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

In the Matter of	)	
	)	
Access Charge Reform	)	CC Docket No. 96-262
	)	
Price Cap Performance Review for Local Exchange Carriers	)	CC Docket No. 94-1
	)	
Low-Volume Long Distance Users	)	CC Docket No. 99-249
	)	
Federal-State Joint Board on Universal Service	)	CC Docket No. 96-45

COMMENTS OF INTERMEDIA COMMUNICATIONS INC. SUPPORTING FURTHER CONSIDERATION OF ELEMENTS OF THE CALLS PROPOSAL

Intermedia Communications Inc. ("Intermedia"), by its undersigned counsel, respectfully submits its comments on the *Notice of Proposed Rulemaking* issued by the Federal Communications Commission in the above-captioned proceedings in response to a proposal submitted by the Coalition for Affordable Local and Long Distance Services ("CALLS").[1] Intermedia is a facilities-based competitive local exchange carrier ("CLEC") and interexchange carrier ("IXC") that offers a wide array of end-to-end data and voice services to business customers. Intermedia provides a full range of telecommunications services throughout the nation, offering a variety of

[1] *Access Charge Reform, Price Cap Performance for Local Exchange Carriers, Low-Volume Long Distance Users, Federal-State Joint Board on Universal Service*, CC Dockets No. 99-262, 94-1, 99-249, and 96-45, Notice of Proposed Rulemaking (FCC 99-235, released Sept. 15, 1999) ("*Notice*").

advanced telecommunications services, including asynchronous transfer mode ("ATM"), Frame Relay, integrated services digital network ("ISDN"), and Internet access, over its own data network. To date, Intermedia has deployed over 175 data switches and 20 voice switches throughout the country.

I. INTRODUCTION

Intermedia commends CALLS for initiating an important dialog on issues relating to further access charge reform, and believes that CALLS has raised a number of substantial issues that should be included in a comprehensive review of the access charge regime. Intermedia urges the Commission to initiate a proceeding that will consider access reform in a comprehensive way, and urges the Commission to include in such a proceeding several of the CALLS recommendations. Intermedia supports several aspects of the CALLS proposal, and believes that the Commission should be incorporate them into a comprehensive review of the access charge regulatory regime. Specifically, Intermedia supports CALLS' recommendation that the flat-rated charges that currently appear as disparate lines on local and long distance telephone bills be combined into one flat-rated monthly charge. Intermedia also commends CALLS' members for acknowledging *sua sponte* that incumbent local exchange carrier ("ILEC") subscriber line charges should not be deaveraged until those carriers deaverage the prices they charge their competitors for unbundled network elements. Intermedia believes that the Commission should rely upon and continue to refine its own cost model for determining what level of universal service subsidies is necessary to ensure that telephone service will continue to be provided to rural areas; it should not adopt CALLS' proposal that it accept a negotiated agreement fixing those charges for five years. Finally, Intermedia believes that the Commission should carefully consider CALLS' proposals for revising the

Commission's rules governing how "X-factor" reductions are allocated to specific rates, and urges the Commission to do so in the context of a plenary review of the access rules.

II. MOVING PICC CHARGES INTO THE SUBSCRIBER LINE CHARGE WILL CLARIFY LOCAL SERVICE COSTS

In the context of a comprehensive review of the access regulatory regime, Intermedia would support CALLS' proposal to fold residential and single-line business presubscribed interexchange carrier charges ("PICCs") into subscriber line charges ("SLCs") to be paid directly by end users.[2] While PICCs are assessed on providers of interexchange service, in fact, they are passed along to end user customers in their long distance bills. Because consumers are ultimately paying for the PICCs, merging the PICC into the SLC, by itself, would not represent an additional financial burden on them. On the contrary, it would clarify what consumers are buying and simplify their purchasing decisions.

The FCC began phasing in SLCs in 1985 following a decision to realign access charges to reflect underlying costs more accurately. That decision was made in an attempt to establish an economically rational pricing model, in which at least a portion of the non-traffic sensitive ("NTS") costs associated with the ILEC's provision of local service would be recovered through flat-rated charges paid directly by the end user.

