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§ 61.3 Definitions.

(a) ***Act***. The Communications Act of 1934 (48 Stat. 1004; 47 U.S.C. chapter 5), as amended.

(b) ***Actual Price Index (API)***. An index of the level of aggregate rate element rates in a basket, which index is calculated pursunt to § 61.46.

(c) ***Association***. This term has the meaning given it in § 69.2(d).

(d) ***Average Price Cap CMT Revenue per Line Month.*** Price Cap CMT Revenue per Month as of July 1,2000 (adjusted to remove Universal Service Contributions assessed to Local Exchange Carriers pursuant to 54.702) using 1999 base period demand, divided by the base period demand number of lines as of July 1, 2000. In filing entities with multiple study areas, if it becomes necessary to calculate the Price Cap CMT Revenue Per Line for a specific study area, then the Price Cap CMT Revenue Per Line for that study area is determined as follows, using base period demand revenues (adjusted to remove Universal Service Contributions assessed to Local Exchange Carriers pursuant to 54.702), Base Factor Portion (BFP) and 1999 base period lines as of July 1, 2000 :

$$PriceCapCMTRevenuePerLine_{StudyArea} =$$

$$PriceCapCMTRevenue_{FilingEntity} \times (BFP_{StudyArea} \div BFP_{FilingEntity}) \div Lines_{StudyArea}$$

Nothing in this definition precludes a price cap local exchange carrier from continuing to average rates across filing entities containing multiple study areas, where permitted under existing rules.

Average Price Cap CMT Revenues Per Line may be adjusted after July 1, 2000 to reflect exogenous costs pursuant to 61.45(d).

Average Price Cap CMT Revenues Per Line may also be adjusted pursuant to 61.45 (b)(1)(iii).

(e) ***Average Traffic Sensitive Charge. The Average Traffic Sensitive Charge is the sum of the following two components***

1. The Local Switching component will be calculated by dividing the proposed Local Switching revenues (Local Switching, LS trunk ports, Information Surchage, and STP Port) by the base period Local Switching MOUs.

2. The Transport component will be calculated by dividing the proposed Transport revenues (Switched Direct Trunk Transport, Signaling for Switched Direct Trunk Transport, Entrance Facilities for Switched Access traffic, Tandem Switched Transport, Signaling for Tandem Switching and TIC) by ILEC only base period Transport Minutes of Use (MOUs) (including meet-point billing arrangements for jointly-provided interstate access by an incumbent LEC

and any other LEC).

For the purposes of determining whether the average traffic sensitive charge has reached the target rate, the calculations should include all the relevant revenues and minutes for services provided under generally available tariffs and services provided under contract tariffs. If in the future an access customer can use UNEs (defined as network elements required to be unbundled pursuant to Part 51) in lieu of switched access service for service other than to its local service end user, the revenues and demand for UNEs used to provide switched access services would be included in the calculation of the ATS rate. To the extent that UNEs are used to provide interstate access for CLEC end users for whom the CLEC is not also providing local service, the ILEC will measure such traffic or obtain from the CLEC a CLEC self-report of that demand and associated revenues.

(fd) ***Band***. A zone of pricing flexibility for a service category, which zone is calculated pursuant to § 61.47.

(ge) ***Base period***. For carriers subject to §§ 61.41-61.49, the 12-month period ending six months prior to the effective date of annual price cap tariffs. Base year or base period earnings shall exclude amounts associated with exogenous adjustments to the PCI for the lower formula adjustment mechanism permitted by § 61.45(d)(1)(vii).

(hf) ***Basket.*** Any class or category of tariffed service or charge:

(1) Which is established by the Commission pursuant to price cap regulation;

(2) The rates of which are reflected in an Actual Price Index; and

(3) The related revenues of which are reflected in a Price Cap Index.

(ig) ***Change in rate structure***. A restructuring or other alternation of the rate components for an existing service.

(hj) ***Charges.*** The price for service based on tariffed rates.

(ik) ***Commercial contractor***. The commercial firm to whom the Commission annually awards a contract to make copies of Commission records for sale to the public.

(jl) ***Commission***. The Federal Communications Commission.

(mk) ***Concurring carrier***. A carrier (other than a connecting carrier) subject to the Act which concurs in and assents to schedules of rates and regulations filed on its behalf an issuing carrier or carriers.

(nl) ***Connecting carrier***. A carrier engaged in interstate or foreign communication solely through physical connection with the facilities of another carrier not directly or indirectly controlling or controlled by, or under direct or indirect common control with, such carrier.

