DOCKET FILE COPY ORIGINAL

BEFORE THE
FEDERAL COMMUNICATIONS COMMISSION
Washington, D.C.

RECEIVED

AUG 20 1999

FEDERAL COMMUNICATIONS COMMISSION
OFFICE OF THE SECRETARY

In the Matter of	)	
	)	
PRICE CAP PERFORMANCE REVIEW FOR LOCAL EXCHANGE CARRIERS	))	CC Docket No. 94-1
	)	
FEDERAL STATE JOINT BOARD ON UNIVERSAL SERVICE	))	CC Docket No. 96-45
	)	
LOW-VOLUME LONG DISTANCE USERS	)	CC Docket No. 99-249
	)	
ACCESS CHARGE REFORM	)	CC Docket No. 96-262

MEMORANDUM IN SUPPORT OF THE COALITION FOR AFFORDABLE LOCAL AND LONG DISTANCE SERVICE PLAN

John T. Nakahata
Evan R. Grayer
HARRIS, WILTSHIRE & GRANNIS LLP
1200 Eighteenth Street, N.W.
Washington, D.C. 20036
(202) 730-1300

ATTORNEYS FOR THE COALITION FOR AFFORDABLE LOCAL AND LONG DISTANCE SERVICE (CALLS)

SUMMARY

The Coalition for Affordable Local and Long Distance Service ("CALLS"), comprised of AT&T, Bell Atlantic, BellSouth, GTE, SBC, and Sprint, submits this explanatory memorandum of its proposed plan for interstate access charge and universal service reform. After debating these issues for close to 20 years, the members of the Coalition have come together to propose a plan for the next five years that will promote comparable and affordable universal service, lower long distance bills, and promote competition in rural and residential markets. Today's universal service system, which relies on implicit support from interstate access charges, is inconsistent both with the development of competition in these markets and with the advent of new technologies such as packet switched networks. The end result of this plan will be to promote job creation and economic growth.

The plan has three main, interdependent pillars. First, it establishes a portable universal service fund that will provide explicit support to replace support currently implicit in interstate access charges. Second, the plan simplifies the patchwork of current common line charges into one subscriber line charge ("SLC"), and provides for deaveraging of those charges in a manner that will not undermine comparable and affordable universal service. Third, the plan establishes a "social compact" under which traffic-sensitive switched access rates will fall significantly and then be frozen, on average, at rates that are 50 percent lower than prevail today.

CALLS believes the public interest would benefit significantly if the Commission seized this opportunity to reform today's unsustainable system by adopting the plan before its implementation date of January 2000. These reforms will benefit consumers, and bring the Commission a giant step closer to implementing Congress' vision when it passed the Telecommunications Act of 1996.

TABLE OF CONTENTS

BEFORE THE
FEDERAL COMMUNICATIONS COMMISSION
Washington, D.C.

In the Matter of	)	
	)	
PRICE CAP PERFORMANCE REVIEW FOR LOCAL EXCHANGE CARRIERS	))	CC Docket No. 94-1
	)	
FEDERAL STATE JOINT BOARD ON UNIVERSAL SERVICE	))	CC Docket No. 96-45
	)	
LOW-VOLUME LONG DISTANCE USERS	)	CC Docket No. 99-249
	)	
ACCESS CHARGE REFORM	)	CC Docket No. 96-262

MEMORANDUM IN SUPPORT OF
THE COALITION FOR AFFORDABLE LOCAL AND LONG DISTANCE SERVICE PLAN

I. INTRODUCTION

The members of the Coalition for Affordable Local and Long Distance Service ("CALLS" or "Coalition"), which includes AT&T, Bell Atlantic, BellSouth, GTE, SBC, and Sprint, by letter to the Chairman and Commissioners dated July 29, 1999,[1] submitted an integrated universal service and interstate access reform plan covering price cap incumbent local exchange carriers ("ILECs"). The plan is designed to be implemented in January 2000 and would apply to those carriers electing to participate.[2] All signatory price cap LECs commit to participate if the Commission adopts the plan as submitted. Also attached hereto are preliminary draft proposed rules to implement the plan with respect to the signatory price cap LECs.[3]

---

1 Letter from John T. Nakahata, Counsel to CALLS, to Magalie Roman Salas, CC Docket Nos. 96-45, 96-262, 94-1, and 99-249 (filed July 29, 1999). A copy of the proposal, with technical corrections, is attached as Appendix A.

2 The specific implementation date may need to accommodate Y2K implementation, but this need not create a substantial delay.

3 *See,* Appendix B.

Consumers benefit significantly from this plan. First, the plan calls for per minute interstate access charge rates to be slashed in half. These reductions will lead to lower long distance bills. Cutting per minute access prices will also spur innovation and the development of new pricing packages for telecommunications services. Second, through a combination of universal service support and caps on flat-rated charges, rural and urban rates stay within a "fair range" of one another, thereby protecting rural consumers from unaffordable rates. Third, the plan will spur the development of competition in residential and rural markets by creating portable universal service support and allowing for limited deaveraging of rates. Fourth, low income "Lifeline" consumers will see common line charges falling and lower long distance bills. Fifth, urban consumers benefit because the deaveraging provisions of the plan will facilitate lower rates in more populated areas. Finally, consumer bills will be simplified as confusing fees and charges are consolidated.

A. Overview of the Plan

The CALLS plan has three main, interdependent pillars.

First, it establishes an explicit interstate universal service fund that will provide support to replace $650 million of implicit support currently collected through interstate access charges. This support will be portable to competing LECs. It will also be sustainable as new technologies, such as packet-switching, allow more users to avoid paying long distance rates that reflect the implicit support embedded in per minute access charges.[4] The support will ensure that

[4] This universal service support mechanism makes explicit support that currently is implicit in interstate access charges of price cap companies. This mechanism is separate and distinct from the new federal high cost mechanism the Commission currently is developing that will provide federal support for intrastate rates of non-rural carriers. The Commission is in the process of identifying the amount and type of support that is implicit in interstate access charges of price cap companies, and recently sought comment on how interstate access charges should be adjusted once this support has been made explicit. Except with respect to

rural Americans continue to enjoy affordable telecommunications service, and will facilitate the development of competitive choices — both packet-switched and circuit-switched — in rural and urban markets.

Second, the plan simplifies the patchwork of current common line charges into one subscriber line charge ("SLC"), and provides for deaveraging of those rates without undermining universal service. These changes rationalize and simplify the existing pricing regime for interstate exchange access service, and will promote increased local competition in residential and rural markets.

Third, the plan establishes a "social compact" under which traffic-sensitive switched access rates will fall by approximately 50 percent and will then be frozen, on average, at these low levels. The target rate caps are the result of arm's length negotiations between interexchange carrier ("IXC") and ILEC members of the Coalition. In addition, the plan narrows the discrepancy between the interstate access rate structure and the current interstate access charge "exemption" used by Internet Service Providers ("ISPs"). By substantially lowering the traffic-sensitive costs of access, the plan lessens the opportunity for arbitrage and uneconomic bypass that currently threatens universal service.

Congress recognized in the Telecommunication Act of 1996 ("the 1996 Act") that universal service reform is a critical component of its "pro-competitive, deregulatory national

---

Continued . . .

explicit support to replace implicit support in interstate access charges of signatory rural price-cap companies, this mechanism is also separate and distinct from any new support for rural carriers, upon which the FCC has not yet acted. *See*, Federal-State Joint Board on Universal Service, CC Docket No. 96-45, and Access Charge Reform, CC Docket No. 96-262. *See, Seventh Report and Order and Thirteenth Order on Reconsideration*, CC Docket No. 96-45 (*"USF Seventh R&O")*, *Fourth Report and Order*, CC Docket No. 96-262, and *Further Notice of Proposed Rulemaking* (*"High Cost Methodology Further Notice"*), FCC 99-119, at ¶¶ 123-35 (rel. May 28, 1999).

policy framework."[5] The Commission did likewise when it first implemented the 1996 Act, characterizing its interstate *Access Charge Reform Order*[6] and *Universal Service Order*[7] as two parts of its "competition trilogy." Notwithstanding widespread recognition of the need for reform, restitching the "patchwork quilt of implicit and explicit subsidies"[8] that had supported universal service before the 1996 Act continues to be a difficult task. In those two critical orders, the Commission outlined, but did not complete, solutions that would identify implicit universal service support embedded in interstate access charges and move that support into competitively-neutral, non-discriminatory, and explicit universal service mechanisms. Today, three and a half years after enactment of the 1996 Act, those two critical parts of the "competition trilogy" await completion.

Events since 1996 — and May 1997 when the Commission released its original *Access Charge Reform* and *Universal Service Orders* — make it even more imperative that universal service and interstate access charge reform be completed and implemented. In 1997, the Commission identified three basic forms of implicit support for universal service:

(1) geographic rate averaging between higher cost and low cost areas;

(2) support for residential service through higher charges on business lines; and

---

5 H.R. Rep. No. 104-458, at 1 (1996).

6 Access Charge Reform, *First Report and Order*, 12 FCC Rcd 15982, 15985 (1997) ("*Access Charge Reform Order*").

7 Federal-State Joint Board on Universal Service, Report and Order, 12 FCC Rcd 8776, 8781 (1997) ("Universal Service Order"), aff'd in part, rev'd in part, and remanded sub nom. Texas Office of Pub. Util. Counsel v. FCC, No. 97-60421, 1999 U.S. App. LEXIS 17941 (5th Cir. July 30, 1999).

8 Implementation of the Local Competition Provisions of the Telecommunications Act of 1996; Interconnection between Local Exchange Providers and Commercial Mobile Radio Service Providers, *First Report and Order*, 11 FCC Rcd 15499, at ¶ 5 (1996).