The SLCs moved access charges in the right direction but did not fully reflect the extent to which the underlying costs of ILEC access are based on fixed

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[2] *See* Memorandum in Support of the Coalition for Affordable Local and Long Distance Service Plan, filed Aug. 20, 1999 ("CALLS Memorandum") at 9. CALLS has also proposed to reduce multiline business PICCs to no more than $4.00 per month. *See id.* at 11.

investments in equipment, including both end user loops and a portion of switching facilities. When the Commission reformed its access charge rules in 1997, it sought to further reduce per-minute access charges by backing out a larger percentage of the NTS costs that were still recovered on a usage basis. Rather than raise the SLC again, the Commission chose to impose the PICC – a flat-rated charge applied by ILECs to interexchange carriers, who in turn flow through the charges involved to their customers. Both SLCs and PICCs were intended to cover an increasing share of the costs of providing local exchange facilities whose costs do not vary with usage, while making possible further reductions in per-minute access charges. The same effect on consumers' wallets could have been achieved more straightforwardly by simply raising SLC charges. To the extent that ILECs phase out their PICCs and recover an increased share of their NTS costs directly from end users in the form of SLCs, it will result in a more economically rational and easily understandable phone bill for consumers. Intermedia therefore urges the Commission to consider this aspect of the CALLS proposal as a part of a comprehensive review of the access charge rules.

III. ANY DEAVERAGING OF ILEC SUBSCRIBER LINE CHARGES MUST BE TIED TO DEAVERAGING CHARGES FOR UNBUNDLED NETWORK ELEMENTS

Intermedia supports CALLS' position that ILECs should not be permitted to deaverage subscriber line charges ("SLCs") geographically until they geographically deaverage the rates that they charge for unbundled loops.[3] CALLS has refined its recognition of this point by proposing the adoption of a rule stating, "All geographic

[3] *See* CALLS Memorandum at 9.

deaveraging of SLCs by customer class must be done according to unbundled network element ("UNE") zones. If a state has not created geographically deaveraged UNE rates for loops, the incumbent LEC may not deaverage its SLCs in that state."[4]

Section 51.507(f) of the Commission's Rules requires each state commission to establish at least three geographic rate zones for UNEs and interconnection that reflect cost differences; however, the Commission has stayed the effectiveness of that rule until May 2, 2000.[5] Because the Commission was not raising the possibility of SLC deaveraging at the time it adopted Rule 51.507(f), it did not provide for any linkage between SLC pricing zones and UNE pricing zones. The Commission should make clear that ILECs must use the same number and configuration of rate zones for both SLC and UNE deaveraging – zones must not be defined differently for SLCs and UNEs. With this clarification, the CALLS proposal to link UNE and SLC pricing zones is a useful contribution, and Intermedia supports it.

IV. THE COMMISSION SHOULD NOT COMMIT IN ADVANCE TO PROVIDE $650 MILLION PER YEAR IN SUBSIDIES TO THE LARGEST ILECS EVERY YEAR FOR THE NEXT FIVE YEARS

The CALLS proposal would create an explicit universal service support fund amounting to $650 million per year for non-rural ILECs, to replace what it refers to as "implicit support [for service to rural areas] currently embedded in interstate access

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4 CALLS Memorandum, Appendix B at 7, §2.1.5.1.

