

w_{ix} = R - (access rate in effect at the time the PCI was updated to PCI_{t-1} x base period demand) + ΔZ , all divided by R_{t-1}

PCI_t = the new PCI value.

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

Targeted Reduction = the actual possible dollar value of the (GDP-PI - X) reductions that will be targeted to the Average Traffic Sensitive Charge (as defined in paragraph 61.45(i)(3) of this chapter).

(d) The exogenous cost changes represented by the term " ΔZ " in the formula detailed in paragraphs (b) and (c) of this section shall be limited to those cost 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 cost changes caused by:

(i) the completion of the amortization of depreciation reserve deficiencies;

(ii) such changes in the Uniform System of Accounts, including changes in the Uniform System of Accounts requirements made pursuant to § 32.16 of this chapter, as the Commission shall permit or require be treated as exogenous by rule, rule waiver, or declaratory ruling.

(iii) changes in the Separations Manual;

(iv) changes to the level of obligation associated with the Long Term Support Fund and the Transitional Support Fund described in § 69.612;

(v) the reallocation of investment from regulated to nonregulated activities pursuant to § 64.901;

(vi) such tax law changes and other extraordinary cost changes as the Commission shall permit or require be treated as exogenous by rule, rule waiver, or declaratory ruling.

(vii) as of January 1, 2000, the retargeting of the PCI to the level specified by the Commission for carriers whose base year earnings are below the level of the lower adjustment mark will be eliminated until January 1, 2005.

(viii) inside wire amortizations

(ix) the completion of amortization of equal access expenses.

(2) (i) local exchange carriers specified in § 61.41(a)(2) or (a)(3) shall also make such temporary exogenous cost changes as may be necessary to reduce PCIs to give full effect to any sharing of base period earnings required by the sharing mechanism set forth in the Commission's Second Report and Order in Common Carrier Docket No. 87-313, FCC 90-314, adopted September 19, 1990. Such exogenous cost changes shall include interest, computed at the prescribed rate of return, from the day after the end of the period giving rise to the adjustment, to the midpoint of the period when the adjustment is in effect.

(ii) local exchange carriers specified in § 61.41(a)(2) or (a)(3) shall not be subject to the sharing mechanism set forth in the Commission's Second Report and Order in Common Carrier Docket No. 87-313, FCC 90-314, adopted September 19, 1990, with respect to earnings accruing on or after July 1, 1997. This paragraph has no effect on any sharing obligation of any local exchange carrier relating to earnings accrued before July 1, 1997.

(3) Local exchange carriers specified in § 61.41(a)(2) or (a)(3) shall, in their annual access tariff filing, recognize all exogenous cost changes attributable to modifications during the coming tariff year in the obligations specified in § 61.45(d)(1)(iv) as well as those changes attributable to alterations in their Subscriber Plant Factor and the Dial Equipment Minutes factor, and completions of inside wire amortizations and reserve deficiency amortizations.

(4) Exogenous cost changes shall be apportioned on a cost-causative basis between price cap services as a group, and excluded services as a group. Exogenous cost changes thus attributed to price cap services shall be further apportioned on a cost-causative basis among the price cap baskets.

(5) After January 1, 2000, exogenous adjustments will be recovered from services other than those used to calculate the Average Traffic Sensitive Charge.

(e) The " $w[(GDP-PI - X - (g/2))/(1 + (g/2))]$ " component of the PCI formula contained in paragraph (c)(1)(i) of this section shall be employed only in the adjustment made in connection with the annual price cap filing.

(f) The exogenous costs caused by new services subject to price cap regulation must be included in the appropriate PCI calculations under paragraph (c) of this section beginning at the first annual price cap tariff filing following completion of the base period in which they are introduced.

(g) In the event that a price cap tariff becomes effective, which tariff results in an API value (calculated pursuant to § 61.46) that exceeds the currently applicable PCI value, the PCI value shall be adjusted upward to equal the API value.

(h) **[Removed and reserved.]**

~~(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 formula in § 61.45(e), and pursuant to § 61.45(b), application of the formula in § 61.44(b) as further explained in § 61.44(e), (f), (g), and (h), to 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 formula in § 61.44(b) and § 61.45(e). 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 the formula in § 61.44(b), as further explained in § 61.44(e), (f), (g) and (h).~~

~~(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 § 61.44(b), as further explained in § 61.44(e), (f), (g), and (h), to the PCI for the basket designated in § 61.42(d)(3), with no adjustment being made to the PCIs for the basket designated in § 61.42(d)(6) as a result of the application of the formula in § 61.44(b). This reduction is to be made after any adjustment made pursuant to paragraph (i)(1) of this section.~~

~~(3) Through December 31, 1997, the reduction in the PCI for the basket designated in § 61.42(d)(3) that results from paragraph (i)(1) of this section shall be determined by dividing the sum of the dollar effects of the PCI reductions that would have applied to the baskets designated in § 61.42(d)(1) and (d)(2) except for the provisions of paragraph (i)(1) of this section by the dollar amount associated with the PCI for the basket designated in § 61.42(d)(3), and multiplying the PCI for the basket designated in § 61.42(d)(3) by one minus the resulting ratio.~~

(4) Effective January 1, 1998, the reduction in the PCI for the basket designated in § 61.42(d)(3) that results from paragraphs (i)(1) and (i)(2) of this section shall be determined by dividing the sum of the dollar effects of the PCI reductions that would have applied to the baskets designated in § 61.42(d)(1), (d)(2), and (d)(6), except for the provisions of paragraphs (i)(1) and (i)(2) of this section, by the dollar amount associated with the PCI for the basket designated in § 61.42(d)(3), and multiplying the PCI for the basket designated in § 61.42(d)(3) by one minus the resulting ratio.

(i) (1) Price cap local exchange carriers that are recovering revenues through rates pursuant to §§ 69.106, 69.108, 69.109, 69.110, 69.111, 69.112, 69.113, 69.118, 69.123, 69.124, 69.125, 69.129 or § 69.155 of this chapter shall target, to the extent necessary to reduce the Average Traffic Sensitive Charge to the Target Rate for the first time, any PCI reductions associated with the dollar impact of the Common Line, Traffic Sensitive, Trunking and Marketing baskets' GDP-PI and productivity factor, as those items are described in paragraph (c)(6) of this section. In order to calculate the actual dollars to transfer to the Trunking and Traffic Sensitive baskets, carriers will first determine a "Targeted Revenue Differential" by basket, and then determine the "Targeted Revenue Differential" that will be transferred to the Trunking and Traffic Sensitive baskets to reduce the Average Traffic Sensitive Charge to \$0.0055 or \$0.0065, whichever is applicable. Dollars that are transferred to the Trunking and Traffic Sensitive baskets from the Common Line, Traffic Sensitive, Trunking and Marketing baskets shall not be used to reduce the PCIs in those baskets. Before determining the portion of Targeted Revenue Differential that will be targeted to the reduction of the Average Traffic Sensitive Charge, from the Common Line, Traffic Sensitive, Trunking and Marketing baskets, price cap local exchange carriers shall first calculate the Targeted Revenue Differential associated with the Common Line, Traffic Sensitive, Trunking and Marketing baskets.

(i) the price cap local exchange carrier shall use the following formula:

$$\text{Targeted Revenue Differential} = R * (\text{GDP-PI} - X)$$

(2) Any such exogenous adjustments shall be reflected in the various PCIs and SBIs in the same manner as they would if there were no targeting. However, after January 1, 2000, exogenous adjustments will be recovered from services other than those used to calculate the Average Traffic Sensitive Charge.

