIC (as defined in paragraph XX.XX).

Item 55. Delete the new Section 61.49 (I) requirement to indicate the transmittal number above the bottom margin of each page of cost support material. This new requirement is burdensome and difficult to administer. If a standard is required, the Transmittal Number should be placed in the upper left hand corner of each page, to be consistent with the TRP.

Revise as follows:

~~(I) Above the bottom margin of each page of cost support material submitted pursuant to this section, the carrier shall indicate the transmittal number under which that page was submitted.~~

Item 65. § 61.58(a)(2)(i) should be revised to clarify that Section 204(a)(3) is the streamlined tariff provisions of the Communications Act.

Revise as follows:

(i) Local exchange carriers may file tariffs pursuant to **the streamlined tariff provisions of** Section 204(a)(3) of the Communications Act

Item 68. § 61.58(c) should be revised to make clear that the notice requirements contained in these rules apply to price cap LECs not choosing to file tariffs pursuant to the streamlined tariff provisions of Section 204(a)(3) of the Communications Act.

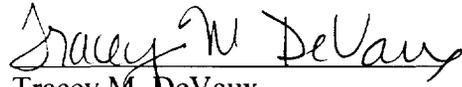
Revise as follows:

(c) ***Carriers subject to price cap regulation not choosing to file tariffs pursuant to the streamlined tariff provisions of Section 204(a)(3) of the Communications Act.*** This paragraph applies only to carriers subject to price cap regulation **which choose not to file tariffs pursuant to the provisions of Section 204(a)(3) of the Communications Act.** Such carriers must file tariffs according to the following notice periods.

Item 75. In describing the renumbering revision, Section 61.58(e)(3) should be redesignated as Section 61.58(e)(4).

CERTIFICATE OF SERVICE

I hereby certify that on this 16th day of October, 1998 a copy of the foregoing "Comments of Bell Atlantic" was served on the parties on the attached list.


Tracey M. DeVaux

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