DOCKET FILE COPY ORIGINAL

BEFORE THE
FEDERAL COMMUNICATIONS COMMISSION
WASHINGTON, D.C. 20554

RECEIVED
DEC - 3 1999
FEDERAL COMMUNICATIONS COMMISSION
OFFICE OF THE SECRETARY

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

REPLY COMMENTS
of the
GENERAL SERVICES ADMINISTRATION

GEORGE N. BARCLAY
Associate General Counsel
Personal Property Division

MICHAEL J. ETTNER
Senior Assistant General Counsel
Personal Property Division

GENERAL SERVICES ADMINISTRATION
1800 F Street, N.W., Room 4002
Washington, D.C. 20405
(202) 501–1156

Economic Consultants:

Snavely King Majoros O'Connor & Lee, Inc.
1220 L Street, N.W., Suite 410
Washington, D.C. 20005

December 3, 1999

No. of Copies rec'd 0+10
List ABCDE

Table of Contents

Page No.

Summary i

I. INTRODUCTION 1

II. CONTRARY TO CLAIMS BY SEVERAL PARTIES, RULES FOR INTERSTATE ACCESS CHARGES AND UNIVERSAL SERVICE FUNDING SHOULD BE UNIFORM FOR ALL CARRIERS UNDER PRICE CAP REGULATION 3

III. CONSUMERS AND COMPETITIVE LECs EXPLAIN THAT THE COMMISSION SHOULD NOT ADOPT THE CALLS PROPOSAL AS IT STANDS 5

A. End users describe changes that are necessary to ensure that access costs are recovered equitably 5

B. State regulators and public advocates also list modifications necessary to balance ratepayers' interests. 7

C. Carriers describe revisions that will provide more opportunities for competition to develop 9

IV. SINCE COMMENTERS JUSTIFY REVISIONS IN MANY FACETS OF THE PLAN, THE COMMISSION SHOULD REJECT THE SETTLEMENT AND ADDRESS THE ISSUES IN OTHER PROCEEDINGS. 11

V. CONCLUSION 12

Summary

In these Reply Comments, GSA responds to requests that the Commission adopt a proposal by the Coalition for Affordable Local and Long Distance Services ("CALLS") to allow local exchange carriers ("LECs") under price caps to elect regulation under a different set of rules concerning interstate access charges and universal service fund ("USF") contributions.

GSA urges the Commission not to accept recommendations that the plan be adopted without modification as a compromise and a "voluntary option" for LECs. At the outset, GSA explains that the Commission should employ the same structure of interstate access charges and universal service funding requirements for all LECs under price cap regulation.

Nearly all parties submitting comments point approvingly to some provisions of the plan that would help to build the foundation for a competitive marketplace. Nevertheless, the great majority of parties explain that some modifications are required to foster competition and provide safeguards for end users. For example, end users describe changes that are necessary to ensure that the costs of access facilities are recovered equitably. Also, most state regulators and public advocates list modifications to balance the interests of ratepayers. Furthermore, competitive LECs describe revisions that are required to ensure more opportunities for competition to develop.

In the instant proceeding, it is not practical to shape the changes necessary to address the many concerns expressed by end users and carriers. Thus, GSA concurs with parties who explain that faced with a choice between acceptance or rejection of the CALLS proposal as a whole, the Commission should reject the proposal and continue to focus on issues concerning access charge reform, price cap regulation and recovery of USF contributions in other proceedings without the constraints inherent in the evaluation of a package of regulatory proposals.

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

REPLY COMMENTS
of the
GENERAL SERVICES ADMINISTRATION

The General Services Administration ("GSA") submits these Reply Comments on behalf of the customer interests of all Federal Executive Agencies ("FEAs") in response to the Commission's Notice of Proposed Rulemaking ("Notice") released on September 15, 1999. The Notice seeks comments and replies on a proposal by the Coalition for Affordable Local and Long Distance Services ("CALLS") that the Commission adopt a new set of rules concerning interstate access charges and universal service fund ("USF") contributions. CALLS proposes that local exchange carriers ("LECs") under price cap regulation could elect to be under this new regulatory framework instead of the existing rules.