(3) Until a Tariff entity's Average Traffic Sensitive Charge equals the Target Rate for the first time, the aggregate reductions within a given tariff filing entity from application of the X-factor adjustment in the price cap formula across all of that entity's interstate price cap baskets (less access reductions, if any, the ILEC chooses to apply as of July 1, 2001 to reduce Special Access rates, up to the amount of reductions Special Access would get through an untargeted application

of the X-factor adjustment) will be targeted to reduce the following rates for that tariff filing entity, in order of priority:

(i) To the residual per minute Transport Interconnection Charge, until that rate is \$0.00; then

(ii) To the Information Surcharge, until that rate is \$0.00; then

(iii) To the Local Switching charge and Switched Transport charges until the tariff entity's Average Traffic Sensitive Rate equals the Target Rate for the first time. In making these reductions, the reductions to Local Switching rates as a percentage of total X-factor reductions must be greater than or equal to the percentage proportion of Local Switching revenues to the total sum of revenues for Local Switching, Local Switching Trunk Ports, Signalling Transfer Point Port Termination, Switched Direct Trunked Transport, Signalling for Switched Direct Trunked Transport, Entrance Facilities for switched access traffic, Tandem Switched Transport, and Signalling for Tandem Switching (i.e., Local Switching gets at least its proportionate share of reductions).

(4) After an ILEC reaches the Target Rate level, the Average Traffic Sensitive Rate will be recalculated each Annual Filing following. This process will identify the new Average Traffic Sensitive Charge for the new base period level. Due to change in base period demand and inclusion of new services for that Annual Tariff filing, the absolute level of a tariff entity's Average Traffic Sensitive Charge may change. The resulting new Average Traffic Sensitive Charge level will be what that tariff entity will be measured against during that base period. For example, if a company was at \$0.0055 during the 2000 Annual Filing, that level may change to \$0.0058 in the 2001 Annual filing due to demand and new services. Therefore, it will be the \$0.0058 that the tariff entity will be measured against for all non-annual filings. Likewise, if a company was at \$0.0055 during the 2000 filing, that level may change to \$0.0053 in the 2001 Annual Filing due to demand and new services. In that case, it will be the \$0.0053 level that the tariff entity will be measured.

~~(j) In determining the extent of the targeting that shall occur pursuant to paragraphs (i)(1) and (i)(2) of this section and §61.47(i)(1) and (i)(2), local exchange carriers shall:~~

~~(1) Compute their anticipated residual interconnection charge amount by excluding revenues that are expected to be reallocated to cost-causative facilities-based charges in the future. To determine interconnection charge amounts so excluded in connection with the July 1, 1997 tariff filings, the following local exchange carriers shall use as an estimate of the residual interconnection charge revenues the specified residual interconnection charge percentage: NYNEX, 77.63 percent; BellSouth, 56.93 percent; U S West, 59.14 percent; Bell Atlantic, 63.96 percent; Southwestern Bell Telephone, 69.11~~

~~percent; and Pacific Bell and Nevada Bell, 53.52 percent. Each remaining price cap local exchange carrier shall estimate a residual interconnection charge in an amount equal to 55 percent of its current interconnection charge revenues. For subsequent tariff filings in which the PCI reductions are to be targeted to the interconnection charge, these initial estimates shall be adjusted to reflect the actual amounts that have or will be reallocated. If the use of these estimates results in more PCI reductions being targeted to the interconnection charge than required to eliminate the per-minute interconnection charge, the local exchange carrier shall make the necessary exogenous adjustments to reverse the effects of the excess targeting.~~

~~(2) Not include the amount of any exogenous adjustments reflected in the z component of the formulas in §§ 61.44(b) and 61.45(e). Any such exogenous adjustments shall be reflected in the various PCIs and SBIs in the same manner as they would if there were no targeting.~~

(j) [Removed and Reserved.]

(k) The calculation of the PCI for the basket designated in § 61.42(d)(3) shall include any residual interconnection charge revenues recovered pursuant to §§ 69.153 and 69.155 of this chapter.

(l) The calculation of the PCI for the basket designated in § 61.42(d)(6) shall include any marketing expense revenues recovered pursuant to §§ 69.153 and 69.156 of this chapter.

§ 61.46 Adjustments to the API.

(a) Except as provided in paragraphs (d) and (e) of this section, in connection with any price cap tariff filing proposing rate changes, the carrier must calculate an API for each affected basket pursuant to the following methodology:

$$API_t = API_{t-1} [\sum_i v_i (p_i/p_{t-1})^i]$$

where

API_t = the proposed API value;

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

p_t = the proposed price for rate element "i"

p_{t-1} = the existing price for rate element and "i"

v_i = the current estimated revenue weight for rate element "i," calculated as the ratio of the base period demand for the rate

element "i" priced at the existing rate, to the base period demand for the entire basket of services priced at existing rates.

(b) New services subject to price cap regulation must be included in the appropriate API calculations under paragraph (a) of this section beginning at the first annual price cap tariff filing following completion of the base period in which they are introduced. This index adjustment requires that the demand for the new service during the base period must be included in determining the weights used in calculating the API.

(c) 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.

(d) (1) Subject to paragraph (d)(2) of this section, and in connection with any price cap tariff proposing changes to rates for services in the basket designated in § 61.42(d)(1), the maximum allowable carrier common line (CCL) charges shall be computed pursuant to the following methodology:

$$CCL_{MOU} = CL_{MOU} * (1 + \% \text{ change in CL PCI}) - (EUCL_{MOU} + PICC_{MOU}) * 1 / (1 + (g/2))$$

where

CCL_{MOU} = the sum of each of the proposed Carrier Common Line rates multiplied by its corresponding base period Carrier Common Line minutes of use, divided by the sum of all types of base period Carrier Common Line minutes of use,

CL_{MOU} = the sum of each of the existing maximum allowable Carrier Common Line rates multiplied by its corresponding base period Carrier Common Line minutes of use, plus each existing maximum allowable End User Common Line (EUCL) rate multiplied by its corresponding base period lines, plus the common line portion of each existing maximum allowable Presubscribed Interexchange Carrier Charge (PICC) multiplied by its corresponding base period lines, divided by the sum of all types of base period Carrier Common Line minutes of use,

$EUCL_{MOU}$ = maximum allowable End User Common Line rates multiplied by base period lines, and divided by the sum of all types of base period Carrier Common Line minutes of use,

$PICC_{MOU}$ = the common line portion of maximum allowable Presubscribed Interexchange Carrier charge rates multiplied by base period lines, and divided by the sum of all types of base period Carrier Common Line minutes of use, and

g = the ratio of minutes of use per access line during the base period to minutes of use per access line during the previous base period, minus 1.

(2) The formula set forth in paragraph (d)(1) of this section shall be used by a local exchange carrier subject to price cap regulation only if that carrier is imposing a per-minute carrier common line charge pursuant to § 69.154 of this chapter. Otherwise, adjustments to local exchange carrier APIs for the basket designated in § 61.42(d)(1) shall be made pursuant to the formula set forth in paragraph (a) of this section.

(e) (1) In addition, for the purposes of paragraph (d) of this section, "Existing Carrier Common Line Rates" shall include existing originating premium, originating non-premium, terminating premium and terminating non-premium rates; and "End User Common Line Rates" used to calculate the CL_{MOU} and the $EUCL_{MOU}$ factors shall include, but not be limited to, Residential and Single Line Business rates, Centrex rates, and the Special Access surcharge.

(2) For purposes of paragraph (d) of this section, "each existing Presubscribed Interexchange Carrier Charge" shall include all the charges specified in § 69.153 of this chapter.

(f) The " $1/(1 + (g/2))$ " component of the CCL_{MOU} formula contained in paragraph (d) shall be employed only in the adjustment made in connection with the annual price cap filing.

(g) The calculation of the API for the basket designated in § 61.42(d)(3) shall include any residual interconnection charge revenues recovered pursuant to §§ 69.153 and 69.155 of this chapter

(h) The calculation of the API for the basket designated in § 61.42(d)(6) shall include any marketing expense revenues recovered pursuant to §§ 69.153 and 69.156 of this chapter.

§ 61.47 Adjustments to the SBI; pricing bands.