(o~~m~~) ***Contract-based tariff***. A tariff based on a service contract entered into between a non-dominant carrier and a customer, or between a customer and a price cap local exchange carrier which has obtained permission to offer contract-based tariff services pursuant to Part 69, Subpart H, of this chapter.

(p~~n~~) ***Corrections***. The remedy of errors in typing, spelling, or punctuations.

(q~~o~~) ***Dominant carrier***. A carrier found by the Commission to have market power (i.e., power to control prices).

(r~~p~~) ***GDP Price Index (GDP-PI).*** The estimate of the "Fixed Weight Price Index for Gross Domestic Product, 1987 Weights" published by the United States Department of Commerce, which the Commission designates by Order.

(s~~q~~) ***GNP Price Index (GNP-PI)***. The estimate of the "Fixed-Weighted Price Index for Gross National Product, 1982 Weights" published by the United States Department of Commerce, which the Commission designates by Order.

(r~~t~~) ***Issuing carrier***. A carrier subject to the Act that publishes and files a tariff or tariffs with the Commission.

(u) ***Line Month.*** Line demand per month multiplied by twelve.

(s~~v~~) ***Local Exchange Carrier***. Any person that is engaged in the provision of telephone exchange service or exchange access as defined in section 3(26) of the Act.

(w~~t~~) ***New service offering.*** A tariff filing that provides for a class or sub-class of service not previously offered by the carrier involved and that enlarges the range of service options available to ratepayers.

(x~~u~~) ***Non-dominant carrier***. A carrier not found to be dominant.

(y~~v~~) ***Other participating carrier***. A carrier subject to the Act that publishes a tariff containing rates and regulations applicable to the portion or through service it furnishes in conjunction with another subject carrier.

(z) ***Local Switching Pooled Revenue***, for certain qualified companies, is the amount of additional Local Switching reductions in the July 2000 Annual filing allowed to be moved and recovered in the Common Line Basket as outlined in Section 61.48 (m).

(aa) ***Price Cap CMT Revenue.*** The maximum total revenue a filing entity would be permitted to receive from End User Common Line charges, Presubscribed Interexchange Carrier charges (PICCs), Carrier Common Line charges (including Marketing). Price Cap CMT Revenue also

includes residual interconnection charge revenues collected through PICC charges, but it does not include the local exchange carrier universal service contributions as of July 1, 2000. The Price Cap CMT revenue does not include the Local Switching Pooled revenue outlined in 61.3 (z), above.

(bb~~w~~) ***Price Cap Index (PCI).*** An index of prices applying to each basket of services of each carrier subject to price cap regulation, and calculated pursuant to § 61.45.

(cc~~x~~) ***Price cap regulat***ion. A method of regulation of dominant carriers provided in §§ 61.41 through 61.49.

(dd~~y~~) ***Price cap tariff filing***. Any tariff filing involving a service subject to price cap regulation, or that requires calculations pursuant to §§ 61.45, 61.46, or 61.47.

(ee~~z~~) ***Productivity factor***. An adjustment factor used to make annual adjustments to the Price Cap Index to reflect the margin by which a carrier subject to price cap regulation is expected to improve its productivity relative to the economy as a whole.

(ff~~aa~~) Rate. The tariffed price per unit of service.

(gg~~bb~~) ***Rate inc***rease. Any change in a tariff which results in an increased rate or charge to any of the filing carrier's customers.

(hh~~cc~~) ***Rate level change***. A tariff change that only affects the actual rate associated with a rate element, and does not affect any tariff regulations or any other wording of tariff language.

(ii~~dd~~) ***Regulations***. The body of carrier prescribed rules in a tariff governing the offering of service in that tariff, including rules, practices, classifications, and definitions.

(jj~~ee~~) ***Restructured serv***ice. An offering which represents the modification of a method of charging or provisioning a service; or the introduction of a new method of charging or provisioning that does not result in a net increase in options available to customers.

(kk~~ff~~) ***Service Band Index (SBI).*** An index of the level of aggregate rate element rates in a service category, which index is calculated pursuant to § 61.47.

(ll~~gg~~) ***Service category***. Any group of rate elements subject to price cap regulation, which group is subject to a band.

(mm~~hh~~) ***Supplement***. A publication filed as part of a tariff for the purpose of suspending or cancelling that tariff, or tariff publication and numbered independently from the tariff page series.