(3) higher, above-cost usage charges to support costs of serving low usage subscribers.[9]

All three of these implicit mechanisms are present today in interstate access charges. The Commission, in 1997, correctly recognized that "this system is not sustainable in its current form in a competitive environment."[10] Moreover, the Commission predicted that "this incentive to entry by competitors in the lowest cost, highest profit market segments (caused by raising some rates significantly above cost) means that today's pillars of implicit subsidies — high access charges, high prices for business services, and the averaging of rates over broad geographic areas — will be under attack."[11] The Commission therefore stated at that time that it would retain its current system only until January 1, 1999.

Today, the transition to explicit universal service support and sustainable, pro-competitive access rate structures remains incomplete, while the Commission continues to seek ideal solutions to these complex and critical issues. As the Commission predicted, however, the market-opening reforms created by the 1996 Act have led to the development of growing business market competition, particularly in urban areas. Universal service and interstate access charge reform can no longer wait. If reform is further delayed, solutions that preserve universal service will only become more difficult and more abrupt. The regulatory uncertainty that has characterized telecommunications markets since the 1996 Act will continue to "overhang" all investment decisions, chilling investment and delaying the expansion of competition into residential and rural markets.

---

9 See, Universal Service Order, at ¶ 11; see also, USF Seventh R&O, at ¶ 6.

10 Universal Service Order, at ¶ 17.

11 Id.

Moreover, implicit support today is increasingly threatened by technological and competitive changes. For instance, packet-switched network services such as cable modems and xDSL services are continuing to develop at an accelerating rate. As these networks develop and become increasingly capable of providing alternative means of transmitting voice services, particularly long distance services,[12] it will become easier for end users to avoid supporting universal service through implicit universal service support mechanisms embedded in interstate access charges. Unless the present "patchwork quilt" of support can be replaced with universal service support mechanisms sewn from a single, cohesive cloth, the system of universal service support and emerging packet networks will be on an unnecessary collision course.[13] To maintain both the "unregulation" of the Internet and universal service requires changing existing universal service and interstate access charge mechanisms.[14]

As the Commission has also recognized, implicit support is not just unsustainable, but it actually impedes the development of choice and competition in residential and rural markets. As the Commission recently observed, "implicit support can also delay or deny the benefits of competition to residential and high-cost consumers if a competitor finds that it is unable to compete against an incumbent's artificially low rates."[15] By contrast, "explicit mechanisms may encourage competitors to expand service beyond urban areas and business centers into all areas

---

[12] *See*, Communications Daily, at 9 (July 22, 1999); "*Covad Announces First Alliance to Deliver Voice Over DSL Services to Small Business*," Covad Press Release, at www.covad.com (July 21, 1999); Seth Schiesel, "*Hello Operator? Get me the Internet*," N.Y. Times (March 24, 1999).

[13] To address universal service issues fully could require a combination of state and federal action. *See* note 4, *infra*.

[14] *See generally*, Jason Oxman, *The FCC and the Unregulation of the Internet,* OPP Working Paper No. 31 (Office of Plans and Policy rel. July 19, 1999).

[15] USF Seventh R&O, at ¶ 7.

of the country and to all Americans, as envisioned by the 1996 Act."[16] As the Commission correctly noted, "[e]fficient competition in local markets is most likely to occur when rates for services, after factoring in explicit universal service contributions or support, reflect the underlying cost of providing service."[17]

The CALLS plan addresses today's unsustainable and, in residential and high-cost areas, competition-unfriendly system by directly tackling all three sources of implicit universal service support in interstate access charges. It does so through a combination of $650 million of explicit universal service support targeted to those areas that are the highest cost to serve, continued reform of the common line rate structure to increase economic efficiency and competitive neutrality, and targeted reductions of switched access charges.

Universal service and interstate access charge rate structure reform alone will not, however, create the regulatory certainty necessary to facilitate the development of competition, nor would it maximize consumer welfare. It is also not possible, from a practical perspective, fully to resolve universal service support issues without also addressing the level and the structure of interstate access rates. The third pillar of the CALLS plan, therefore, revises and simplifies the Commission's system of price cap rate regulation. This simplification cuts per minute access charges dramatically, and stabilizes a price cap system that has been in almost-continual flux since it was adopted. Rather than the complex rules that have led to three price cap plans in eight years, consumers and industry participants will benefit from a simplified system where average switched access for a telephone tariff filing entity will be capped at low per minute rates.

---

16 *Id.* at ¶ 9.

17 *Id.* at ¶ 8.

The CALLS plan benefits consumers, fundamentally preserves and enhances universal service, and creates an interstate access charge rate structure that will be more consistent with technological developments. Adoption of this plan will result in a "cease-fire" for at least a critical five year period as telecommunications markets accelerate the transition to greater and more widespread competition. The CALLS plan, taken as a whole and only as a whole,[18] accomplishes all these goals in a manner consistent with sound economic principles, paving the way for the marketplace to deliver on the twin promises of the 1996 Act — broad growth of competition and affordable universal service in all telecommunications markets.

B. Summary of CALLS Plan

The full text of the CALLS plan is set forth in Appendix A. In summary, the plan incorporates the following elements into an integrated universal service and interstate access reform package:

1. *Common Line Reform*

a) As required by the Fifth Circuit,[19] local telephone companies recover universal service contributions explicitly from end users, not through carrier-paid interstate access charges.

---

18 Although the members of CALLS have all made hard concessions in reaching agreement on these reforms, each has recognized the predominant importance of a rational and integrated plan for the future. The CALLS plan as developed, therefore, represents a delicate balancing of competing policies that the members of CALLS urge the Commission not to disturb. Specifically, while all members support and endorse the plan as presented to the Commission, any changes may cause some or all members to withdraw their support.

19 *Texas Office of Pub. Util. Counsel*, 1999 U.S. App. Lexis 17941, at 64-66.

b) Residential SLCs for price cap carriers are capped at $5.50 initially, with caps gradually increasing to $7.00 by July 2003. Deaveraged, multiline business SLCs are capped at $9.20 per month. $650 million in universal service funding explicitly and transparently supports these caps without creating additional implicit support.

c) All residential PICC-related charges — flat-rate charges from local companies to long distance companies that are today billed by long distance companies to subscribers — are folded into SLCs. Residential consumers will not see a federal common line charge on their bill other than the SLC. The transition of common line rates away from above cost per minute (carrier common line) and multiline business PICC charges continues, and, after the CCLC and multiline business PICC are eliminated, companies will be permitted geographically to deaverage SLCs as they geographically deaverage rates for unbundled loops.

2. ***Universal Service***

a) $650 million per year in explicit universal service support replaces $650 million of implicit support in interstate access charges. This universal service support is portable to all competing LECs, and targeted to high cost areas.

b) Lifeline support is increased to protect low-income consumers from all effects of these changes, including the consolidation of

PICCs with SLCs. This consolidation eliminates PICC-related charges for Lifeline customers with no offsetting increases in fixed monthly service rates.

3. ***Switched Access***

a) Per minute interstate access charges are cut in half, from an average of over 1.1 cents per access minute to just over 0.55 cents per access minute, dropping significantly faster than they would under the Commission's existing rules. These reductions are accomplished by continuing an X-factor of 6.5% and targeting "X-factor" adjustments to switched access elements until switched access charges other than carrier common line charges reach 0.55 cents per minute for the Bell Companies and GTE, and 0.65 cents per minute for other price cap incumbent LECs. Thereafter, average switched access rates for a filing entity are capped at these levels until at least January 1, 2005. Per minute access charge reductions will result in lower long distance bills.

Set forth below are further, more detailed descriptions of each of the "three pillars" of the CALLS plan.

II. A SUSTAINABLE, PRO-COMPETITION, AFFORDABLE, AND SIMPLIFIED COMMON LINE RATE STRUCTURE

A. Common Line Rate Elements are Simplified and Sustained by Explicit Universal Service Support

As the Commission has recognized in its Access Charge Reform orders, reform of common line pricing is a critical step in meeting section 254's command to establish mechanisms to preserve universal service and to create such explicit support as is necessary to provide sufficient support.[20] The CALLS plan would permit the Commission to continue, and simultaneously to simplify, this reform process. Consistent with this mandate of the 1996 Act, these reforms will encourage more competitive entry into local markets, and preserve and enhance universal service by substituting explicit support for existing implicit support inherent in geographically-averaged rates and inefficient rate structures.

To accomplish these important goals, the plan would immediately eliminate all residential and single-line business PICCs, and reduce the multiline business PICC to no more than $4.00 per month.[21] The primary residential SLC cap (but not necessarily the rate charged to customers) becomes $5.50, effective January 2000, increasing over three years to $7.00.[22] Similarly, the non-primary residential SLC cap (but not necessarily the rate charged to customers) increases to $7.00 in January 2000, with no further increases.[23] As with the Commission's existing SLC caps, the actual rate in most cases will be less. Ultimately, primary and non-primary residential line rates are unified, and distinguishing between these lines is no longer required. Toll rates can thus decrease as this implicit support from per minute access charges is eliminated. Multiline business SLCs remain capped at $9.20, although as is the case today, actual rates will be in most cases, substantially below the cap.[24]

---

20 *E.g.*, *Access Charge Reform Order*, at ¶ 75. Section 254(e) directs that universal service support "should be explicit." 47 U.S.C. § 254(e); *see also*, *USF Seventh R&O*, at ¶¶ 8, 43.

21 Appendix A at 2.1.2.1, 2.1.3.1, and 2.1.4.1.

22 *Id.* at 2.1.2.2.1 and 2.1.2.2.2.1.