(a) In connection with any price cap tariff filing proposing changes in the rates of service categories or subcategories, the carrier must calculate an SBI value for each affected service category or subcategory pursuant to the following methodology:

$$SBI_t = SBI_{t-1}[\sum_i v_i (p_t/p_{t-1})^i]$$

where

SBI_t = the proposed SBI value,

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

p_t = the proposed price for rate element "i,"

p_{t-1} = the existing price for rate element "i,"

and

v_i = the current estimated revenue weight for rate element "i," calculated as the ratio of the base period demand for rate element "i" priced at the existing rate, to the base period demand for the entire group of rate elements comprising the service category priced at existing rates.

(b) New services that are added to existing service categories or subcategories must be included in the appropriate SBI calculations under paragraph (a) of this section beginning at the first annual price cap tariff filing following completion of the base period in which they are introduced. This index adjustment requires that the demand for the new service during the base period must be included in determining the weights used in calculating the SBI.

(c) In the event that the introduction of a new service requires the creation of a new service category or subcategory, a new SBI must be established for that service category or subcategory beginning at the first annual price cap tariff filing following completion of the base period in which the new service is introduced. The new SBI should be initialized at a value of 100, corresponding to the service category rates in effect the last day of the base period, and thereafter should be adjusted as provided in paragraph (a) of this section.

(d) 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. This adjustment requires the conversion of existing rates in the rate element group 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.

(e) Pricing bands shall be established each tariff year for each service category and subcategory within a basket. Except as provided in paragraphs (f), (g), and (h) of this section, each band shall limit the pricing flexibility of the service category or subcategory, as reflected in the SBI, to an annual increase of five percent, relative to the percentage change in the PCI for that basket, measured from the levels in effect on the last day of the preceding tariff year. For local exchange carriers subject to price caps as that term is defined in § 61.3(x), there shall be no lower pricing band for any service category or subcategory.

(f) Dominant interexchange carriers.

(1) The upper pricing bands for the evening MTS and night/weekend MTS service categories shall limit the annual upward pricing flexibility for those service categories, as reflected in their SBIs, to four percent, relative to the percentage change in the PCI for the residential and small business services basket, measured from the last day of the preceding tariff year.

(2) Dominant interexchange carriers subject to price cap regulation shall calculate a composite average rate for services contained in the residential and small business services basket that are purchased by residential customers. Notwithstanding paragraph (f)(1) of this section, the annual upward pricing flexibility for this composite average rate shall be limited to one percent, relative to the percentage change in the PCI for the residential and small business services basket, measured from the last day of the preceding tariff year.

(g) Local Exchange Carriers -- Service Categories and Subcategories.

(1) Local exchange carriers subject to price cap regulation as that term is defined in § 61.3(x) shall use the methodology set forth in paragraphs (a) through (d) of this section to calculate two separate subindexes: One for the DS1 services offered by such carriers and the other for the DS3 services offered by such carriers. The annual pricing flexibility for each of these two subindexes shall be limited to an annual increase of five percent, relative to the percentage change in the PCI for the special access services basket, measured from the last day of the preceding tariff year. There shall be no lower pricing band for these two subindexes.

(2) The upper pricing band for the tandem-switched transport service category shall limit the annual upward pricing flexibility for this service category, as reflected in its SBI, to two percent, relative to the percentage change in the PCI for the trunking basket, measured from the levels in effect on the last day of the preceding tariff year. There shall be no lower pricing band for the tandem-switched transport service category.

(3) The upper pricing band for the interconnection charge service category shall limit the annual upward pricing flexibility for this service category, as reflected in its SBI, to zero percent, relative to the percentage change in the PCI for the trunking basket, measured from the levels in effect on the last day of the preceding tariff year. There shall be no lower pricing band for the interconnection charge.

(4) Local exchange carriers subject to price cap regulation as that term is defined in § 61.3(x) shall use the methodology set forth in paragraphs (a) through (d) of this section to calculate a separate subindex for the 800 data base vertical features offered by such carriers. The annual pricing flexibility for this subindex shall be limited to an annual increase of five percent, relative to the percentage change in the PCI for the traffic sensitive basket, measured from the last day of the preceding tariff year. There shall be no lower pricing band for this subindex.

(5) The upper pricing band for the “Signalling for tandem switching” service category shall limit the upward pricing flexibility for this service category, as reflected in its SBI, to two percent, relative to the percentage change in the PCI for the trunking basket, measured from the levels in effect on the last day of the preceding tariff year. There shall be no lower pricing band for this service category.

(6) [Removed and Reserved]

(7) The initial level of the local switch trunk ports service category designated in § 61.42(e)(1)(v) shall be established to include those costs identified pursuant to § 69.106(f)(1) of this chapter. This level shall be assigned a value of 100, and thereafter must be adjusted as provided in paragraph (a) of this section, subject to the banding restrictions of paragraph (e) of this section.

(h) Local exchange carriers -- density pricing zones.

(1) In addition to the requirements of paragraphs (g)(1) and (g)(2) of this section, those local exchange carriers subject to price cap regulation that have established density pricing zones pursuant to § 69.123 of this chapter shall use the methodology set forth in paragraphs (a) through (d) of this section to calculate separate subindexes in each zone for each of the following groups of services:

(i) DS1 entrance facilities, DS1 direct-trunked transport, DS1 dedicated signalling transport, and DS1 special access services;

(ii) DS3 entrance facilities, DS3 direct-trunked transport, DS3 dedicated signalling transport, and DS3 special access services;

(iii) voice grade entrance facilities, voice grade direct-trunked transport, and voice grade dedicated signalling transport, and (if the Commission, by order, designates such services as subject to competition) voice grade special access;

(iv) tandem-switched transport; and

(v) such other special access services that the Commission may designate by order.

(2) The annual pricing flexibility for each of the subindexes specified in paragraph (h)(1) of this section shall be limited to an annual increase of five percent, relative to the percentage change in the PCI for the trunking basket, measured from the levels in effect on the last day of the preceding tariff year. There shall be no lower pricing band for these subindexes.

(3) [Added; redesignated as (h)(2)]

(i) [Redesignated as (g)(4)]

(i) (1) Through December 31, 1997, notwithstanding the requirements of paragraph (a) of this section, and subject to the limitations of § 61.45(j), if a local exchange carrier is recovering interconnection charge revenues through per-minute rates pursuant to § 69.124 or § 69.155 of this chapter, any reductions to the PCI for the basket designated in § 61.42(d)(3) resulting from the application of the provisions of § 61.45 (b) and the formula in § 61.44(b) and from the application of provision of § 61.45(i)(1) shall be directed to the SBI of the service category designated in § 61.42(e)(2)(vi).

(2) Effective January 1, 1998, notwithstanding the requirements of paragraph (a) of this section and subject to the limitations of § 61.45(j), if a local exchange carrier is recovering interconnection charge revenues through per-minute rates pursuant to § 69.155 of this chapter, any reductions to the PCI for the basket designated in § 61.42(d)(3) resulting from the application of the provisions of § 61.45(b), and the formula in § 61.44(b) and from the application of the provisions of § 61.45(i)(1), and (i)(2) shall be directed to the SBI of the service category designated in § 61.42(e)(2)(vi).

(3) Through December 31, 1997, the SBI reduction required by paragraph (i)(1) of this section shall be determined by dividing the sum of the dollar amount of any PCI reduction required by § 61.45(i)(1) by the dollar amount associated with the SBI for the service category designated in

§ 61.42(e)(2)(vi), and multiplying the SBI for the service category designated in § 61.42(e)(2)(vi) by one minus the resulting ratio.

(4) Effective January 1, 1998, the SBI reduction required by paragraph (i)(2) of this section shall be determined by dividing the sum of the dollar amount of any PCI reduction required by § 61.45(i)(1) and (i)(2), by the dollar amount associated with the SBI for the service category designated in § 61.42(e)(2)(vi), and multiplying the SBI for the service category designated in § 61.42(e)(2)(vi) by one minus the resulting ratio.