(nn) Target Rate. $0.0055 for former Bell Operating Companies and GTE. $0.0065 for other price cap local exchange carriers.

(oo~~ii~~) *Tariff.* Schedules of rates and regulations filed by common carriers.

(pp~~jj~~) *Tariff publication, or publication.* A tariff, supplement, revised page, additional page, concurrence, notice of revocation, adoption notice, or any other schedule of rates or regulations filed by common carriers.

(qq~~kk~~) *Tariff year.* The period from the day in a calendar year on which a carrier's annual access tariff filing is scheduled to become effective through the preceding day of the subsequent calendar year.

(rr~~ll~~) *Text change.* A change in the text of a tariff which does not result in a change in any rate or regulation.

(ss~~mm~~) *United States.* The several States and Territories, the District of Columbia, and the possessions of the United States.

(tt~~nn~~) *Corridor service.* "Corridor service" refers to interLATA services offered in the "limited corridors" established by the District Court in United States v. Western Electric Co., Inc., 569 F. Supp. 1057, 1107 (D.D.C. 1983).

(uu~~oo~~) *Toll dialing parity.* "Toll dialing parity" exists when there is dialing parity, as defined in § 51.5 of this chapter, for toll services.

(vv~~pp~~) *Loop-based services.* Loop-based services are services that employ Subcategory 1.3 facilities, as defined in § 36.154 of this chapter.

(ww) ***Zone Average Revenue per Line.*** The Price Cap CMT Revenue per Line allocated to a particular state-defined zone used for deaveraging of UNE loop prices. The Zone Average Revenue per Line is computed according to the following formula:

$$\text{Zone Average Revenue per Line} = (25\% * (\text{Loop}_{\text{Zone Price}} + \text{Port}_{\text{Price}}) + U$$

Where:

U (Uniform Revenue per Line Adjustment) =

$$(\text{Price Cap CMT Revenue per line}_{\text{Study Area}} \times \text{Base Period Lines}_{\text{study area}}) - (25\% \times ((\text{sum of Lines}_{\text{UNE Zone}} \times (\text{Loop}_{\text{zone price}} + \text{Port}_{\text{Price}})_{\text{UNE Zone}} \times 12) \text{ for all zones})) \div \text{Base Period Lines}_{\text{Study Area(s)}} \div 12 \text{ where:}$$

$(\text{Loop}_{\text{zone price}})_{\text{UNE Zone}}$ = the UNE rates for unbundled loop

$(\text{Port}_{\text{Price}})_{\text{UNE Zone}}$ = price for switch ports in that UNE zone.

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§ 61.41 Price cap requirements generally.

(a) Sections 61.42 through 61.49 shall apply as follows:

(1) [Reserved]

(2) To such local exchange carriers as specified by Commission order, and to all local exchange carriers, other than average schedule companies, that are affiliated with such carriers; and

(3) On an elective basis, to local exchange carriers, other than those specified in paragraph (a)(2) of this section, that are neither participants in any Association tariff, nor affiliated with any such participants, except that affiliation with average schedule companies shall not bar a carrier from electing price cap regulation provided the carrier is otherwise eligible.

(b) If a telephone company, or any one of a group of affiliated telephone companies, files a price cap tariff in one study area, that telephone company and its affiliates, except its average schedule affiliates, must file price cap tariffs in all their study areas.

(c) The following rules apply to telephone companies subject to price cap regulation, as that term is defined in § 61.3(~~w~~cc), which are involved in mergers, acquisitions, or similar transactions.

(1) Any telephone company subject to price cap regulation that is a party to a merger, acquisition, or similar transaction shall continue to be subject to price cap regulation notwithstanding such transaction.

(2) Where a telephone company subject to price cap regulation acquires, is acquired by, merges with, or otherwise becomes affiliated with a telephone company that is not subject to price cap regulation, the latter telephone company shall become subject to price cap regulation no later than one year following the effective date of such merger, acquisition, or similar transaction and shall accordingly file price cap tariffs to be effective no later than that date in accordance with the applicable provisions of this part 61.

(3) Notwithstanding the provisions of § 61.41(c)(2) above, when a telephone company subject to price cap regulation acquires, is acquired by, merges with, or otherwise becomes affiliated with a telephone company that qualifies as an 'average schedule' company, the latter company may retain its 'average schedule' status or become subject to price cap regulation in accordance with § 69.3(i)(3) and the requirements referenced in that section.