23 *Id.* at 2.1.3.2.1 and 2.1.3.2.2.1.

24 *Id.* at 2.1.4.2.1 and 2.1.4.2.2.1.

All SLC caps are sustained through explicit universal service support, as discussed in Section III, *infra*. Accordingly, unlike today's system of SLC caps, this new system will not generally rely on implicit interstate access charge-based support. These caps are set at levels that will be affordable, and Lifeline support will be increased so that total service cost will be reduced for low-income consumers.

B. Reform of the Common Line Rate Structure is Necessary to Promote Competition and Preserve Universal Service.

1. *Controlled and capped increases in residential SLCs will promote competition.*

As the Commission and the Fifth Circuit have recognized, moving from implicit usage-based and business charge-based universal service support to explicit support is an essential step in the development of increased competition for all classes of customers.[25] Indeed, as the Commission has repeatedly observed, implicit universal service support through artificial regulatory pricing conventions is not sustainable in the face of competition.[26] There is widespread consensus among economists that when costs are fixed, as loop costs are, markets tend to push prices toward flat-rated, rather than usage-based, price structures.[27] The current rate structure does not do that. By inflating usage and business charges above market-based levels, it instead promotes competition for high-volume, typically high-revenue, low-cost business users.

---

25 *USF Seventh R&O*, at ¶¶ 8, 43; *Texas Office of Pub. Util. Counsel*, 1999 U.S. App. Lexis 17941, at 64-66.

26 USF Seventh R&O, at ¶ 7.

27 Alfred E. Kahn and William B. Shew, Current Issues in Telecommunications Regulation: Pricing, 4 Yale J. on Reg. 191, 203-04 (1987); David L. Kasserman and John W. Mayo, Cross-Subsidies in Telecommunications: Roadblocks on the Road to More Intelligent Telephone Pricing, 11 Yale J. on Reg. 119, 125 (1994); Steve G. Parsons, The Economic Necessity of an Increased Subscriber Line Charge (SLC) in Telecommunications, 48 Admin. L. Rev. 227, 235-36 (1996).

The regulatory structure encourages new entrants to show considerably less interest in serving residential customers, in part because the current rate structure keeps incumbent LEC rates for these customers artificially low.[28]

The plan's SLC reforms represent a better way for the Commission to bring to the residential customer the increased innovation, improved service, and expanded choice the 1996 Act promised. SLCs that more closely reflect the common line costs of each individual line promote increased competition for all classes of customers, particularly residential and single-line business customers. Correspondingly, by eliminating the recovery of additional non-traffic sensitive common line costs through per minute or indirect charges, the plan increases the economic rationality of the common line rate structure. This increased economic efficiency and corresponding gains in consumer welfare will redound to the benefit of all Americans.

The plan's reforms also will relieve growing pressure on the Commission to regulate the Internet. For instance, packet-switched services, including Internet Protocol ("IP") services, increasingly will be able to provide substitutes for circuit-switched services. As these packet-switched services emerge, they will make usage-based per minute implicit universal service support unsustainable. Typically, providers of packet services charge on a flat-rated basis, rather than by the minute. In fact, flat-rated pricing is one of the potential efficiencies of a packet-based network, which early packet-based retail offerings such as cable modems and xDSL services reflect. A support system that relies on per minute access charges cannot, therefore, survive the emergence of packet services without imposing a time-metered rate structure on them — a pricing model the consumer market for IP services has already rejected. By significantly

---

[28] Other approaches to common line reform, such as continued reliance on substantial carrier charges, whether flat or per minute, do not provide a reasonable mechanism for reducing

reducing the traffic-sensitive prices of switched access services, the CALLS plan substantially resolves these issues, reduces opportunities for arbitrage, and permits the development of rational pricing structures for all services.

The plan, by unifying SLCs, PICCs, and minute-based carrier common line charges into a single SLC, also facilitates competition by simplifying the common line rate structure. Line charges that are consolidated and paid by the end user customer selecting the service provider are more likely to be subject to head-to-head price competition than charges that are passed only indirectly to end users through averaged toll rates. Under this approach, residential and rural line charges will be structured to face competitive pressure.

Moreover, simplifying a bewildering rate structure is itself a consumer benefit. Thousands of calls and letters to carriers, Congress, and the Commission confirm that ratepayers are confused by these charges, particularly PICC-related charges, and do not understand their basis. As the Commission has recognized in its *Truth in Billing* proceeding, competition functions best when customers understand what they are paying for and can make informed comparisons among service providers.[29] By facilitating such comparisons, the plan's reforms will assist consumers as they choose among competing services and providers.[30]

Continued . . .

implicit support, consistent with Section 254(e). *See*, *Texas Office of Pub. Util. Counsel*, 1999 U.S. App. Lexis 17941, at 66.

29 *See generally,* Truth-in Billing and Billing Format, CC Docket No. 98-170, *First Report and Order and Further Notice of Proposed Rulemaking*, FCC 99-72 (rel. May 11, 1999).

30 The plan also eliminates the distinction between primary and non-primary lines over a three year period, ending another source of consumer confusion.

2. ***The new SLC caps will ensure that rate levels remain affordable.***

The CALLS plan establishes SLC caps for both primary residential and single line business lines that start at $5.50 and rise to a maximum of $7.00 monthly. Like current SLCs, this amount represents a cap. Most residential SLCs will never reach $7.00 per month.[31] These caps are supported by a $650 million explicit interstate safety net. The plan also expands Lifeline support to ensure that those most at risk from small increases remain connected to the network. Lifeline consumers — who are most vulnerable to rates becoming "unaffordable" — would pay no monthly SLCs, pay no PICC-related charges (which many pay today), and see lower long distance bills. This combined result will strengthen subscribership among low-income consumers.[32]

For non-Lifeline consumers, the $5.50 initial cap for the consolidated SLC will not affect affordability. Today, non-Lifeline residential end users who pre-subscribe to calling plans pay approximately $5.00 per month in combined SLC and IXC-billed PICC-related charges. Furthermore, the caps under existing rules on primary residential PICCs will increase by another $0.50 on July 1, 2000, making it likely that, even under current rules, most residential customers would pay combined SLC and IXC-billed PICC charges of approximately $5.50 as of July 1, 2000. Therefore, the initial fixed common line charges under the plan will be approximately the same as under current rules, subject only to a 6-month timing shift. There is no basis for

---

31 As of July 2003, we estimate that the average residential SLC across all price cap LECs will be $6.15.

32 By eliminating residential PICCs and relying on low income support mechanisms to assist those for whom affordability is of greatest concern, this plan also will address many of the Commission's concerns raised in its recent Low Volume NOI. *See*, Low Volume Long Distance Users, CC Docket No. 99-249, *Notice of Inquiry*, FCC 99-168 (rel. July 20, 1999) (*e.g.*, Statement of Michael K. Powell, concurring, questioning the correlation between long distance calling patterns and income).

classifying the plan's $5.50 consolidated SLC as "unaffordable" for non-Lifeline customers on January 1, 2000, when the $5.50 combination of SLCs and PICCs that will result under existing rules is considered "affordable" on July 1 of the same year.[33]

In subsequent years, the plan increases the primary residential and single line business SLC cap to $7.00 in three phases. The primary residential and single line business SLC cap rises to $6.25 on January 1, 2001, to $6.75 on July 1, 2002, and to $7.00 on July 1, 2003.[34] There is no empirical evidence that these new common line rate structures will cause subscribers to drop off the network. In fact, the historical evidence suggests that subscribership will improve. Past experience shows that the shift away from per minute access charges to flat charges has had an overall positive effect on telephone subscribership. In 1984, when the first SLCs were adopted, telephone subscribership was 91.8 percent. Due in part to the creation of the SLC and later the PICC, usage sensitive interstate access rates — and, in turn, long distance rates — have fallen, and subscribership has increased. By 1989, when residential SLCs first reached $3.50, telephone subscribership had risen to 93.3 percent. Today, with SLC and PICC-related charges totaling approximately $5.00 per month, and with additional charges for the Telecommunications Relay Service ("TRS") and number portability, telephone subscribership is over 94 percent.[35]

Moreover, as a series of studies has indicated, overall toll charges have a more substantial impact on whether telephone service is affordable than do fixed monthly charges.[36] By

[33] Furthermore, the initial proposed SLC cap of $5.50 is the equivalent, in inflation adjusted terms, of a $3.50 SLC in 1984 dollars, the year the SLC was instituted.

[34] *See*, note 22, *supra*.

[35] Alexander Belinfante, *Telephone Subscribership in the United States*, (Com. Car. Bur., Ind. Anal. Div. rel. May 1999), at Table 1; *see also*, *USF Seventh Report and Order*, at ¶ 38.

[36] Chesapeake and Potomac Telephone Company's Submission of Telephone Penetration Studies, Formal Case No. 850 (filed October 4, 1993); Field Research Corporation, *Affordability of Telephone Service — A Survey of Customers and Noncustomers*, 1993

dramatically reducing switched access charges, which can thus lower long distance bills, it is likely that the plan would, in fact, make telephone service more affordable. Based on all of this experience, with full protection for Lifeline customers, and with further dramatic reductions in switched access charges as an integral part of this plan, there is no reason to believe that the gradual transition of caps on flat-rated charges from $5.50 to $7.00 over the next four years will undermine subscribership.

Indeed, the marketplace has now provided factual evidence to satisfy the Commission's concern that caused it to create PICCs in 1997 rather than simply raise SLC caps. At that time, the Commission stated that it was concerned that SLC increases could affect affordability.[37] Since they were implemented in 1998, however, the PICCs have been passed on to end users at even higher unit rates than the Commission had contemplated, without leading to lower subscribership levels. Moreover, the CALLS plan secures affordability by setting an ultimate cap of $7.00 for residential and single-line business customers in the most rural areas. Carriers will receive explicit universal service support to support these caps.[38]

The CALLS plan also narrows interstate regulatory distinctions between multiline business and other lines by substantially narrowing, and in many cases eliminating, the gap

---

Continued . . .