(5) Effective January 1, 2000, notwithstanding the requirements of paragraph (a) of this chapter and subject to the limitations of § 61.45(i), if a local exchange carrier is recovering an Average Traffic Sensitive Charge greater than the respective Target Rates of \$0.0055 or \$0.0065, any reductions to the PCI for the Traffic Sensitive or Trunking baskets designated in §§ 61.42(d)(2) and (3) resulting from the application of the provisions of § 61.45(b), and the formula in § 61.45(c) and from the application of the provisions of §§ 61.45(i)(1), and (i)(2) shall be directed to the SBIs of the service categories designated in §§ 61.42(e)(1) and (2).

(j) The calculation of the SBI for the service category designated in § 61.42(e)(2)(vi) shall include any residual interconnection charge revenues recovered pursuant to §§ 69.153 and 69.155 of this chapter.

§ 61.48 Transition rules for price cap formula calculations.

(a) Dominant interexchange carriers subject to price cap regulation shall file initial price cap tariffs May 17, 1989, to be effective July 1, 1989.

(b) (1) In connection with the initial price cap tariff filing described in paragraph (a) of this section, each PCI, API, and SBI shall be assigned an initial value prior to adjustment of 100, corresponding to the costs and rates in effect as of December 31, 1988.

(2) The PCI and API for offerings under § 61.42(b)(3) shall be assigned a value equal to 100, corresponding to rates in effect as of August 1, 1991. Dominant interexchange carriers subject to price cap regulation shall file new business basket index levels with the first business basket tariff transmittal that is filed subsequent to the effective date of this rule.

(c) Local exchange carriers subject to price cap regulation shall file initial price cap tariffs not later than November 1, 1990, to be effective January 1, 1991.

(d) (1) In connection with the initial price cap filing described in paragraph (c) of this section, each PCI, API, and SBI shall be assigned an initial value

prior to adjustment of 100, corresponding to the costs and rates in effect as of July 1, 1990.

(2) Carriers electing price cap regulation under § 61.41(a)(3) of this part in a year after 1991 shall file initial price cap tariffs not later than April 2 of the year of election, to be effective on July 1 of the year of election. Each PCI, API, and SBI shall be assigned an initial value prior to adjustment of 100, corresponding to the costs and rates in effect as of January 1 of the year of election.

(e) In connection with the initial price cap filing described in paragraph (c) of this section, initial PCI calculations shall be made without adjustment for any changes in inflation or productivity. Annual price cap filings incorporating the full values of the GNP-PI and productivity offsets will commence April 2, 1991, with a scheduled effective date of July 1, 1991.

(f) Local exchange carriers specified in § 61.41(a)(2) or (3) shall, in their initial price cap filings described in paragraph (c) of this section, adjust their PCIs through use of an exogenous cost factor to account for the reprerescription of the rate of return, effective January 1, 1991.

(g) Local Transport Restructure -- Initial Rates. Local exchange carriers subject to price cap regulation shall set initial transport rates, as defined in § 69.2(tt) of this chapter, according to the requirements set forth in §§ 69.108, 69.110, 69.111, 69.112, 69.124, and 69.125 of this chapter.

(h) Local Transport Restructure -- Price Cap Transition Rules.

(1) Definitions. The following definitions apply for purposes of paragraph (h) of this section:

"Effective date" is March 4, 1994.

"Initial restructured rates" are rates that are (or should have been) effective on the transport restructure date; and

"Revenue weight" of a given group of services included in a basket, service category, or subcategory is the ratio of base period demand for the given service rate elements included in the basket, service category, or subcategory priced at initial restructured rates, to the base period demand for the entire group of rate elements comprising the basket, service category, or subcategory priced at initial restructured rates.

"Transport restructure date" is the date on which local exchange carriers' initial transport rates, as defined in § 69.2(tt) of this chapter, became effective;

(2) Trunking Basket PCI and API.

(i) On the effective date, the PCI value for the trunking basket, as defined in § 61.42(d)(3), shall be computed by multiplying the API value for the special access basket on the day preceding the transport restructure date, by a weighted average of the following:

(A) The ratio of the PCI value that applied to the special access basket on the day preceding the transport restructure date, to the API value that applied to the special access basket on the day preceding the transport restructure date, weighted by the revenue weight of the special access services included in the trunking basket; and

(B) The ratio of the PCI value that applied to the traffic sensitive basket on the day preceding the transport restructure date, to the API value that applied to the traffic sensitive basket on the day preceding the transport restructure date, weighted by the revenue weight of the transport services included in the trunking basket.

(ii) On the effective date, the API value for the trunking basket referred to in § 61.42(e)(2) shall be equal to the API value for the special access basket on the day preceding the transport restructure date.

(3) Service Category and Subcategory Pricing Bands for Flat-Rated Transport and Special Access. From the effective date through the end of the tariff year, the following shall govern instead of §§ 61.47(e) and 61.47(g)(1). The pricing bands established for the voice grade and high capacity service categories referred to in §§ 61.42(e)(2)(i) and 61.42(e)(2)(iii), and the DS1 and DS3 service subcategories referred to in §§ 61.42(e)(2)(iii)(A) and 61.42(e)(2)(iii)(B), shall limit the pricing flexibility of the service category or subcategory, as reflected in its SBI, as follows:

(i) The upper pricing band shall be a weighted average of the following:

(A) The upper pricing band that applied to the special access services included in the category or subcategory on the day preceding the transport restructure date, weighted by the revenue weight of the special access services included in the category or subcategory; and

(B) 1.05 times the SBI value for the special access services included in the category or subcategory on the day preceding the transport restructure date, weighted by the revenue

weight of the transport services included in the category or subcategory.

(ii) The lower pricing band shall be a weighted average of the following:

(4) Tandem-Switched Transport and Interconnection Charge SBIs. On the effective date, the SBIs for the tandem-switched transport and interconnection charge service categories defined in § 61.42(e)(2)(v) and (vi) shall be assigned an initial value prior to adjustment of 100, corresponding to the initial restructured rates in those categories.

(5) Tandem-Switched Transport and Interconnection Charge Service Category Pricing Bands. From the effective date through the end of the tariff year, the following shall govern instead of § 61.47(g)(2) and (g)(3):

(i) The upper pricing band for the tandem-switched transport service category shall limit the upward pricing flexibility for this service category, as reflected in its SBI, to two percent, measured from the initial restructured rates for tandem-switched transport. The lower pricing band for the tandem-switched transport service category shall limit the downward pricing flexibility for this service category, as reflected in its SBI, to ten percent, measured from the initial restructured rates for tandem-switched transport.

(ii) The upper pricing band for the interconnection charge service category shall limit the upward pricing flexibility for this service category, as reflected in its SBI, to zero percent, measured from the initial restructured rate for the interconnection charge.

(i) Transport and Special Access Density Pricing Zone Transition Rules.

(1) Definitions. The following definitions apply for purposes of this paragraph (i):

"Special access zone date" is the date on which a local exchange carrier tariff establishing divergent special access rates in different zones, as described in § 69.123(c) of this chapter, becomes effective.

"Transport zone date" is the date on which a local exchange carrier tariff establishing divergent switched transport rates in different zones, as described in § 69.123(d) of this chapter, becomes effective.

"Earlier date" is the earlier of the special access zone date and the transport zone date.

"Later date" is the later of the special access zone date and the transport zone date.

"Earlier service" is special access if the special access zone date precedes the transport zone date, and is transport if the transport zone date precedes the special access zone date.

"Later service" is transport if the special access zone date precedes the transport zone date, and is special access if the transport zone date precedes the special access zone date.

"Revenue weight" of a given group of services included in a zone category is the ratio of base period demand for the given service rate elements included in the category priced at existing rates, to the base period demand for the entire group of rate elements comprising the category priced at existing rates.

(2) Simultaneous Introduction of Special Access and Transport Zones. Local exchange carriers subject to price cap regulation that have established density pricing zones pursuant to § 69.123 of this chapter, and whose special access zone date and transport zone date occur on the same date, shall initially establish density pricing zone SBIs and bands pursuant to the methodology in § 61.47(h).