I. INTRODUCTION

On July 29, 1999, CALLS submitted a proposal for changes in regulatory procedures for price cap carriers to be implemented over a five-year period starting in

January 2000.[1] The members of the coalition proposed the plan as "a comprehensive solution to the carriers' access charge, universal service and price cap concerns."[2]

The CALLS plan addresses many facets of the Commission's policies concerning access charges and USF contributions. Specifically, CALLS recommends that the Commission take steps to:

- modify the current system of common line charges by combining carrier and subscriber line charges into a single flat–rated subscriber line charge ("SLC") for several types of lines;
- authorize incumbent LECs to increase SLCs over the next four years;
- establish a "social compact" under which traffic–sensitive switched access rates will decline by approximately 50 percent and then be frozen at the reduced levels until July 2004;
- establish a $650 million a year Federal Universal Service Fund ("USF") that will purportedly eliminate subsidies implicit in the existing system of interstate access charges; and
- permit limited geographical deaveraging of access charges under specified conditions.[3]

CALLS proposes that price cap LECs electing to participate in the plan would be subject to all of its conditions. The Commission's surveillance of carriers not choosing to participate would continue under the existing procedures unless modified by subsequent orders.[4]

On November 12, 1999, GSA submitted Comments addressing the CALLS proposal. In its Comments, GSA stated that the plan has potential benefits for end users, including potential reductions in interstate message toll rates. However, GSA

---

1 Notice, para. 1.

2 *Id.*

3 *Id.*, para. 2 and Appendix C.

4 *Id.*, paras. 1–2.

urged the Commission not to adopt the proposal as an "elective" regulatory framework that would apply to one set of carriers while other carriers were subject to different rules. Also, GSA explained that it is vital to modify several provisions of the plan in order to foster competition among all carriers.

More than 30 other parties submitted comments in response to the Notice. These parties include:

- 5 incumbent LECs and organizations of these carriers;
- 15 competitive LECs, other carriers and carrier associations;
- 3 end user groups; and
- 9 state regulatory agencies.

In these Reply Comments, GSA responds to the positions advanced by these parties.

II. CONTRARY TO CLAIMS BY SEVERAL PARTIES, RULES FOR INTERSTATE ACCESS CHARGES AND UNIVERSAL SERVICE FUNDING SHOULD BE UNIFORM FOR ALL CARRIERS UNDER PRICE CAP REGULATION.

The CALLS membership includes AT&T Communications, Bell Atlantic, BellSouth, GTE, SBC Communications ("SBC") and Sprint.[5] These carriers account for a major portion of interstate and local revenues, but several large IXCs, scores of smaller IXCs, and several LECs under price cap regulation are not joining in the proposal.

In addition to the CALLS members, the United States Telecom Association ("USTA") submitted comments asking the Commission to adopt the plan with no modifications.[6] USTA states that the proposal is a "package" of conditions which taken

---

5 *Id.*, Appendix C, p. 1.

6 Comments of USTA, p. 3.

individually might not be acceptable as Commission policy.[7] Nevertheless, USTA urges the Commission to adopt the package as a compromise and a "voluntary option" for LECs."[8]

GSA disagrees with these recommendations. GSA explained in its Comments that the Commission should employ the same structure of interstate access charges and universal service funding requirements for all LECs under price caps.[9] Also, GSA stated that the Commission should require LECs to offer access to all IXCs under the same rates, terms and conditions.[10]

The Association for Local Telecommunications Service ("ALTS") also explains that the plan should be revised. ALTS states:

> Given the amount of effort that the Commission and dozens of other participants have invested in an effort to develop an open, transparent model for determining the appropriate level of forward–looking cost support required by non–rural incumbent LECs, and especially given that the Commission appears to be approaching the end of that process, it would represent a perversion of administrative processes to accept instead a negotiated settlement among a handful of parties.[11]

GSA concurs with ALTS that the Commission should not adopt a settlement that would apply only on a "voluntary basis" — possibly to only a few firms that are among the largest in the industry — when so many parties identify changes that are vital to foster competition benefiting all consumers.

---

7 *Id.*

8 *Id.*, p. 2.