(study funded by GTE-California and Pacific Bell, mandated by the California Public Utilities Commission); Milton Mueller & Jorge R. Schement, *Universal Service from the Bottom Up: A Profile of Telecommunications Access in Camden, New Jersey*, 12 *Information Society* 3 (April 1996); John Horrigan & Lodis Rhodes, *The Evolution of Universal Service in Texas* (September 1995) (working paper, LBJ School of Public Affairs). *See also,* Milton Mueller, Jr., *Universal Service* at 172 (1997).

37 Access Charge Reform Order, at ¶ 73.

38 Non-primary residential SLCs also will remain reasonable. Currently, non-primary residential lines are charged a SLC capped at $6.07 and, where the end user does not pre-subscribe his or her second line, an additional PICC capped at $2.53. Under the plan, non-primary lines will be subject only to the residential SLC of $7.00.

between the multiline business SLCs and other SLCs. The plan retains the current $9.20 multiline business SLC cap, and it lowers the multiline business PICC cap to $4.00. In combination with the changes to the residential and single-line business common line rate structure, these facets of the plan immediately reduce the implicit support currently running from multiline business to other lines, accelerating a process set in motion by the Commission in the 1997 *Access Charge Reform Order*. In addition, the plan facilitates and accelerates the elimination of the Transport Interconnection Charge ("TIC"), a Commission priority under both competitive and economic principles, and a necessary response to the D.C. Circuit's *CompTel* remand.[39]

The Commission's prior decisions establishing the SLC and PICC already have brought per minute toll charges to their lowest levels in history, spurring demand for these services, making telecommunications services more affordable, and benefiting users of the interstate telecommunications network. The plan's additional simplified flat-rated recovery of common line costs, together with other changes in the plan, will pave the way for further innovation in long distance pricing, potentially enabling long distance providers to offer rate plans that resemble Internet flat-rates and wireless blocks of minutes.

3. ***SLC deaveraging will benefit consumers and preserve universal service.***

In addition to dramatically reducing implicit support by multiline business customers of the residential and single-line business rates,[40] the CALLS plan also substantially reduces the implicit support of rural rates by urban ratepayers through geographically averaged SLC charges. However, by integrating SLC deaveraging with explicit universal service support and deaveraged

---

[39] Competitive Telecommunications Ass'n v. FCC, 87 F.3d 522, 536 (D.C. Cir. 1996).

[40] In most areas, the CCL and multiline business PICC will be eliminated entirely.

UNE loop rates, the plan strengthens both rural and urban competition, and ensures affordable rural rates. This action is another critical step in the development of increased competition and the preservation of universal service

This plan's approach to geographic deaveraging allows prices partially to reflect actual variations in the costs of providing service in varying geographic areas. Under the CALLS plan, deaveraging of SLCs may only be done after a state commission establishes deaveraged UNE rates by zone, and eliminates the CCL and PICC charges.[41] Deaveraged SLCs, thereafter, will reflect underlying variations in forward-looking loop and port costs within these zones. The plan protects high-cost customers by providing that no SLC, whether averaged or deaveraged, may exceed the overall SLC caps the plan establishes. Deaveraged SLCs may not generate more revenue than geographically averaged SLCs would have.

Although prices will begin to reflect geographic variations in the forward-looking cost of providing service, newly explicit universal service support will protect rural consumers against substantial rate increases and will support the capping of residential SLCs at $7.00 per month. Without these SLC reforms, the regulatory system will continue to provide undue incentives to carriers to compete primarily for business and the most high-volume residential subscribers. Preserving the status quo makes it less likely that rural and most residential consumers will see a real choice of telecommunications providers. This incentive structure itself threatens to erode current implicit support systems. If it were to continue, current regulation would channel competition to urban business centers, and the ILECs would lose urban business customers that

---

41 A carrier need not eliminate CCL and PICC charges prior to deaveraging by voluntary reductions. Appendix A at 2.1.5.6.1.

they would otherwise retain. As a result, the ILECs' revenue stream from multiline business users that supports service to other subscribers would diminish.[42]

The plan has built-in safeguards with respect to geographic deaveraging. First, deaveraging is not permitted except where an ILEC has also established state-approved UNE zone prices.[43] This safeguard ensures that deaveraging of SLCs will be pro-competitive, and will not inadvertently hamper UNE-based entry or ILEC competitive response. Second, an ILEC may not reduce multiline business SLCs below residential SLC prices in a given UNE pricing zone.[44] This ensures that all consumers in low cost areas share the benefits of SLC deaveraging. Third, SLCs of a given customer class — such as multiline business — cannot have a lower price in a higher cost zone than in a lower cost zone.[45] Fourth, price cap permitted revenues from deaveraged SLCs cannot exceed the revenues that would be permitted under price cap regulation for averaged SLCs.[46] Fifth, except with respect to voluntary reductions, an ILEC may not deaverage prior to eliminating multiline business PICCs and CCL.[47] This ensures that deaveraging does not increase implicit support. Sixth, except with respect to voluntary reductions, the plan establishes a minimum charge within the lowest cost zone, which allows consumers outside the lowest cost zone to share the benefits of SLC deaveraging.[48]

---

[42] See, USF Seventh R&O, at ¶ 7.

[43] Appendix A at 2.1.5.1.

[44] *Id.* at 2.1.5.3.

[45] *Id.* at 2.1.5.4.

[46] *Id.* at 2.1.5.5. *See,* note 86, *infra.*

[47] Appendix A at 2.1.5.6.1. A "voluntary reduction" is one in which the incumbent LEC reduces prices other than by offsetting those reductions against increases in other SLC charges or Interstate Access-related USF support. Appendix A at 2.1.5.6.3.

[48] Appendix A at 2.1.5.6.2. *See,* note 86, *infra.*

By capping SLCs at affordable levels and limiting SLC deaveraging to a maximum of four zones (unless the Commission authorizes the use of additional zones), the plan also satisfies the statutory requirement that rates in rural, insular, and high cost areas remain "reasonably comparable" to those in urban areas. The Commission, in agreement with the Universal Service Joint Board, has interpreted reasonable comparability to mean "a fair range of urban/rural rates both within a state's borders and among states nationwide," not identical rates in all areas.[49] Because these rates will vary by less than the current multiline business SLCs vary among study areas, these rates meet any reasonable interpretation of the "fair range" standard.[50]

C. ILEC Contributions to Universal Service Must Be Removed from Price Caps and Recovered from End Users.

Currently, price cap LECs recover contributions to universal service through implicit fees in access charges they impose on IXCs. This system is economically inefficient, and now also is in conflict with the decision of the Fifth Circuit in *Texas Office of Public Utilities Counsel*, which reversed the Commission's requirement that price cap ILECs recover universal service contributions through interstate access charges. The Fifth Circuit specifically held that "[b]ecause the Commission continues to require implicit subsidies for ILECs in violation of a plain, direct statutory command, we reverse its decision to require ILECs to recover universal service contributions from their interstate access charges."[51]

To implement the Fifth Circuit decision, the Commission should simply give price cap ILECs the freedom to recover universal service contributions in the same manner as all carriers

---

49 USF Seventh R&O, at ¶ 30.

50 Multiline business SLCs currently range from $3.78 in the District of Columbia to a cap of $9.20.

51 *Texas Office of Pub. Util. Counsel*, 1999 U.S. App. LEXIS 17941, at 66.

not subject to price regulation. CLECs, CMRS carriers, IXCs, and other carriers whose recovery is not strictly regulated by the Commission have chosen to charge end users on a per line or percentage of revenue basis. The plan will permit ILECs to develop similar mechanisms.

In permitting ILECs to recover their universal service assessment as a per line charge on end users, the proposal allows the use of a 9 to 1 equivalency ratio for determining the number of lines for Centrex customers.[52] This is consistent with the Commission's prior decision to apply such a ratio for assessment of the PICC on Centrex customers.[53] Like the PICC, the universal service assessment is "not a cost-based charge, but a contribution."[54] Not imposing a full universal service assessment on every Centrix line reduces the burden on the business, government, education, and health care facilities that are current Centrex customers.[55]

III. AN EXPLICIT, PORTABLE UNIVERSAL SERVICE "SAFETY NET" TO REPLACE $650 MILLION OF IMPLICIT SUPPORT IN EXISTING INTERSTATE COMMON LINE ACCESS CHARGES.

The plan creates an explicit universal service support of $650 million to replace implicit support currently embedded in interstate access charge rates and rate structures of price cap LECs. In order to distinguish this universal service funding from existing high cost support and support to maintain comparable <u>intrastate</u> prices, we refer to this additional universal service support as "Interstate Access-related USF." This universal service "safety net" is a necessary counterpart to the common line restructuring proposed in Section II, *supra*. The members of

---

52 Appendix A at 1.4.

53 *See*, Access Charge Reform, *Second Order on Reconsideration*, 12 FCC Rcd 16606, ¶ 31 (1997).

54 *Id.*

55 *See*, *id.* at ¶¶ 32-34. Similarly, primary rate ISDN pays a multiple of 5 times the per line charge for each service arrangement just as it does for PICC charges under current rules. *See*, Appendix A at 1.4; 47 C.F.R. § 60.153(g)(1).