(3) Sequential Introduction of Zones in the Same Tariff Year. Notwithstanding § 61.47(h), local exchange carriers subject to price cap regulation that have established density pricing zones pursuant to § 69.123 of this chapter, and whose special access zone date and transport zone date occur on different dates during the same tariff year, shall, on the earlier date, establish density pricing zone SBIs and pricing bands using the methodology described in § 61.47(h), but applicable to the earlier service only. On the later date, such carriers shall recalculate the SBIs and pricing bands to limit the pricing flexibility of the services included in each density pricing zone category, as reflected in its SBI, as follows:

(i) The upper pricing band shall be a weighted average of the following:

(A) The upper pricing band that applied to the earlier services included in the zone category on the day preceding the later date, weighted by the revenue weight of the earlier services included in the zone category; and

(B) 1.05 times the SBI value for the services included in the zone category on the day preceding the later date, weighted by the revenue weight of the later services included in the zone category.

(ii) The lower pricing band shall be a weighted average of the following:

(A) The lower pricing band that applied to the earlier services included in the zone category on the day preceding the later date, weighted by the revenue weight of the earlier services included in the zone category; and

(B) 0.85 times the SBI value for the services included in the zone category on the day preceding the later date, weighted by the revenue weight of the later services included in the zone category.

(iii) On the later date, the SBI value for the zone category shall be equal to the SBI value for the category on the day preceding the later date.

(4) Introduction of Zones in Different Tariff Years. Notwithstanding § 61.47(h), those local exchange carriers subject to price cap regulation that have established density pricing zones pursuant to § 69.123 of this chapter, and whose special access zone date and transport zone date do not occur within the same tariff year, shall, on the earlier date, establish density pricing zone SBIs and pricing bands using the methodology described in § 61.47(h), but applicable to the earlier service only.

(i) On the later date, such carriers shall use the methodology set forth in paragraphs (a) through (d) of § 61.47 to calculate separate SBIs in each zone for each of the following groups of services:

(A) DS1 special access services;

(B) DS3 special access services;

(C) DS1 entrance facilities, DS1 direct-trunked transport, and DS1 dedicated signalling transport;

(D) DS3 entrance facilities, DS3 direct-trunked transport, and DS3 dedicated signalling transport;

(E) voice grade entrance facilities, voice grade direct-trunked transport, and voice grade dedicated signalling transport;

(F) tandem-switched transport; and

(G) such other special access services as the Commission may designate by order.

(ii) From the later date through the end of the following tariff year, the annual pricing flexibility for each of the subindexes specified in paragraph (i)(4)(i) of this section shall be limited to an annual increase of five percent or an annual decrease of fifteen percent, relative to the percentage change in the PCI for the trunking basket, measured from the levels in effect on the last day of the tariff year preceding the tariff year in which the later date occurs.

(iii) On the first day of the second tariff year following the tariff year during which the later date occurs, the local exchange carriers to which this paragraph applies shall establish the separate subindexes provided in § 61.47(h)(1), and shall set the initial SBIs for those density pricing zone categories that are combined (specified in paragraphs (i)(4)(i)(A) and (i)(4)(i)(C), (i)(4)(i)(B) and (i)(4)(i)(D), and (i)(4)(i)(E) and (i)(4)(i)(G) of this section) by computing the weighted averages of the SBIs that applied to the formerly separate zone categories, weighted by the revenue weights of the respective services included in the zone categories.

(j) [Removed and Reserved]

(k) Marketing expenses. In the January 1, 1998 price cap tariff filing, local exchange carriers shall establish the marketing expense basket designated in § 61.42(d)(6) with an initial PCI and API level of 100. The initial value of 100 for the PCI and API for marketing expenses shall correspond to the marketing expenses described in § 69.156(a) of this chapter.

(l) Traffic Sensitive Revenues.

(1) On January 1, 2000, ILECs will move 25% of the Local Switching minute of use revenues from the Traffic Sensitive Basket and include those revenues in the Common Line Basket.

(2) Notwithstanding paragraph (1), if moving 25% of the Local Switching minute of use revenues from the Traffic Sensitive basket to the Common Line basket would reduce the Average Traffic Sensitive Charge for that Tariff Entity below the Target Rate, then that Tariff Entity will move only as much of the Local Switching MOU revenues from the Traffic Sensitive Basket to the Common Line Basket as is necessary in order for the Average Traffic Sensitive Charge to equal the Target Rate.

Appendix B

Part 69 Rules

§ 69.152 End user common line for price cap local exchange carriers.

(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 or Centrex service to the extent they do not pay carrier common line charges. A charge that is expressed in dollars and cents per line per month shall be assessed upon providers of public telephones. 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 (i) of this section, the maximum single line rate or charge shall be computed:

~~(1) By dividing one-twelfth of the projected annual revenue requirement for the End User Common Line element by the projected average number of local exchange service subscriber lines in use during such annual period, only so long as a per-minute carrier common line charge is assessed or the maximum P ICC assessed on primary residential lines, plus the maximum end user common line charge for primary residential lines, does not recover the full amount of its per-line common line price cap revenues.~~

~~(2) By dividing one-twelfth of the projected annual revenues permitted for the common line basket under the Commission's price cap rules, as set forth in Part 61 of this chapter, by the projected average number of local exchange service subscriber lines in use during such annual period, if no per-minute carrier common line charge is assessed and the maximum P ICC assessed on primary residential lines, plus the maximum end user common line charge for primary residential lines, recovers the full amount of its per-line common line price cap revenues.~~

~~(3) 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 (k) of this section.~~

~~(b) [Removed and Reserved.]~~

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

~~(d) (1) Through December 31, 1997, the 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. Except as provided in paragraphs (q), the maximum single line rate,~~

~~(12) Beginning January 1, 1998, 2000, 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, lesser of the Average Price Cap CMT Revenue Per Line as defined in § 61.3(d) or~~

- (i) On January 1, 2000, \$5.50
- (ii) On January 1, 2001, \$6.25
- (iii) On July 1, 2002 \$6.75.
- (iv) On July 1, 2003, \$7.00

(2) In the event that GDP-PI exceeds 6.5% or is less than 0%, the caps as well as the rates will have to be adjusted pursuant to § 61.45(b)(2).

(e) (1) ~~Through December 31, 1997~~Beginning January 1, 2000, the monthly charge for each non-primary residential local exchange service subscriber line shall be the maximum averaged End User Line Charge for non-primary residential lines in a given entity will be the lesser of:

(i) \$7.00 or

(ii) the greater of:

(A) The rate as of December 31, 1999 less amounts of End User Common Line charge reduction needed to ensure over recovery of CMT Revenues does not occur, or

(B) Average Price Cap CMT Revenue Per Line.

(2) In the event that GDP-PI is greater than 6.5% or is less than 0%, the caps as well as the rates in paragraph (1) above will have to be adjusted pursuant to § 61.45 b(2).

~~(2) Beginning January 1, 1998, the maximum monthly charge for each non-primary residential local exchange service subscriber line shall be the lower of:~~

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

~~(ii) \$5.00. On January 1, 1999, this amount shall be adjusted by the inflation factor computed under paragraph (k) of this section, and increased by \$1.00. On July 1, 2000, and in each subsequent year, this amount shall be adjusted by the inflation factor computed under paragraph (k) of this section, and increased by \$1.00.~~

(3) Where the local exchange carrier 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 local exchange carrier may collect the non-primary residential charge described in paragraph (e) of this section from the other carrier.

(f) Except as provided in paragraphs (n) and (o) of this section, 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) **[Reserved]**

(i) 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 telephone company.

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

(k) (1) Beginning on January 1, 2000, and in the absence of voluntary reductions, the averaged End User Common Line Charge for multiline business lines in a given entity that has not deaveraged End User Common Line charges will be the lesser of:

(i) \$9.20 or

(ii) the greater of:

(A) the rate as of December 31, 1999, less amounts of End User Common Line charge reductions to ensure over recovery of CMT Revenues does not occur, or

(B) Average Price Cap CMT Per Line as defined in § 61.3(d).