9 Comments of GSA, pp. 5–6.

10 *Id.*

11 Comments of ALTS, pp. 4–5 (footnote omitted.)

III. CONSUMERS AND COMPETITIVE LECs EXPLAIN THAT THE COMMISSION SHOULD NOT ADOPT THE CALLS PROPOSAL AS IT STANDS.

A. End users describe changes that are necessary to ensure that access costs are recovered equitably.

Each of the CALLS members submitted comments asking the Commission to adopt the regulatory plan as it stands. For example, AT&T states that in one fell swoop, it is possible to address many of the most pressing and contentious matters now facing the Commission in the areas of access reform and universal service.[12] Cincinnati Bell Telephone Co. ("CBT"), one of the few additional parties with completely favorable comments, states that it supports adoption of the proposal filed by CALLS, but "this support is contingent upon the adoption of the proposal in its entirety."[13] In contrast, the great majority of comments — from end users, state regulators, and competitive carriers — detail problems with the plan and describe modifications that are necessary.

In its Comments, GSA described modifications that are vital to balance the impacts of the plan on different groups of end users. For example, GSA recommended revisions in the provisions concerning recovery of common line revenue requirements through Presubscribed Interexchange Carrier Charges ("PICCs").[14] The CALLS plan combines subscriber line charges ("SLCs") and PICCs for all types of access facilities except business multi–lines.[15] GSA urged the Commission to adopt a plan that also combines SLCs and PICCs for business multi–lines so that the non–traffic sensitive

---

12 Comments of AT&T, p. 2.

13 Comments of CBT, p. 1.

14 Comments of GSA, p. 7–12.

15 Notice, Appendix C.

revenue requirements for all types of access facilities are billed directly to end users.[16]

The American Petroleum Institute ("API") also addresses the need to change provisions concerning the PICCs. In comments listing modifications necessary to protect the interests of end users, API states:

> The recovery of the PICC by the interexchange carriers, through divergent approaches, has engendered unnecessary debate and controversy between end users and carriers.[17]

To address the problem, API recommends that the business multi–line PICC be recovered from end users on a per–line basis.[18] GSA concurs with API's views on this point. In recent Comments, GSA reported that many Federal agencies are encountering problems with billings of PICCs, including errors in charges and "double–billing" of PICCs for the same line by multiple carriers.[19] API's comments on the issue reinforce GSA's observations that even business users experienced in using the services of many telecommunications carriers have difficulties with invoices for PICCs under the present billing rules.[20]

The Ad Hoc Telecommunications Users Committee ("Ad Hoc") also provided comments addressing the need for modifications in the CALLS plan. Ad Hoc states that it generally supports the CALLS proposal, but it should not be adopted without change.[21] Specifically, the committee explains that it is important to eliminate the provision allowing incumbent carriers to recover cost changes as exogenous

---

16 Comments of GSA, p. 7–9.

17 Comments of API, p. 4.

18 *Id.*

19 *In the Matter of Low Volume Long Distance Users*, CC Docket No. 99–249, Comments of GSA, September 22, 1999, p. 6.

20 *Id.*

21 Comments of Ad Hoc, pp. 1–2.

adjustments in the price cap procedure when they have themselves overtly endorsed the actions that produced the cost changes.[22] As an example, Ad Hoc cites legislation supported by incumbent carriers that would have absolved price cap carriers from regulation under the Uniform System of Accounts and permitted increases in access charges totaling as much as $1.5 billion per year.[23]

In addition, Ad Hoc states that it is important to change the provision of the CALLS plan giving incumbent LECs the flexibility to recover USF contributions either through per–line charges or as a percentage of revenues.[24] The committee states that contributions to foster universal service should be assessed only on a per–line basis.[25] Ad Hoc's concerns in making this recommendation are exactly the same as those expressed in GSA's Comments.[26] In making the same recommendation, GSA explained that allowing LECs to recover USF contributions on the basis of revenues — or indeed any basis other than lines — would reverse the gains of access charge reform and not significantly benefit low income callers.[27]

B. State regulators and public advocates also list modifications necessary to balance ratepayers' interests.

Nearly all of the filings by state regulatory agencies and public advocates detail changes in the plan that are vital to protect end users. For example, the Public Utilities Commission of Ohio ("PUCO") describes problems with provisions relating to access charges and to the USF.