CALLS believe that this $650 million "safety net," when combined with the common line and switched access reforms also proposed under the plan as an integrated whole, will ensure that interstate end user rates remain affordable and comparable between rural and urban areas, during this five-year transitional period.[56] By establishing a set amount of $650 million, the CALLS plan sets a "specific" and "predictable" amount of explicit support that will be fully portable among eligible telecommunications carriers, and be offset dollar for dollar by appropriate reductions in interstate access charges.

The plan also provides a methodology for distributing $650 million in Interstate Access-related USF to the areas served by each of the participating price cap LECs. This methodology again is predictable and specific. It also ensures that virtually all areas receive enough support to eliminate the multiline business PICC and carrier common line charges, and that most areas also receive support to permit geographic deaveraging of SLCs.

In this area, as in others, this plan reflects a balancing of public interests defined by the 1996 Act. Estimates of the amount of implicit support in interstate access charges have varied widely. However, Commission efforts to develop estimates of the implicit support in interstate access charges have already taken over two years. The common line rate structures proposed as part of this plan substantially reduce reliance on implicit mechanisms to maintain affordable and comparable rates, and $650 million in explicit support further safeguards affordable and comparable interstate end user rates during this five year period on a competitively neutral basis. These combined actions, together with the switched access reforms also proposed, will allow the

[56] To address universal service issues fully could require a combination of state and federal action. *See* note 4, *supra*.

marketplace to move forward in a more stable and certain regulatory environment, to the benefit of both industry participants and rural and urban consumers.

The Commission can reasonably conclude that, given the public interest and pro-competitive benefits of immediately establishing a support mechanism that will allow competition to develop, the universal service mechanisms proposed by the CALLS plan, taken in its entirety including $650 million in explicit support and proposed common line and switched access reform, meet the requirements and goals of Section 254. Delaying implementation serves neither the 1996 Act's pro-competitive, deregulatory goals, nor its goals of ensuring universal service for all Americans.

A. $650 Million Will Keep Rural Interstate End User Rates Affordable and Comparable to Urban Rates During This Five Year Period.

The CALLS plan establishes a $650 million Interstate Access-related USF, which would replace $650 million of implicit support currently in interstate access charges. The members of CALLS agree that $650 million in explicit support will keep interstate end user rates affordable and comparable, given other aspects of the plan, including the plan's specific common line and switched access reforms.

It is significant that the price cap LECs that are signatories to the plan agree that $650 million in explicit, interstate access-related support, in combination with the proposed common line and switched access reforms, will ensure affordable and comparable service in high cost zones during the five year term of the plan. If the total combination of all these changes, including $650 million in explicit support, were not adequate, it is primarily these price cap LECs that would lack the resources to support quality universal service.[57] Importantly, however,

[57] These price cap LECs would nevertheless remain obligated to provide service to otherwise unserved areas. 47 U.S.C. §§ 214(3) and (4).

the assent of the price cap LEC signatories is premised upon the adoption of all parts of the CALLS plan, including all common line and switched access reforms.

The $650 million falls well within the range of estimates of existing implicit support in interstate access charges already in the record of the *Universal Service* proceeding especially when considered in light of the common line reforms.[58] The United States Telephone Association ("USTA"), for example, estimated that, based on historic costs, current interstate common line rates contained $3.9 billion in implicit universal support.[59] In another estimate based on historic costs, then-FCC Chief Economist William Rogerson and OPP Senior Economist Evan Kwerel estimated $1.9 billion in implicit universal service support, assuming that residential SLCs were capped at $6.50 per month.[60] On the other hand, the HAI model projects a forward-looking estimate of implicit support in interstate common line elements at approximately $250 million.[61]

In addition, AT&T estimates that $650 million of interstate access-related universal service support is consistent with the Commission's model-based estimates to date of the

---

58 Of course, no member of CALLS necessarily endorses all of these estimates.

59 Comments of the United States Telephone Association on the Further Notice of Proposed Rulemaking, CC Docket No. 96-45 and CC Docket No. 96-262 (filed July 23, 1999). The level of implicit support estimated using USTA's methodology would be lower using the subscriber line charge rates proposed under this plan.

60 Rogerson and Kwerel estimated implicit support to be $3.2 billion at a residential SLC cap of $4.50 per month. "A Proposal for Universal Service and Access Reform" by Bill Rogerson and Evan Kwerel, CC Docket Nos. 96-45, 96-262 (filed May 27, 1999).

61 HAI Model Version 5.0a, Docket No. CC-96-45. This estimate used SLC caps of $7.00 for residential and single line business lines and $9.20 for multiline business lines. It also used FCC Common Inputs as of March 10, 1999.

forward-looking costs of providing universal service.[62] Using the FCC's Synthesis Model with the FCC's common inputs as of June 2, 1999, AT&T concludes that $650 million is a reasonable estimate of the interstate portion of forward-looking loop and port costs exceeding a maximum residential and single-line business SLC of $7.00 and multiline business SLC of $9.20.[63]

Although the Commission could endeavor further to estimate implicit support in interstate access, there is no reason to believe that doing so would better ensure affordable and comparable interstate end user rates during this five-year period, when all other factors are considered. Absent adoption of the CALLS plan, uncertainty about the regulatory treatment of such implicit support is likely to persist for some time. As has been observed in the record of the Universal Service proceeding, there can be substantial variations in model-produced estimates of forward-looking costs, and therefore estimates of implicit interstate access-based support, due to

---

[62] Bell Atlantic, BellSouth, GTE, and SBC do not support use of a model to calculate universal service support, and together with Sprint do not join in the citation of AT&T's model-based calculations.

[63] As indicated in the attached Declaration of Joel E. Lubin, in making its estimation, AT&T aggregated the serving wire centers in each price cap LEC study area into three cost zones: low, medium and high, such that the number of lines in each cost zone were roughly equal. Then, AT&T used the FCC's Synthesis Model with FCC inputs as of June 2, 1999, to calculate the unseparated forward-looking costs of the loop and port in all zones. AT&T then applied a 25% separations factor against the unseparated forward-looking costs of the loop and port, and compared 25% of the average forward-looking cost within each cost zone against a maximum affordable SLC of $7 per residence and single line business line, and $9.20 per multiline business. To the extent that the forward-looking costs in a high cost zone exceeded the SLC cap, the difference between 25% of the projected loop and port cost and the applicable SLC cap represents the amount to be funded by the Interstate Access-Related High Cost Fund. When summed across all zones in all price cap LEC study areas, the total forward looking cost-based estimate of implicit support to be funded through the Interstate Access-related USF is $613 million. On the basis of this analysis, Mr. Lubin concluded that $650 million would be a reasonably conservative estimate. *See*, Declaration of Joel E. Lubin, Appendix C, attached.

variations in model inputs.[64] Estimates vary due to, *inter alia*, the cost of capital, depreciation rates, the number of entities sharing telephone poles, and the actual location of customers. Moreover, the amount of explicit support necessary, even in the nearer term, to ensure affordable and comparable end user rates varies substantially with the rate structure, caps and other limits placed on common line rates, and with the overall plan for interstate price regulation of incumbent LECs.

Given Congress' clear and oft-repeated desire to establish an explicit universal service support mechanism to replace implicit support in interstate access charges, it would be perverse to delay implementation of a specific, predictable, and explicit universal service support mechanism, which for this five year period and in the context of all reforms proposed by the plan taken as a whole will ensure that interstate end user rates in rural areas remain comparable to urban rates and affordable. This proposal, taken as a whole, achieves statutory universal service goals for this five year period.

Moreover, there would be substantial harm to the public interest if implementation of Interstate Access-related USF were delayed in order to continue to debate the amount of implicit support in interstate access rates. Because estimates have varied so widely, the lack of resolution adds substantial regulatory uncertainty to the business environment. No participant — whether incumbent or entrant — can currently calculate how much universal service support it will

---

64 Federal-State Joint Board on Universal Service, and Forward-Looking Mechanism for High-Cost Support for Non-Rural LECs, *Fifth Report and Order*, 13 FCC Rcd 21323, ¶ 12 (1998); *see also*, Dennis Weller, "Auctions for Universal Service Obligations," Presented at the Twelfth Biennial Conference of the ITS, at 13 (Stockholm June 1998); Letter from Richard N. Clarke (of AT&T) to Magalie Roman Salas, CC Docket No. 96-45 and CC Docket No. 97-160 (filed March 30, 1999).

receive in the future for serving high cost areas. This lack of certainty undermines the development of competitive choice in these areas.

What is needed now to promote competition and entry is a specific and predictable transitional amount for the Interstate Access-related USF. The plan as a whole, including $650 million Interstate Access-related USF, can reasonably be expected to be sufficient to keep rural rates affordable, and within a "fair range" of urban rates. In five years, there will have been an opportunity for competition to develop and for the Commission and the parties to obtain experience dealing with a portable and explicit fund. At that point, if the Commission believes that $650 million was either more or less than sufficient, it can make appropriate, tailored adjustments. It is also possible, however, that nothing more may need to be done, depending on the state of competition and market-based pricing.

B. The Interstate Access-Related USF is Distributed to Provide Support for SLC Caps, and is Portable Among Eligible Telecommunications Carriers.

As discussed in Section II, *supra*, the plan establishes absolute caps on the consolidated end user common line charges. In order to provide explicit rather than implicit support in conjunction with these caps, it is necessary to distribute universal service support to areas served by price cap ILECs. Within each ILEC service area, universal service support to that area becomes a per line support amount that will be portable among competing eligible telecommunications carriers.