Except when the incumbent LEC reduces the rate through voluntary reductions, the averaged multiline business End User Common Line charge initially will be frozen until the entity's multiline business PICC and CCL are eliminated.

(2) In the event that GDP-PI is greater than 6.5% or is less than 0%, the caps as well as the rates in paragraph (1) above will have to be adjusted pursuant to § 61.45 b(2).

~~(k) (1) On January 1, 1999:~~

~~(i) The ceiling for multi-line business subscriber under paragraph (b)(3) of this section will be adjusted to reflect inflation as measured by the change in GDP-PI for the 18 months ending September 30, 1998.~~

~~(ii) The ceiling for non-primary residential subscriber lines under paragraph (e)(2)(ii) of this section will be adjusted to reflect inflation as measured by the change in GDP-PI 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 GDP-PI for the 18 months ending on March 31, 2000.~~

~~(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 GDP-PI for the 12 months ending on March 31 of the year the adjustment is made.~~

(l) (1) Beginning January 1, 1998, local exchange carriers 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) Local exchange carriers 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.

(m) In the event the local exchange carrier charges less than the maximum end user common line charge for any subscriber lines, the local exchange carrier may not recover the difference between the amount collected and the maximum from carrier common line charges or PICCs.

(n) Through December 31, 1997, the End User Common Line charge for a residential subscriber shall be 50% of the charge specified in paragraphs (b) and (d) of this section if the residential local exchange service rate for such subscribers is reduced by an equivalent amount, provided that such local exchange service rate reduction is based upon a means test that is subject to verification.

(o) Paragraphs (o)(1) and (o)(2) of this section are effective through December 31, 1997.

(1) The End User Common Line charge for residential subscribers shall be reduced to the extent of the state assistance as calculated in paragraph (o)(2) of this section, or waived in full if the state assistance equals or exceeds the residential End User Common Line charge under the circumstances described in this paragraph. In order to qualify for this waiver, the subscriber must be eligible for and receive assistance or benefits provided pursuant to a narrowly targeted telephone company lifeline assistance program, requiring verification of eligibility, implemented by the state or local telephone company. A state or local telephone company wishing to implement this End User Common Line reduction or waiver for its subscribers shall file information with the Commission Secretary demonstrating that its plan meets the criteria set out in this section and showing the amount of state assistance per subscriber as described in paragraph (o)(2) of this section. The reduction or waiver of the End User Common Line charge shall be available as soon as the Commission certifies that the state or local telephone plan satisfies the criteria set out in this paragraph and the relevant tariff provisions become effective.

(2) (i) The state assistance per subscriber shall be equal to the difference between the charges to be paid by the participating subscribers and those to be paid by other subscribers for comparable monthly local exchange service, service connections and customer deposits, except that benefits or assistance for connection charges and deposit requirements may only be counted once annually. In order to be included in calculating the state assistance, such benefits must be a single telephone line to the household's principal residence.

(ii) The monthly state assistance per participating subscriber shall be calculated by adding the amounts calculated in paragraphs (o)(2)(ii)(A) and (o)(2)(ii)(B) of this section.

(A) The amount of the monthly state assistance per participating subscriber for local exchange service shall be calculated by dividing the annual difference between charges paid by all participating subscribers for residential local exchange service and the amount which would have been charged to non-qualifying subscribers for comparable service by

twelve times the number of subscribers participating in the state assistance program. Estimates may be used when historic data are not available.

(B) The amount of the monthly state assistance for service connections and customer deposits per participating subscriber shall be calculated by determining the annual amount of the reductions in these charges for participating subscribers each year and dividing this amount by twelve times the number of participating subscribers. Estimates may be used when historic data are not available.

(p) Through December 31, 1997, in connection with the filing of access tariffs pursuant to § 69.3(a), telephone companies shall calculate for the association their projected revenue requirement attributable to the operation of § 69.104 (n) through (o). The projected amount will be adjusted by the association to reflect the actual lifeline assistance benefits paid in the previous period. If the actual benefits exceeded the projected amount for that period, the differential will be added to the projection for the ensuing period. If the actual benefits were less than the projected amount for that period, the differential will be subtracted from the projection for the ensuing period. Through December 31, 1997, the association shall so adjust amounts to the Lifeline Assistance revenue requirement, bill and collect such amounts from interexchange carriers pursuant to § 69.117 and distribute the funds to qualifying telephone companies pursuant to § 69.603(d).

(q) End User Common Line De-Averaging. Beginning on January 1, 2000, ILECs may geographically deaverage End User Common Line charges subject to the following conditions:

(1) In order for an ILEC to be allowed to de-average End User Common Line charges within a study area, the ILEC must have state Commission approved geographically deaveraged rates for UNE Loops within that study area. Except where an incumbent LEC geographically deaverages through voluntary reductions, before an ILEC may geographically deaverage its End User Common Line rates, its Originating and Terminating CCL and Multiline Business PICC rates must equal \$0.00.

(2) All geographic deaveraging of End User Common Line charge by customer class within a study area must be according to the state commission-approved unbundled network element loop zone. An ILEC can maintain up to four zones, however, the zones must cover the same geographic areas as state Commission approved Unbundled Network Elements loop zones. In study areas where there are more than 4 UNE zones, such Zones must be collapsed into a maximum of 4 zones, which will be determined at the ILEC's discretion.

(3) Within a given zone, Multiline Business End User Common line rates cannot fall below Primary Residence, Single Line Business or Non-Primary charges. Non Primary End User Common Line charges cannot fall below Primary Residence, Single Line Business charges.

(4) For any given class of customer in any given zone, the Zone de-averaged End User Common Line Charge in that zone must be greater than or equal to the Zone de-averaged End User Common Line charge in the zone with the next lower Zone Average Revenue Per Line.

(5)

Alternative 1 – Filing Entity¹

The sum of revenues per month that would be generated from all deaveraged End User Common Line charges in all End User Common Line charge deaveraging zones within a filing entity plus revenues per month from all End User Common Line, multiline business PICC and CCL charges from study areas within that filing entity that do not have geographically deaveraged End User Common Line charges plus the sum of all Study Area Access USF Support (as defined in § 54.813(7)) in all study areas within the filing entity, divided by the number of lines cannot exceed Average Price Cap CMT Revenue Per Line as defined in § 61.3(d) for the filing entity.

Alternative 2 – Study Area and Filing Entity²

The sum of all revenues per month that would be generated from all deaveraged End User Common Line charges in all zones within a study area plus Study Area Access USF Support (as defined in § 54.813(7)) for that study area divided by the number of lines in that study area cannot exceed Average Price Cap CMT Revenue Per Line as defined in § 61.3(d) for that study area. In addition, the sum of revenues per month that would be generated from all deaveraged End User Common Line charges in all End User Common Line charge deaveraging zones within a filing entity plus revenues per month from all End User Common Line charge, multiline business PICC and CCL charges from study areas within that filing entity that have not geographically deaveraged End User Common Line charges plus the sum of all Study Area Access USF Support (as defined in § 54.813(7)) in all study areas within the filing entity, divided by the number of lines cannot exceed Average Price Cap CMT Revenue Per Line as defined in § 61.3(d) for the filing entity.

(6) Maximum Charge. The maximum zone deaveraged End User Common Line Charge that may be charged in any zone is the lesser of the highest Zone Average Revenue Per Line within the study area, or the cap as of January 1, 2000 or the Current Cap for that designated period. Zone Average Revenue Per Line is the Price Cap CMT Revenue per Line allocated to a particular state-defined zone used for

¹ Parties do not agree as to the method for the safeguard against revenues from deaveraged End User Common Line charges exceeding the revenues that would be permitted for averaged End User Common Line charge. Alternative 1 would implement a requirement to be applied only at the filing entity level. Appendix A at 2.1.5.5.