---

22 *Id.*, pp. 3–7.

23 *Id.*, p. 4.

24 *Id.*, p. 9.

25 *Id.*

26 Comments of GSA, pp. 11–12.

27 *Id.*

With respect to access charges, PUCO states that the Commission should focus on ensuring that "pass through" charges such as the PICCs accurately reflect their underlying costs.[28] With respect to USF, PUCO has numerous concerns, including the fact that the plan:

- does not include documentation supporting the need for a $650 million additional universal service fund;
- fails to explain what services the proposed fund is intended to support;
- does not specify the structure or impacts of the charges used to support the new fund; and
- does not specify assumptions regarding continuation of the present high–cost and low–income support programs.[29]

GSA concurs with PUCO that these omissions amount to providing a "blank checkbook" to carriers who sign on to the plan.[30]

The Texas Public Counsel and its affiliated groups point to additional deficiencies with the plan.[31] Their comments emphasize that consumers are not likely to realize the benefits of cuts in access charges, because there are no requirements for IXCs under the plan to pass through access charge savings.[32] Indeed, the plan is likely to result in increases in costs faced by end users for at least two reasons. First, the Texas Public Counsel explains that although the plan requires that the switching

---

28 Comments of PUCO, p. 2.

29 *Id.*, p. 3.

30 *Id.*

31 Comments of Texas Office of Public Utility Counsel, Consumer Federation of America, and Consumers Union ("Texas Public Counsel").

32 *Id.*, p. v.

charges paid by IXCs be set at forward–looking costs, it permits charges for access facilities paid by end users to reflect embedded cost methodologies.[33]

Second, the Texas Public Counsel points out that the plan limits the role of the productivity factor, sometimes called the "X Factor," in holding down the costs of services to consumers. The CALLS plan would eliminate the Carrier Common Line Charge ("CCLC") by accounting for productivity changes in the telecommunications industry during the next few years.[34] However as soon as the CCLC has been eliminated, the role of the productivity factor would be eliminated. Indeed, without further Commission action, no reductions in access charges would accrue from increasing productivity in the industry, and LECs would be permitted to automatically raise their rates to reflect inflation without adjustments or offsets.[35]

C. Carriers describe revisions that will provide more opportunities for competition to develop.

Carriers also explain that the Commission should not adopt the CALLS plan as it stands. The Competitive Telephone Association ("CTA") states that the Commission should adopt, modify, or reject portions of the proposal as necessary to promote the public interest without bending to the preferences of CALLS members that the plan be adopted or rejected in its entirety.[36] CTA specifically objects to the provision that regulation under the terms of the plan be voluntary.[37] CTA also objects to the absence of any evidence that the new $650 million USF would actually be targeted at

---

33 *Id.*, p. vi.

34 *Id.*, p. iv.

35 *Id.*

36 Comments of CTA, p. 7.

37 *Id.*, pp. 8–13.

improving the opportunities for more subscribers to have access to basic or advanced telecommunications services.[38]

Addressing a similar point, the Association for Local Telecommunications Services ("ALTS") explains that the designation of an additional USF increases the potential for discriminatory pricing, whatever the merits of the program.[39] As local service competitors, ALTS' members are concerned by the prospect of incumbent LECs setting prices far below costs whenever they are exposed to competition because they can make up any "losses" through USF revenues.[40] Indeed, the explicit subsidies reflected in the CALLS proposal could provide incumbent LECs with a guaranteed stream of revenues that is immune to competition.[41]

A new carrier, Level 3 Communications ("Level 3"), states that the CALLS proposal is an exercise in "cost shifting" that falls short in eliminating either implicit subsidies or the excess profits of incumbent carriers.[42] Specifically, Level 3 addresses disparities in access charges for different types of subscriber lines. Level 3 notes that the CALLS plan increases the cap on the business single line SLC to $7.00 monthly by July 2003 and raises the cap on the business multi–line SLC to $9.20 by January 2000. The CALLS plan includes these increases in spite of the fact that the national average interstate portion of loop costs recovered through the SLC is only $5.20.[43]

Level 3's observations regarding disparities in SLCs mirror those made by GSA regarding PICCs, the other component of monthly access charges. PICCs also vary

---

38 *Id.*, pp. 14–15.