To distribute the $650 million in Interstate Access-related USF among service areas served by ILECs, the plan would calculate a specific amount of Interstate Access-related USF for each price cap ILEC study area. Because price cap ILECs would be permitted to deaverage SLC rates geographically according to UNE pricing zones once UNE-zones are created, support levels are also calculated on a geographically zoned basis, using UNE loop pricing zones where such zones exist.[65] To calculate this explicit support, a deaveraged price cap common line revenue per line is calculated for each zone using the same geographic zones used for SLC deaveraging. The relative price cap revenue per line in each zone reflects the relative UNE rates in that zone, and the level of revenue per line in each zone is such that the ILEC can recover total permitted price cap common line revenues.[66] Each ILEC study area would receive a portion of the revenues within its high cost zones in excess of $7.00 per line per month for residential and single-line business lines and $9.20 per line per month for multiline business lines. In states where the ILEC has not established UNE loop pricing zones, however, the amount of support an ILEC may actually receive from the Interstate Access-related USF is limited to support determined on a study area, rather than a zone deaveraged, basis.

In some price cap ILEC study areas, however, the portion of UNE-pricing zone deaveraged revenues in excess of the $7.00 and $9.20 SLC caps that is supported by Interstate Access-related USF may not alone be sufficient to eliminate two implicit mechanisms, the multiline business PICC and carrier common line charges. Accordingly, for these study areas, the plan would calculate the amount of Interstate Access-related USF for each price cap ILEC study area necessary to ensure that, at a study area averaged level, multiline business PICCs and carrier common line charges are eliminated when all business and residential lines reach

---

[65] Where a state has not yet established geographically deaveraged UNE loop pricing zones, the Universal Service Administrator would preliminarily calculate the potential universal service support for price cap ILEC study areas within that state using a model or other appropriate tool, and roughly apportion lines by wire center into three zones with relatively equal numbers of lines. Those zones are used as a "placeholder" to size, but not actually distribute, the relative share of universal service support going to a given state. *See*, Appendix A at paragraph 2.2.3.1.1(b).

[66] Appendix A at 2.2.3.2. *See*, note 86, *infra*.

applicable SLC caps. This minimum support level in excess of geographically zoned USF support is phased in over three years, as common line rates are also restructured.[67]

The Interstate Access-related USF support within any participating price cap ILEC's service territory would be fully portable among eligible telecommunications carriers. As such, the plan would, for the first time, permit new entrants to receive the universal service support currently contained in interstate access rates.

The portable per line support amount any eligible telecommunications carrier would receive depends upon whether the incumbent LEC has established UNE loop pricing zones. In any study area where the incumbent LEC has not established UNE loop pricing zones, both the ILEC and eligible CLEC would receive the same amount of support per line.

In any geographically deaveraged UNE loop pricing zone, the amount of portable universal service support per line would also be the same for both the incumbent LEC and an eligible CLEC. The amount of support, however, would be a per line amount calculated either by distributing all universal service support pro-rata across all lines within the high cost zones of that price cap LEC study area,[68] or by targeting universal service support first to the lines in the highest cost zones in the price cap LEC study area.[69]

---

[67] The plan caps the adjustment for minimum USF in excess of the geographically zoned USF support at a maximum of $75 million nationwide. This balances the need to eliminate expeditiously mechanisms such as the multiline business PICC and CCL against the need to provide sufficient support to lower cost study areas to allow those areas to deaverage SLC rates geographically as competition emerges.

[68] Appendix A at 2.2.4.2 Alternative 1. *See,* note 86, *infra.*

[69] Appendix A at 2.2.4.2 Alternative 2. *See,* note 86, *infra.*

Finally, in constructing portable Interstate Access-related USF support amounts, the plan also recognizes that prompt administration and payment of universal service support to the eligible telecommunications carrier actually providing service to the customer is critical to maintaining true competitive-neutrality in a universal service support mechanism. The plan therefore provides that Interstate Access-related USF should commence once appropriate administrative mechanisms are in place so that changes in payment of portable support amounts are subject only to a reasonable administrative lag — with three-months agreed as reasonable — and subject to "true-ups" that ensure that an eligible telecommunications carrier does not receive universal service support for periods during which it did not provide the end user's services.

C. The Plan's Explicit Support Promotes Competition and Benefits Consumers

In sum, the second pillar of the CALLS plan — universal service — accomplishes the goals that Congress established in section 254 of the Communications Act. By establishing the \$7.00 and \$9.20 SLC caps, and a \$650 million universal service "safety net" to support those caps in the context of all the proposed changes, the plan provides ironclad assurance that interstate end user charges will remain within a "fair range" between urban and rural areas, and that rates in rural areas will not rise to unaffordable levels during this five year period. For the first time, universal service support currently embedded in interstate access charges will be explicit, and available to any eligible telecommunications carrier. This explicit structure supports greater choice and competition for consumers in rural America.

Although the plan applies only to access charge rate structures and universal service support for price cap carriers, the plan would directly benefit customers of rural non-price cap LECs as well. In many cases they will no longer pay retail PICC-related charges passed through to them by IXCs.

Three and a half years after the enactment of the 1996 Act, this plan gives the Commission an integrated package of interstate access charge and universal service reforms that can be implemented immediately. Doing so now would end years of uncertainty, ensure comparability and affordability of rates in rural America, and promote the development of real competitive choices for rural consumers.

IV. A SIMPLIFIED PRICE CAP PLAN WITH DRAMATICALLY REDUCED PER MINUTE SWITCHED ACCESS CHARGE RATES

The third pillar of the CALLS plan is switched access rate level reform. As a practical matter, interstate access charge, universal service, and interstate access charge rate level reforms have been closely linked. The Commission recognized as much when it adopted its *Universal Service*, interstate *Access Charge Reform*, and *Price Caps* orders together in May 1997. This proposal likewise addresses both access charge rate structures and rate levels together with universal service. Severing these elements would not create the five-year regulatory stability necessary to give all participants in the market a more stable investment environment.

Under current rules, the FCC regulates interstate access charge rate levels through a price cap mechanism adjusted by inflation and an annual productivity offset. The specific level of the productivity offset has been the subject of extensive regulatory proceedings and litigation, and has created considerable regulatory uncertainty. Since 1991, when price caps for ILECs began, the FCC has had three price cap plans, two permanent and one interim, all with different estimates of the appropriate productivity offset.[70] In May, the D.C. Circuit reversed and

---

[70] Under the initial price cap plan, price cap LECs had productivity factors that ranged from 3.3 to 4.3 depending on the extent to which a LEC would "share" earnings above a specified rate of return. Policy and Rules Concerning Rates for Dominant Carriers, *Second Report and Order*, 5 FCC Rcd 6786, ¶ 5 (1990). In the interim price cap plan, the Commission allowed price cap LECs to elect productivity factors ranging from 4.0 to 5.3, depending on the level of associated "sharing" obligations. Price Cap Performance Review for Local

remanded the most recent permanent plan and its productivity offset factor ("X-factor") of 6.5%.[71] The D.C. Circuit stayed its ruling, but only until April 2000, in order to give the Commission time to comply with the court's order.[72]

In addition, some parties have expressed concern that the current price cap regime allows per minute charges that are above cost, although there is disagreement among parties of the importance of cost data generally, and what the appropriate measure of cost should be. Moreover, even after the recently announced Pricing Flexibility Order,[73] the Commission has yet to put in place sufficient rules to allow a transition from price cap regulation to a fully competitive market as contemplated by the 1996 Act.

The CALLS plan would address all of these concerns, and create a five-year period of regulatory stability. Rather than attempting to estimate expected annual productivity gains, a process that has resulted in virtually continuous regulatory intervention and litigation, the plan sets a target rate cap for local switching and switched transport in order to reduce rates. This target rate cap would produce a significant reduction in per minute access rates — cutting them in half. These reductions will lower long distance bills.

Continued . . .

Exchange Carriers, *First Report and Order*, 10 FCC Rcd 8961, ¶ 19 (1995). In the most recent price cap plan, the Commission established a single X-factor of 6.5% with no sharing options. Price Cap Performance Review for Local Exchange Carriers; Access Charge Reform, *Fourth Report and Order in CC Docket No. 94-1 and Second Report and Order in CC Docket No. 96-262*, 12 FCC Rcd 16642, ¶ 8 (1997).

71 *United States Telephone Ass'n v. FCC*, 1999 U.S. App. Lexis 9768, No. 99-1469, (D.C. Cir. May 21, 1999).

72 *United States Telephone Ass'n v. FCC*, No. 97-1469 (D.C. Cir. June 21, 1999) (Order granting FCCs motion to stay the mandate).

73 Commission Adopts Pricing Flexibility and Other Access Charge Reforms, Report No 99-33 (rel. August 5, 1999) *("Pricing Flexibility Press Release")*.

In order to lower local switching and transport rates to the target rate caps, the plan uses the current 6.5 % X-factor as a transitional mechanism. Because it is already in place, the 6.5 % X-factor allows the implementation of the target rate cap to occur with greater stability for the rate making process and without disrupting existing expectations. Once local switching and transport rates reach the target rate cap, the average switched access price levels are frozen until at least January 2005.[74]

Unlike prior regulatory models, which were crafted by regulators and imposed on both suppliers and purchasers of access services, the current plan was crafted by both buyers and sellers. If adopted by the Commission, it would be a form of social compact between the regulators and all market participants that once the target levels are reached, so long as prices remain regulated, maximum average switched access price levels will be frozen for the life of the plan. Because the target cap levels were set through a negotiation, the price setting process resembles a contractual negotiation, where sophisticated buyers and sellers with opposing interests settle on a mutually acceptable price. As such, the prices are a reasonable temporary estimate of prices that might be set through the market dynamics of full competition.