² Parties do not agree as to the method for the safeguard against revenues from deaveraged End User Common Line charges exceeding the revenues that would be permitted for averaged End User Common Line charges. Alternative 2 would implement a requirement to be applied at both the filing and study area levels. Appendix A at 2.1.5.5.

deaveraging of UNE loop prices. The zone average revenue per line is computed pursuant to 61.3 (ss).

(7) Minimum Charge. Except where an incumbent LEC deaverages through voluntary reductions, the minimum Zone de-averaged End User Common Line Charge in any zone in any area is the lowest Zone Average Revenue per Line for any zone in that study area.³

(8) Voluntary Reductions. A "Voluntary Reduction" is one in which the ILEC reduces prices other than through offset of net increases in End User Common Line charge revenues or study area USF support received pursuant to §§ 54.810 and 54.813, or through increases in other zone deaveraged End User Common Line charges.

§ 69.153 Multi-Line business presubscribed interexchange carrier charge (PICC).

(a) A charge expressed in dollars and cents per line may be assessed upon the Multi-Line business subscriber's presubscribed interexchange carrier to recover revenues totaling Averaged Price Cap CMT Revenues Per Line times the number of base period lines less revenues the common line revenues permitted under the price cap rules in part 61 of this chapter that cannot be recovered through the end user common line charge established under § 69.152, up to a maximum of \$4.00 per line per month, ~~residual interconnection charge revenues, and certain marketing expenses described in § 69.156(a).~~ In the event the ceilings on the PICC prevent the PICC from recovering all the residual common line, residual interconnection charge revenues, and marketing expenses, the PICC shall recover all residual common line revenues before it recovers residual interconnection charge revenues, and all residual interconnection charge revenues before it recovers marketing expenses.

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

(c) ~~The PICC for primary residential subscriber lines and single-line business subscriber shall be the lower of:~~

~~(1) One twelfth of the sum of projected annual common line revenues and residual interconnection charge revenues permitted under our price cap rules divided by the projected average number of local exchange service subscriber lines in use during such annual period, minus the maximum subscriber line charge calculated pursuant § 69.152(d)(2); or~~

~~(2) \$0.53. On July 1, 1999, this amount shall be adjusted by the inflation factor computed under paragraph (c) of this section, and increased by \$0.50. On July 1, 2000, and in each subsequent year, this amount shall be adjusted by the inflation factor computed under paragraph (c), and increased by \$0.50.~~

(c) [Removed and Reserved.]

³ The parties do not agree as to whether the Minimum Charge should also be adjusted to reflect a portion of those Study Area Above Cap Revenues not offset by Study Area Universal Service Support. Appendix A at 2.1.5.6.3.

~~(d) To the extent that a local exchange carrier cannot recover its full common line revenues, residual interconnection charge revenues, and those marketing expense revenues described in § 69.156(a) permitted under price cap regulation through the recovery mechanisms established in §§ 69.152, 69.153(e), and 69.156(b) and (c), the local exchange carrier may assess a PICC on multi-line business subscriber lines and non-primary residential subscriber lines.~~

~~(1) The maximum monthly PICC for non-primary residential subscriber lines shall be the lower of:~~

~~(i) One twelfth of the projected annual common line, residual interconnection charge, and § 69.156(a) marketing expense revenues permitted under our price cap rules, less the maximum amounts permitted to be recovered through the recovery mechanisms under §§ 69.152, 69.153(e), and 69.156 (b) and (c), divided by the total number of projected non-primary residential and multi-line business subscriber lines in use during such annual period; or~~

~~(ii) \$1.50. On July 1, 1999, this amount shall be adjusted by the inflation factor computed under subparagraph (e), and increased by \$1.00. On July 1, 2000, and in each subsequent year, this amount shall be adjusted by the inflation factor computed under subparagraph (e), and increased by \$1.00.~~

~~(2) If the maximum monthly PICC for non-primary residential subscriber lines is determined using paragraph (d)(1)(i), the maximum monthly PICC for multi-line business subscriber lines shall equal the maximum monthly PICC of non-primary residential subscriber lines. Otherwise, the maximum monthly PICC for multi-line business lines shall be the lower of:~~

~~(i) One twelfth of the projected annual common line, residual interconnection charge, and § 69.156(a) marketing expense revenues permitted under parts 61 and 69 of our rules, less the maximum amounts permitted to be recovered through the recovery mechanisms under §§ 69.152, 69.153(e) and (d)(1), and 69.156 (b) and (c), divided by the total number of projected multi-line business subscriber lines in use during such annual period; or~~

~~(ii) \$2.75. On July 1, 1999, this amount shall be adjusted by the inflation factor computed under subparagraph (e), and increased by \$1.50. On July 1, 2000, and in each subsequent year, this amount shall be adjusted by the inflation factor computed under subparagraph (e), and increased by \$1.50.~~

~~(e) For the PICC ceiling for primary residential subscriber lines and single-line business subscriber lines under subparagraph (e)(2), non-primary residential subscriber lines under subparagraph (d)(1)(ii), and multi-line business subscriber lines under subparagraph (d)(2)(ii):~~

~~(1) On July 1, 1999, the ceiling will be adjusted to reflect inflation as measured by the change in GDP-PI for the 18 months ending March 31, 1999.~~

~~(2) On July 1 of each subsequent year, the ceiling will be adjusted to reflect inflation as measured by the change in GDP-PI for the 12 months ending on March 31 of the year the adjustment is made.~~

~~(3) On July 1 of each subsequent year, the ceiling will be adjusted to reflect inflation as measured by the change in GDP-PI for the 12 months ending on March 31 of the year the adjustment is made.~~

~~(f) (1) Local exchange carriers shall assess no more than one PICC as calculated under the applicable method under paragraph (d)(1) of this section for Basic Rate Interface integrated services digital network (ISDN) service.~~

~~(d2) Local exchange carriers shall assess no more than five PICCs as calculated under paragraph (c)(d)(2) of this section for Primary Rate Interface ISDN service.~~

~~(eg) The maximum monthly PICC for each Centrex lines shall be one-ninth of the maximum charge determined under paragraph (a)(d)(2) of this section except that if a Centrex customer has fewer than nine lines, the maximum monthly PICC for those lines shall be the maximum charge determined under paragraph (a)(d)(2) of this section divided by the customer's number of Centrex lines.~~

~~(2) In the event the monthly loop costs for a multi-line business line, as defined in § 69.152(b)(1), exceed the maximum permitted End User Common Line charge, as set in § 69.152(b)(3), the maximum monthly PICC for a Centrex line determined under paragraph (g)(1) of this section shall be increased by the difference between the monthly loop costs defined in § 69.152(b)(1) and the maximum permitted End User Common Line charge set in § 69.152(b)(3). In no event, however, shall the PICC for a Centrex line exceed the maximum established under paragraph (d)(2) of this section.~~

~~(h) If a local exchange carrier receives low income universal service support on behalf of a customer under § 54.403(d) of this chapter, then the local exchange carrier shall not recover a 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 local exchange carrier shall be treated as if they were recovered through the presubscribed interexchange carrier charge.~~

§ 69.154 Per-minute carrier common line charge.

(a) Local exchange carriers may recover a per-minute carrier common line charge from interexchange carriers, collected on originating access minutes and calculated using the weighting method set forth in paragraph (c) of this section. The maximum such charge shall be the lower of:

(1) The per-minute rate that would recover annual common line revenues permitted less the maximum amounts allowed to be recovered under §§ 69.152 and 69.153; or

(2) The sum of the local switching, carrier common line and interconnection charge charges assessed on originating minutes on December 31, 1997, minus the local switching charges assessed on originating minutes.

(b) To the extent that paragraph (a) of this section does not recover from interexchange carriers all permitted carrier common line revenue, the excess may be collected through a per-minute charge on terminating access calculated using the weighting method set forth in paragraph (c) of this section.

(c) For each Carrier Common Line access element tariff, the premium originating Carrier Common Line charge shall be set at a level that recovers revenues allowed under paragraphs (a) and (b) of this section. The non-premium charges shall be equal to .45 multiplied by the premium charges.