(d) Local exchange carriers that become subject to price cap regulation as that term is defined in § 61.3(cc~~w~~) of this chapter shall not be eligible to withdraw from such regulation.

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§ 61.42 Price cap baskets and service categories.

(a)-(c) [Reserved]

(d) Each local exchange carrier subject to price cap regulation shall establish baskets of services as follows:

(1) A basket for the common line interstate access elements as described in §§ 69.115, 69.152, 69.154, and 69.157 of this chapter, and that portion of the interstate access element described in § 69.153 of this chapter that recovers common line interstate access revenues. For purposes of §§ 61.41 through 61.49 of this chapter, this basket shall be referred to as the "common line basket."

(2) A basket for traffic sensitive switched interstate access elements. For purposes of §§ 61.41 through 61.49 of this chapter, this basket shall be referred to as the "traffic-sensitive basket."

(3) A basket for trunking services as described in §§ 69.110, 69.111, 69.112, ~~69.114~~, 69.124, 69.125(b), 69.128 and 69.155 of this chapter, and that portion of the interstate access element described in § 69.153 of this chapter that recovers residual interconnection charge revenues. For purposes of §§ 61.41 through 61.49 of this chapter, this basket shall be referred to as the "trunking basket."

(4)(i) To the extent that a local exchange carrier specified in § 61.41(a) (2) or (3) offers interstate interexchange services that are not classified as access services for the purpose of part 69 of this chapter, such exchange carrier shall establish a fourth basket for such services. For purposes of §§ 61.41 through 61.49 of this chapter, this basket shall be referred to as the "interexchange basket."

(ii) If a price cap carrier has implemented interLATA and intraLATA toll dialing parity everywhere it provides local exchange services at the holding company level, that price cap carrier may file a tariff revision to remove corridor and interstate intraLATA toll services from its interexchange basket.

(5) ~~To the extent that a local exchange carrier specified in §§ 61.41(a) (2) or (3) offers interstate video dialtone services, a basket for basic video dialtone services as described in § 63.54 of this chapter~~ A basket for Special Access services as described in §§69.114, 69.126 of this chapter.

~~(6) A basket for the marketing expenses described in § 69.156 of this chapter, including those recovered through End User Common Line charges and Presubscribed Interexchange Carrier charges. For purposes of §§ 61.41 through 61.49 of this chapter, this basket shall be referred to as the "marketing expense~~

~~basket."~~

(e)(1) The traffic sensitive switched interstate access basket shall contain such services as the Commission shall permit or require, including the following service categories:

(i) Local switching as described in § 69.106(f) of this chapter;

(ii) Information, as described in § 69.109 of this chapter;

(iii) Data base access services;

(iv) Billing name and address, as described in § 69.128 of this chapter;

(v) Local switching trunk ports, as described in § 69.106(f)(1) of this chapter; and

(vi) Signalling transfer point port termination, as described in § 69.125(c) of this chapter.

(2) The trunking basket shall contain such Switched transport ~~and special access services~~ as the Commission shall permit or require, including the following service categories and subcategories:

(i) Voice grade entrance facilities, voice grade direct-trunked transport, voice grade dedicated signalling transport, ~~voice grade special access, WATS special access, metallic special access, and telegraph special access services;~~

~~(ii) Audio and video services~~;

(iii) High capacity flat-rated transport, ~~high capacity special access, and DDS services~~, including the following service subcategories:

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

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

~~(iv) Wideband data and wideband analog services~~;

(v) Tandem-switched transport, as described in § 69.111 of this chapter; and

(vi) Interconnection charge, as recovered in §§ 69.153 and 69.155 of this chapter.

(vii) Signalling for tandem switching, as described in § 69.129 of this chapter.

(3) The Special Access basket shall contain special access services as the Commission shall permit or require, including the following service categories and subcategories:

(i) Voice grade special access, WATS special access, metallic special access, and telegraph special access services;

(ii) Audio and video services;

(iii) High capacity special access, and DDS services, including the following service subcategories:

(A) DS1 special access services; and

(B) DS3 special access services;

(iv) Wideband data and wideband analog services;

(f) Each local exchange carrier subject to price cap regulation shall exclude from its price cap baskets such services or portions of such services as the Commission has designated or may hereafter designate by order.

(g) New services, other than those within the scope of paragraph (f) of this section, must be included in the affected basket at the first annual price cap tariff filing following completion of the base period in which they are introduced. To the extent that such new services are permitted or required to be included in new or existing service categories within the assigned basket, they shall be so included at the first annual price cap tariff filing following completion of the base period in which they are introduced.