A. Target Levels Are Reasonable.

The plan sets two target price ceiling levels for local switching and switched transport access charges — \$.0055 per minute for the largest carriers (the RBOCs and GTE) and \$.0065 for other price cap carriers.[75]

---

74 Once the target cap is reached, the applicable target rate cap could vary slightly from year-to-year based on changes in base period demand and inclusion of new services. Appendix A at 3.3.5. Exogenous adjustments, however, could only be recovered from services other than switched access charges. Appendix A at 3.3.4.

75 The plan does not directly apply to other LECs, which would continue under rate of return regulation.

As stated above, these prices are the result of an arms-length negotiation and are reasonable in the absence of true market-determined rates. The Commission has long sought a reasonable way to estimate the prices that would prevail in a competitive market. While the Commission has recognized that access charges should recover costs plus a reasonable return, the correct measure of cost has been a matter of debate. To the extent the Commission seeks to set rates based on some measure of forward looking cost — itself a matter of debate — appropriate cost measures have been particularly difficult to determine. In addition to its origin as a negotiated level, the target rates are within a range of projections that have been suggested as a potential estimate of the economic cost of switched access.[76] Regardless, the targets are clearly closer to forward looking costs than current rates.

In addition, this plan simplifies rate regulation of price cap LECs. As a result, it creates only two categories of carriers with separate rate targets. Because this plan is both transitional and voluntary, it is not necessary for the targets to reflect differences among the costs of individual companies.

The higher target for the smaller carriers is consistent with the Commission's own recognition of a distinction between the largest LECs and the rest of the price cap regulated LECs.[77] This latter group of LECs generally serves more dispersed markets with different cost

---

[76] *Compare*, Joint Comments of Bell Atlantic and NYNEX at 22, CC Docket No. 96-262 (filed Jan. 29, 1997) (cost study supporting traffic sensitive switching costs of approximately one cent a minute) with Letter of Joel Lubin to Magalie Roman Salas, CC Docket No. 96-262, (February 25, 1999) (estimating the economic cost of a switched access minute at $.00255 for RBOCs and $.00305 for all price cap LECs, and citing reciprocal compensation rates of $.00373 to $.00544 as a potential proxy for interstate switched access costs); *see also*, Comments of GTE Corp., CC Docket Nos. 96-262, 94-1, 97-250 at 7 (filed October 26, 1998) (estimating universal support using a switched access rate of $.008/minute).

[77] *See generally*, Rules Concerning Rates for Competitive Common Carrier Services and Facilities Authorizations Therefore, *Fifth Report and Order*, 98 F.C.C.2d 1191 (1984).

and pricing characteristics. Indeed, the original price cap rules were mandatory for the largest LECs and voluntary for the smaller and mid-sized LECs. These LECs have argued that the Commission must put in place a distinction in price levels that recognizes their differences.[78]

Finally, the signatories agree that this proposal, without modification, is a fair and reasonable compromise plan to resolve issues relating to access and universal service for price cap LECs. Accordingly, the signatories agree on behalf of themselves and their current affiliates as of August 1, 1999, to participate in the plan if it is approved by the Commission. The signatories also acknowledge that non-signatory price cap LECs are not bound by the terms of this plan and that the access rules that will apply to non-signatory price cap LECs will be determined by the Commission. All companies, whether signatories or not, would remain free to advocate whatever changes, if any, are appropriate for the current price cap rules that would apply only to non-signatory price cap LECs. At their option, price cap LECs that are non-signatories to the plan at the time of its submission may choose to become signatories to the plan prior to its implementation following an Commission order. Additionally, if a non-signatory price cap LEC experiences a change of control during the first six months of 2000, that LEC may become a signatory to the proposal before the July 1, 2000 annual filing becomes effective, provided that such LEC incorporates all provisions of the proposal scheduled to be implemented during the first six months of 2000 no later than the July 1, 2000 annual filing effective date.

B. The Glide Path Is Reasonable

As discussed above, the plan continues the current 6.5% annual reduction factor until the target rate is reached. While it is the same factor as the current regime, it is no longer tied to a

---

[78] *See, e.g.,* Final Brief of Intervenor Independent Telephone & Telecommunications Alliances on Behalf of Small and Midsized Carriers, *USTA v. FCC*, D.C. Cir. Case No. 97-1469 (filed Aug. 5, 1998).

specific measure of productivity. Using 6.5% as the annual reduction factor, however, all signatory ILECs will reach the target rates within the life of the plan.

After the target is reached, the annual reduction factor is reduced to the level of the GDP-PI increase so that effectively there is a "freeze" of allowable price caps for the services comprising switched access services.[79] By linking the X-factor to inflation, the Commission assures buyers of a price cap freeze on average nominal switching rates, which in turn means a reduction in real rates, every year during the life of the plan. At the same time, because the plan retains the price cap structure, sellers will continue to be motivated to operate efficiently to "beat" the capped level.

The plan eliminates much of the uncertainty that results from government rate setting. Because participation in the plan is voluntary, parties may (and if the Commission adopts the plan as presented, hereby do) waive any claim, including constitutional claims, arising from the

---

[79] *See,* note 74, *supra*. Because the signatory parties view the changes in the plan as a just, reasonable and fair means of moving usage sensitive interstate access rates to the levels contemplated by the plan, the parties also believe that, if the plan as a whole is adopted, other adjustments, such as changes in the interstate X-factor, changes in interstate access rates for price cap ILECs based on results of present or future Continuing Property Records audits, changes in interstate access rates for price cap ILECs based on changes in the Prescribed Rate of Return, and changes in the rate structure for common line, switched access (i.e., local switching, local switching trunk ports, signaling transfer point port termination, switched direct trunk transport, signaling for switched direct trunk transport, entrance facilities for switched access traffic, tandem switched transport, the residual and service-related transport interconnection charges, information surcharge, and signaling for tandem switching) and all other interstate access not included in common line or switched access, charges by price cap ILECs, are unnecessary. Appendix A at 4.2. The signatory companies also agree, as part of the plan as a whole, not to initiate legal or regulatory action to adjust price cap determined rates for interstate access charges billed for access minutes prior to January 1, 2000, although a payee would not be precluded from accepting any refund the FCC ordered to be made and a payor will not object to or resist such a refund on the basis of this agreement. Appendix A at 4.3.

elimination of a lower formula adjustment, in order to obtain the certainty and reduced regulation associated with the plan.[80]

C. The Plan Accelerates The Reduction In Per Minute Rates

The intent of the plan is to create a negotiated proxy for market rates. One way it accomplishes this goal is to target the annual price reduction to eliminate certain rate elements and then to reduce the per minute access charges.

First, the plan continues the Commission's policy of eliminating the TICs.[81] The TIC recovers non-traffic sensitive costs but was charged on a per minute basis. This anomaly produced uneconomic results and disrupted the efficiency in the access market. The Commission has already concluded that these charges suppress usage and support non-economic bypass, which can increase the costs to end-user customers.[82]

Once the TIC is eliminated, the plan next targets the information surcharge. Some access buyers have argued that the information surcharge is an uneconomic recovery of a non-traffic sensitive cost through a usage charge.[83] Regardless, it is a charge that is only allowed through a waiver of the current rules and its elimination would simplify the access rate structure.

---

80 In its recent press release announcing the adoption of a Pricing Flexibility Order, the Commission announced that it would require price cap LECs to give up the low-end adjustment or lower formula adjustment as a condition of pricing flexibility. *Pricing Flexibility Press Release.*

81 *See*, *Access Charge Reform Order*, 12 FCC Rcd 15982, ¶ 212 (1997).

82 *See*, *id.* at ¶ 213.

83 *See*, AT&T Petition for Revocation of Information Surcharge Waivers, CCB/CPD No. 98-61 (filed October 6, 1998).

Finally, once the TIC and information surcharge are eliminated, as part of the overall plan, annual reductions are targeted to per minute access charges. By lowering variable charges, the reductions will stimulate usage. After the first year, the X-factor reductions associated with special access services are not required to be targeted to reduced switched access charges, but an incumbent LEC may choose to do so. LECs have argued that special access is already subject to significant competition. Without deciding that point, it is clear that special access is subject to more competitive pressure than switched access services generally. As a result, special access prices may better represent a market consensus. To the extent any special access prices were to be set too high, market experience demonstrates that competitors will take advantage of that fact and target customers of these services.

Additional reductions to the per minute access charges are also accomplished by moving 25% of the per minute local switching charges over to an end-user per line charge. Those charges will be incorporated within and subject to the $7.00 and $9.20 SLC caps described in Section II, *supra*. This transfer makes sense for several reasons. First, as competition emerges, it is the end user rather than the IXC that will choose the provider of local switching; in other words, by choosing to access the network using switched access rather than, for example, through xDSL or some form of special access, and by choosing a particular provider of that local switching service, the end-user can be considered, at least in part, the "cost-causer" with respect to switching. Therefore, it is reasonable for the end user, at least in part, to compensate the provider of that service directly.

Second, signatory price cap LECs believe that they should be permitted to structure a portion of local switching recovery on a flat-rate basis when they decide that doing so is consistent with market place needs and does not raise competitive policy concerns. This flexibility would allow them to structure switched access prices more in line with Internet-based services.

Moving these switching costs to an end-user charge will have numerous benefits. It will encourage the growth of local competition, particularly the deployment of facilities-based alternatives to ILEC loops. It will lead to lower long distance bills. Because long distance minutes are substantially more price elastic than subscriber lines, incorporating the cost into the SLC will stimulate growth in the telecommunications market and hasten the introduction of new services. As discussed in Section II, *supra*, the increase in the SLC will not lead to a reduction in subscribership. It will also facilitate the development of flat-rated pricing and other service and marketing innovations.