5 The Commission stayed section 51.507(f) until six months following its release of an order in CC Docket No. 96-45 finalizing and ordering implementation of high-cost universal service support for non-rural ILECs. That order was released on November 2, 1999. *Implementation of the Local Competition Provisions of the Telecommunications Act of 1996, Deaveraged Rate Zones for Unbundled Network* (continued…)

charge rates and rate structures of price cap LECs."[6] In suggesting this number, CALLS relies upon what, at first glance, would seem to be a credible source: calculations performed by one of its members, AT&T, using the Commission's Synthesis Universal Service Cost Model in conjunction with a preliminary Commission estimate of common inputs to that model issued on June 2, 1999.[7]

Even if one were to assume that AT&T's calculations fairly approximate the Synthesis Model's projection of rural service costs, however, there is a major difference between the Synthesis Model and CALLS' proposal. CALLS seeks to lock that estimate in for the full term of a negotiated deal that would last for five years.[8] The Commission, by contrast, has never expressed an intention of freezing its model. On the contrary, it is reasonable to assume that the Commission will continually re-evaluate both the structure of its model and, especially, the industry average input costs that it requires ILECs to use when running the model. Such re-evaluation would be necessary to reflect any reductions in the cost of providing telephone service to rural areas that may be realized from technological innovation or the growth of competition.

Intermedia is naturally concerned about the size of any guaranteed, government-mandated subsidies that will be provided to its competitors. To the extent that ILECs are able to fall back on a guaranteed source of revenues from the Universal

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(…continued)

Elements, Stay Order, CC Docket No. 96-98, 14 FCC Rcd 8300 (1999); *Ninth Report on Universal Service, supra.*

6 CALLS Memorandum at 22.

7 *Id.* at 26.

8 *See id.* at 28.

Service Fund, they will find it less painful to engage in predatory pricing where they face competition. Intermedia is especially troubled that it and other CLEC competitors will be required to contribute to the ILECs' war chests.

Intermedia recognizes that the Commission has invested substantial time and resources in the development of the Synthesis Model. That model should stand the test of time not because the results it produces today will remain forever unchallenged, but because the Commission has produced a model that is open and transparent. Because its mechanisms are known to the public and subject to continuing comment, it can be continually modified to reflect changing technologies, changing markets, and, perhaps, an improved understanding of reality. Accepting the CALLS' proposal would put that model in a museum; Intermedia prefers that it remain in use and be continually improved.

V. THE COMMISSION SHOULD SEEK COMMENT ON REVISIONS TO THE RULES GOVERNING HOW ILEC COST REDUCTIONS ARE ALLOCATED TO SPECIFIC ACCESS SERVICES

The Commission's price caps rules require ILECs to reduce their average prices by a certain percentage every year ("the X-factor") after adjusting for inflation and so-called "exogenous" factors outside the ILECs' control. The CALLS proposal would permit, but not require, ILECs to reassign X-factor reductions that would otherwise be applied to special access services to switched access charges instead.[9] In support of this recommendation, CALLS argues, in effect, that special access charges in many places are already low enough because special access has been subject to more competition than

[9] *Id.* at 39.

switched services.[10] CALLS also recommends that ILECs that elect to adopt its plan be permitted to convert 25 percent of their per-minute local switching charges to flat-rated charges, to be folded into SLC charges, subject to SLC ceilings.[11] The overall effect of these proposals, says CALLS, would be to accelerate the ILECs' reduction of per-minute switched access charges, stimulate demand for long distance services, and enable the ILECs to align their pricing structures closer to the flat-rated prices offered by Internet service providers.

Intermedia believes that these proposals touch on costing methodology and policy issues that deserve careful consideration by the Commission. Intermedia urges the Commission to seek comment on these aspects of the CALLS proposal, and to consider them in the context of a plenary review of the access charge regulatory regime.

VI. CONCLUSION

For all the foregoing reasons, Intermedia urges the Commission to take further action to establish an access charge regime that is more rational for consumers and is fully consistent with the ILEC's obligations to provide cost-based unbundled network elements. To that end, the Commission should incorporate CALLS' proposal to fold PICCs into SLCs, should not include CALLS' request that the Commission lock in the level of universal service support for non-rural ILECs at $650 million per year for five years, and should include CALLS' proposal to prevent ILECs from deaveraging SLC charges until they offer concomitant deaveraging of the rates that they charge competitors

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10 *Id.*

11 *Id.*

for UNEs and interconnection. The Commission should also seek comment on the CALLS proposal to effect changes in the way X-factor cost reductions affect rates for specific access services.

Respectfully submitted,

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