§ 69.155 Per-minute residual interconnection charge.

(a) Local exchange carriers may recover a per-minute residual interconnection charge on originating access. The maximum such charge shall be the lower of:

(1) The per-minute rate that would recover the total annual residual interconnection charge revenues permitted less the portion of the residual interconnection charge allowed to be recovered under § 69.153; or

(2) The sum of the local switching, carrier common line and residual interconnection charges assessed on originating minutes on December 31, 1997, minus the local switching charges assessed on originating minutes, less the maximum amount allowed to be recovered under § 69.154(a).

(b) To the extent that paragraph (a) of this section prohibits a local exchange carrier from recovering all of the residual interconnection charge revenues permitted, the residual may be collected through a per-minute charge on terminating access.

(c) (1) No portion of the charge assessed pursuant to paragraphs (a) or (b) of this section that recovers revenues that the local exchange carrier anticipates will be reassigned to other, facilities-based rate elements, including the tandem-switching rate element described in § 69.111(g), the three-part tandem switched transport rate structure described in § 69.111(a)(2), and port and multiplexer charges described in § 69.111(l), shall be assessed upon minutes utilizing the local exchange carrier's local switching facilities, but not the local exchange carrier's transport service.

(2) If a local exchange carrier cannot recover its full residual interconnection charge revenues through the PICC mechanism established in § 69.153, and will consequently recover a portion of its residual interconnection charge revenues through per-minute charges assessed pursuant to paragraphs (a) and (b) of this section, then the local exchange carrier must allocate its residual interconnection charge revenues subject to the exemption established in paragraph (c)(1) of this section between the PICC and the per-minute residual interconnection charge in the same proportion as other residual interconnection charge revenues are allocated between these two recovery mechanisms.

§ 69.156 Marketing expenses.

(a) Local exchange carriers shall recover marketing expenses that are allocated to the Common Line and Traffic Sensitive baskets, and the switched services within the Trunking basket pursuant to §§ 32.6610 of this chapter and 69.403.

(b) The expenses described in paragraph (a) of this section may be recovered from non-primary residential subscriber lines, by increasing the end user common line charge described in § 69.152(c). The amount of marketing expenses permitted to be recovered in this manner shall be the total marketing expenses described in paragraph (a) of this section divided by the sum of non-primary residential lines and multi-line business lines. In no event shall the end user common line charge for these lines exceed the lower of the ceilings established in § 69.152 (b)(3) and (e)(2)(ii). Primary Residence, Single Line Business, Non-primary Residence and Multi-Line Business subscriber lines, by increasing or decreasing the end user common line charge described in §69.152. The amount of marketing expenses permitted to be recovered in this manner shall be the total marketing expenses described in paragraph (a) of this section divided by the sum of Primary Residence, Single Line Business, Non-primary and Multi-Line business lines. In no event shall the end user common line charge for these lines exceed the ceilings established in §69.152 (d) and (e) and (k).

~~(e) The expenses described in paragraph (a) of this section may be recovered from multi-line business subscriber lines, by increasing the end user common line charge described in § 69.152(b). The amount permitted to be recovered in this manner shall be the total marketing expenses described in paragraph (a) of this section divided by the sum of non-primary residential lines and multi-line business lines. In no event shall the end user common line charge for these lines exceed the ceiling established in § 69.152(b)(3).~~

(c) [Removed and reserved.]

(d) In the event that the ceilings set forth in paragraphs (b) and ~~(e)~~ of this section, and § 69.153(d) prevent a local exchange carrier from recovering fully the marketing expenses described in paragraph (a) of this section, the local exchange carrier may recover the remainder through a per-minute assessment on originating access minutes, so long as the charge for originating access does not exceed the amount defined in § 69.155(a)(2) less the maximum permitted to be recovered under § 69.155(a).

(e) In the event that the ceilings set forth in paragraphs (b), ~~(e)~~ and (d) of this section, and § 69.153(~~d~~) prevent a local exchange carrier from recovering fully the marketing expenses described in paragraph (a) of this section, the local exchange carrier may recover the remainder through a per-minute assessment on terminating access minutes.

(f) The amount of marketing expenses that may be recovered each year shall be adjusted in accordance with the price cap rules set forth in part 61 of this chapter.

§ 69.157 Line port costs in excess of basic, analog service.

To the extent that the costs of ISDN line ports, and line ports associated with other services, exceed the costs of a line port used for basic, analog service, local exchange carriers may recover the difference through a separate monthly end user charge.

§ 69.158 Universal Service End User Charges

To the extent the company makes contribution to the Universal Service Support Mechanisms pursuant to § 54.706 and § 54.709 the ILEC may recover those contributions through a charge to end users. These contributions are not a part of any price cap baskets, and the charge to recover these contributions is not part of any other element established pursuant to Part 69. Such a charge may be assessed on a per line basis or as a percentage of interstate retail revenues, and at the option of the ILEC it may be combined for billing purposes with other end user retail rate elements. An ILEC opting to assess the USF end user rate element on a per line basis may apply that charge using the "equivalency" relationships established for the multiline business PICC for Primary Rate ISDN service, as per § 69.153(d), and for Centrex lines, per § 69.153(e).

§§ 69.201-69.205 [Removed]

§ 69.206 [Deleted]

§ 69.207 [Deleted]

§ 69.208 [Deleted]

§ 69.209 [Deleted]

**§ 69.210 [Added]
[Deleted]**

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

Federal-State Joint Board
on Universal Service

CC Docket No. 96-45

Access Charge Reform

CC Docket No. 96-262

Price Cap Performance Review
for Local Exchange Carriers

CC Docket No. 94-1

DECLARATION OF JOEL E. LUBIN

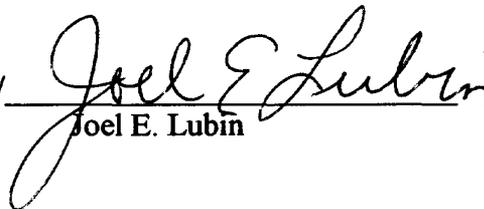
Pursuant to 28 U.S.C. § 1746, Joel E. Lubin deposes and states as follows:

1. My name is Joel E. Lubin. I am Public Policy Vice President for AT&T Corp. The purpose of this declaration is to explain AT&T's estimation of the amount of universal service support implicit in interstate common line rates based on the FCC's forward-looking cost methodology.

2. The Commission has previously determined that high-cost support should be based on the forward-looking costs of providing universal service. The estimate of \$650 million of explicit universal service support necessary to replace implicit support in interstate access rates is consistent with that methodology. In our calculation, we used the forward-looking costs of the interstate subscriber line, including the port, as the cost standard for identifying the amount of support inherent in interstate access charges. We aggregated the serving wire centers in each study area into three cost zones: low, medium and high, such that the number of lines in each cost zone were roughly equal. Then, using the Commission's Synthesis Model, which measures the forward-looking costs of the loop and port, we compared the interstate portion (*i.e.*, 25%) of the average forward-looking cost within each cost zone against a maximum affordable subscriber line charge (SLC) cap of \$7.00 per primary residential, non-primary residential and single-line business line, and \$9.20 per multiline business line. To the extent that the forward-looking costs in a high-cost zone exceed the SLC cap, the difference represents an amount that should be funded by an explicit federal universal mechanism.

3. We estimated the aggregate increment to the explicit federal universal service mechanism across all price cap LEC study areas by using the Commission's Synthesis Model with the FCC-published inputs as of June 2, 1999. Our calculations also assume that the CALLS plan's pre-condition for the full \$650 million in funding are implemented: *i.e.*, unbundled network element loop rates are deaveraged across the nation. The amount of funding based on forward-looking cost, using a projected line count for 2003, produces a funding requirement of \$613 million in that year. Therefore, erring on the conservative side, \$650 million per year represents a reasonable estimate of the necessary support.

August 18, 1999

/s/ 
Joel E. Lubin