AT&T and Sprint also believe that the transfer eliminates certain effects of past uniform application of productivity adjustments.[84] AT&T and Sprint believe that during the life of the price cap system, switching has experienced far greater productivity gains than the loop. They believe that the past application of the X-factor has not produced uniform results across all interstate access baskets, and that current interstate local switching rates are not as close to UNE switching rates as current common line rates are to loop and port UNE prices. Therefore, AT&T and Sprint believe that in addition to its cost-causational benefits, this reallocation brings these price ratios closer together and thereby reduces opportunities for arbitrage across all network elements, without requiring the Commission to conduct lengthy, contentious, and resource-intensive cost-disallowance proceedings.

---

[84] Bell Atlantic, BellSouth, GTE, and SBC do not support this analysis.

V. PROCESS AND COMMISSION AUTHORITY

A. Process

As the caption above indicates, the CALLS plan has been filed in the Commission's relevant interstate access charge, universal service and price cap dockets, all "notice and comment" proceedings under the Administrative Procedure Act ("APA"). The Commission has clear authority to adopt this plan in the public interest, after giving interested parties notice and an opportunity to comment.[85]

CALLS urges the Commission to seek comment expeditiously, and to adopt this plan in time for January 2000 implementation. The facts and circumstances surrounding the plan present compelling reasons supporting an expedited comment cycle. The plan's reforms can return immediate benefits to consumers. Competition will be facilitated if these changes are adopted quickly, and completing these proceedings quickly will improve regulatory certainty and increase investment incentives, particularly in residential and rural markets. Delaying implementation until mid to late 2000 would slow competition, miss an opportunity to end the regulatory warfare, and deny consumers the overwhelming gains in consumer welfare this plan would produce.

In seeking comment, the Commission should specifically obtain comment especially with respect to those portions of the plan in which the parties proposed multiple alternatives.[86] The signatories to the CALLS plan will themselves provide additional comment on these points.

---

85 5 U.S.C. § 553. *See also, Bowen v. Georgetown Univ. Hosp.,* 488 U.S. 204, 216 (1988) (Scalia, J., concurring) (finding rulemaking required when agency action prescribes future conduct); 5 U.S.C. § 551(4) (defining rule to include approving or prescribing future rates).

86 The plan proposes alternatives for Commission resolution with respect to the following points: (1) whether, in multistate filing entities, the safeguard against revenues from deaveraged SLC exceeding the revenues that would be permitted for averaged SLC should be applied only at the filing entity level (Alternative 1), or at both the filing entity and study

The Commission need not and should not formally refer the CALLS plan to the Federal-State Joint Board on Universal Service ("Joint Board") before adopting it. While access charge reform and universal service issues are clearly related, the Joint Board itself was specifically aware and has recognized that "it is within the Commission's jurisdiction to determine" whether and how much universal service high cost support is implicit in interstate access charges and "what action the Commission should take to make that support explicit."[87] While the Joint Board requested that the Commission "consult with" it before taking final action in this area, meaningful consultation can occur without the procedural delays associated with a formal referral.

B. Authority

The Commission has authority to, and should, adopt the CALLS plan as a whole based upon a finding that the plan serves the public interest, convenience and necessity. The

---

Continued . . .

area levels (Alternative 2), *see*, Appendix A at 2.1.5.5 and discussion *supra* at note 46; (2) whether, in establishing the minimum deaveraged SLC for the lowest cost SLC zone, the minimum deaveraged SLC should be increased to reflect a portion of revenues assigned to high cost zones but not offset by Interstate Access-related universal service support, *see*, Appendix A at 2.1.5.6.2 and discussion *supra*, at note 48; (3) whether limits on deaveraging through voluntary reductions are necessary, *see*, Appendix A at 2.1.5.6.2 and discussion *supra* at note 48; (4) whether Interstate Access-related universal service support should be distributed according to relative loop and port costs projected by an FCC-approved cost model, or according to relative state-approved UNE loop and port prices within each UNE loop pricing zone, *see*, Appendix A at 2.2.3.1.1 and discussion *supra* at note 66; (5) whether, in establishing the portable per line support amount, the Interstate Access-related USF should be distributed proportionately among all "above SLC-cap" lines, or whether it should be distributed first to the highest cost lines, *see*, Appendix A at 2.2.4.2. and discussion *supra* at notes 68 and 69, *supra*.

87 Federal-State Joint Board on Universal Service, *Second Recommended Decision*, 13 FCC Rcd 24744, 24755 (1998). While the Joint Board requested that the Commission "consult with" it before taking final action in this area, it did not request any formal referral of additional issues. *Id.* No further Joint Board Action is necessary in these circumstances. *See*, *Texas Office of Pub. Util. Counsel*, 1999 U.S. App. LEXIS 17941, at 32-36; *USF Seventh R&O*, at ¶ 42.

Commission may adopt the product of a settlement negotiation based on its own public interest finding that the agreement establishes a useful and reasonable mechanism pending more permanent resolution of the underlying issues.[88] In this case, the permanent resolution is the development of further competition in local telecommunications. The Commission has been upheld in fashioning interim solutions to complex policy issues, giving the Commission time to observe marketplace reaction to its plan and to make subsequent adjustments if necessary.[89] If, in five years, competition has not developed sufficiently in some access markets, the Commission can craft an appropriately tailored solution at that time.

Courts have found that "the best must not become the enemy of the good, as it does when the [Commission] delays making any determination while pursuing the perfect tariff."[90] Rather than leave these critical statutory goals unfulfilled while the Commission engages in a prolonged analysis of these issues followed by an extended period of appellate review, the Commission may adopt this settlement agreement to provide a reasonable interim solution to otherwise formidable regulatory challenges.

---

88 The Commission has often considered and adopted joint industry proposals based on public interest findings. See, e.g., Advanced Television Systems and Their Impact Upon the Existing Television Broadcast Service, *Fourth Report and Order,* 11 FCC Rcd 17771 (1996); Revision of the Commissions Rules to Ensure Compatibility with Enhanced 911 Emergency Calling Systems, *Memorandum Report and Order*, 12 FCC Rcd 22665 (1997). The Commission has been upheld in the context of a rate adjudication adopting a consensus settlement proposal. MCI *Telecommunications Corp. v. FCC,* 712 F.2d 517, 532-33 (D.C. Cir. 1983) ("*ENFIA*").

89 E.g., Texas Office of Pub. Util. Counsel, 1999 U.S. App. LEXIS 17941; Southwestern Bell Tel. Co., 153 F.3d at 550.

90 *ENFIA*, 712 F.2d at 535 (*quoting MCI Telecommunications Corp. v. FCC,* 627 F.2d 322, 340 (D.C. Cir. 1980)).

VI. CONCLUSION

This CALLS plan presents an opportunity. ILECs and IXCs have spent close to twenty years debating how local providers should charge for interstate access and how and how much access-related universal service support should be collected and distributed. Now they have come to an agreement, and have presented this integrated plan to the Commission. Among other things, the plan will safeguard universal service, promote competition, and facilitate innovation and expansion in telecommunications markets.

For these and all of the other foregoing reasons, CALLS strongly encourages the Commission to adopt the plan before the scheduled implementation date of January 2000. The public — and all segments of the telecommunications industry — should be given the opportunity to enjoy the benefits of these reforms as soon as possible.

Respectfully submitted,

By: John T. Nakahata KSM
John T. Nakahata
Evan R. Grayer

HARRIS, WILTSHIRE & GRANNIS LLP
1200 EIGHTEENTH STREET, N.W.
WASHINGTON, D.C. 20036
(202) 730-1300

Attorneys for the Coalition for Affordable Local and Long Distance Service (CALLS)

August 20, 1999

Mark C. Rosenblum
Judy Sello
AT&T CORP.
Room 1135L2
295 North Maple Avenue
Basking Ridge, New Jersey 07920
(908) 221-8984

Gene C. Schaerr
James P. Young
SIDLEY & AUSTIN
1722 Eye Street, N.W.
Washington, DC 20006
(202) 736-8000

COUNSEL FOR AT&T CORP.

Edward Shakin
1320 North Court House Road
Eighth Floor
Arlington, VA 22201
(703) 974-4864

Of counsel:
Edward D. Young, III
Michael E. Glover

COUNSEL FOR THE
BELL ATLANTIC TELEPHONE
COMPANIES

M. Robert Sutherland
Richard M. Sbaratta
BELLSOUTH
Suite 1700
1155 Peachtree Street, N. E.
Atlanta, Georgia 30309-3610
(404) 249-3386

Gary M. Epstein
Richard Cameron
LATHAM & WATKINS
1001 Pennsylvania Avenue, N.W.
Washington, D.C 20554
(202) 637-2200

COUNSEL FOR BELLSOUTH CORP.

Gregory J. Vogt
WILEY, REIN & FIELDING
1776 K Street, N.W.
Washington, D.C. 20006
(202) 719-3240

John F. Raposa
GTE Service Corporation
600 Hidden Ridge, HQE03J27
P.O. Box 152092
Irving, TX 75015-2092
(972) 718-6969

Gail L. Polivy
GTE Service Corporation
1850 M Street, N.W.
Washington, DC 20036
(202) 463-5214

COUNSEL FOR GTE SERVICE CORP.

Alfred G. Richter, Jr.
Roger K. Toppins
Michael J. Zpevak
Thomas A. Pajda
SBC Telecommunications, Inc.
One Bell Plaza, Room 3003
Dallas, Texas 75202
(214) 464-5307

COUNSEL FOR SBC CORP.

Jay C. Keithley
Leon M. Kestenbaum
Peter N. Sywenki
Richard Juhnke
SPRINT CORPORATION
1850 M St., N.W., 11th Floor
Washington, D.C. 20036
(202) 857-1030

COUNSEL FOR SPRINT CORP.