39 Comments of ALTS, p. 3.

40 *Id.*, pp. 3–4.

41 *Id.*, p. 4.

42 Comments of Level 3 Communications, p. 12.

43 *Id.*

significantly among different types of lines. In its Comments, GSA explained that while the CALLS plan would effect a reduction in the business multi-line PICC — an eight percent decrease of only 31 cents per month — the cap for business multi–lines would still be far above that for residence and single business lines with no cost difference whatsoever.[44]

IV. SINCE COMMENTERS JUSTIFY REVISIONS IN MANY FACETS OF THE PLAN, THE COMMISSION SHOULD REJECT THE SETTLEMENT AND ADDRESS THE ISSUES IN OTHER PROCEEDINGS.

The CALLS members state that their plan should be adopted as it stands, but nearly all other parties point to changes that are vital to foster competition and provide safeguards for end users. On balance, the evidence supports the need for changes in the plan.

The Telecommunications Resellers Association ("TRA") states:

> Thus, if the choice is acceptance of the CALLS proposal as a whole or not at all, TRA reluctantly urges the Commission to reject it as contrary to the public interest.[45]

GSA concurs with this view because the arguments presented in many comments demonstrate that it is not appropriate to adopt the plan as offered and not practical to make the modifications in this proceeding to address the many concerns expressed by end users and carriers.

As several parties explain, other open proceedings encompass the issues addressed in the CALLS proposal.[46] In these individual proceedings, the Commission can focus on issues concerning access charge reform, price cap regulation of LECs,

---

44 Comments of GSA, pp. 10–11.

45 Comments of TRA, p. 2.

46 For example, Comments of the New Jersey Division of Ratepayer Advocate, p. 3.

and recovery of USF contributions without the constraints inherent in the evaluation of a pre–set package of regulatory proposals.

V. CONCLUSION

As a major user of telecommunications services, GSA urges the Commission to implement the recommendations set forth in these Reply Comments.

Respectfully submitted,

GEORGE N. BARCLAY
Associate General Counsel
Personal Property Division

Michael J. Ettner

MICHAEL J. ETTNER
Senior Assistant General Counsel
Personal Property Division

GENERAL SERVICES ADMINISTRATION
1800 F Street, N.W., Rm. 4002
Washington, D.C. 20405
(202) 501–1156

December 3, 1999

CERTIFICATE OF SERVICE

I, MICHAEL J. ETTNER, do hereby certify that copies of the foregoing "Comments of the General Services Administration" were served this 3rd day of December, 1999, by hand delivery or postage paid to the following parties.

The Honorable William E. Kennard,
Chairman
Federal Communications Commission
445 12th Street, S.W.
Washington, DC 20554

The Honorable Harold Furchtgott–Roth,
Commissioner
Federal Communications Commission
445 12th Street, S.W.
Washington, DC 20554

The Honorable Susan Ness,
Commissioner
Federal Communications Commission
445 12th Street, S.W.
Washington, DC 20554

The Honorable Gloria Tristani
Commissioner
Federal Communications Commission
445 12th Street, S.W.
Washington, D.C 20554

The Honorable Michael K. Powell
Commissioner
Federal Communications Commission
445 12th Street, S.W.
Washington, D.C 20554

Ms. Magalie Roman Salas
Secretary
Federal Communications Commission
445 12th Street, S.W. Counter TWA325
Washington, D.C. 20554

International Transcription Service
1231 20th Street, N.W.
Washington, D.C. 20036

Ms. Wanda Harris
Competitive Pricing Division.
Common Carrier Bureau
Federal Communications Commission
445 12th Street, S.W
Washington, DC 20554

Editorial Offices
Telecommunications Reports
Communications Daily
1333 H Street, N.W., Room 100–E
Washington, D.C. 20005

Ms. Edith Herman
Senior Editor
Communications Daily
2115 Ward Court, N.W.
Washington, D.C. 20037

Michael J. Ettner