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§ 61.45 Adjustments to the PCI for Local Exchange Carriers.

(a) Local exchange carriers subject to price cap regulation shall file adjustments to the PCI for each basket as part of the annual price cap tariff filing, and shall maintain updated PCIs to reflect the effect of mid-year exogenous cost changes.

(b)(1)(i) Adjustments to local exchange carrier PCIs, in those carriers' annual access tariff filings, for the traffic-sensitive basket described in § 61.42(d)(2), the trunking basket described in § 61.42(d)(3), and the ~~marketing~~ Special Access~~expense~~ basket described in § 61.42(d)(~~5~~6), shall be made pursuant to the following formula:

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

where the terms in the equation are described:

GDP-PI= For annual filings only, the percentage change in the GDP-PI between the quarter ending six months prior to the effective date of the new annual tariff and the corresponding quarter of the previous year. For all other filings, the value is zero.

X = For the Common Line,Traffic Sensitive, Trunking, for Annual Filings only, the factor set at the level of 6.5%. For the Interexchange Basket, for annual filings only, the factor is set at the level prescribed in subsection (b)(1)((v). For the Special Access Basket, the factor is set at the level prescribed in subsection (b)(1)(iv) For all other filings, the value is zero.

~~g = For annual filings only, the ratio of minutes of use per access line during the base period, to minutes of use per access line during the previous base period, all minus 1. For all other filings, the value is zero.~~

Z = the dollar effect of current regulatory changes when compared to the regulations in effect at the time the PCI was updated to PCI_{t-1}, measured at base period level of operations.

Targeted Reduction = the actual possible dollar value of the (GDP-PI - X) reductions that will be targeted to the Average Traffic Sensitive Charge (as defined in paragraph 61.45(i)(3) of this chapter). The Common Line Reductions will contain the "g" component to be applied to the MOU portion of the Common Line revenues.

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Y = (new access rate - access rate at the time the PCI was updated to PCI_{t-1}) x (base period demand), summed for all access rate elements.

R = base period quantities for each rate element "I", multiplied by the price for each rate element "I" at the time the PCI was updated to PCI_{t-1}.

w = R + Z, all divided by R (used for the common line, traffic sensitive, trunking, and ~~marketing~~special access baskets).

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

PCI_t = the new PCI value.

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

□

(b)(1)(ii) Notwithstanding the value of X defined in § 61.45(b)(1)(i), the X value applicable to the baskets specified in § 61.42(d)(1),(2), and (3), shall be 6.5%, to the extent necessary to reduce a tariff entity's Average Traffic Sensitive Charge to the Target Rate for the first time. Once an ILEC tariff entity's Average Traffic Sensitive Charge is equal to the Target Rate for the first time (the former NYNEX telephone companies may be treated as a separate tariff entity), then, except as provided in paragraph (2), X is equal to GDP-PI and no further reductions will be mandated.(i.e. if applying the full X-factor reduction for a given year would reduce the Average Traffic Sensitive Charge below the Target Rate, the amount of X-factor reduction applied that year will be the amount necessary to reach the Target Rate).

For companies with separate tariff entities under a single Price cap, the following rules shall apply:

(A) Targeting amounts as defined in 61.45 (i)(1) shall be identified separately, using the revenue for each of the tariff entities under the cap.

(B) Each tariff entity shall only be required to use the amount of targeting necessary to get to the $0.0055 or $0.0065 Target Rate.

(b)(1)(iii) Once the Tariff Entity's Average Traffic Sensitive Charge is achieved the X-factor for the Common Line basket will equal GDP-PI as long as GDP-PI is less than or equal to 6.5% and greater than 0%. If GDP-PI is greater than 6.5%, the X-factor for the

□

Common Line basket will equal 6.5%, and all End User Common Line charges, rates and nominal caps,-will be increased by the difference between GDP-PI and the 6.5% X-factor. If GDP-PI is less than 0, the X-factor for the Common line basket will be 0.

(b)(1(iv) For the Special Access basket specified in § 61.42 (d)(5), the value of X shall be 3.0% for the 2000 Annual Filing. The X shall be 6.5% for the 2001, 2002 and 2003 Annual Filings. Starting in the 2004 Annual filing the X shall be equal to GDP-PI for the Special Access Basket.:

((b)(1)(v)) Adjustments to local exchange carrier PCIs for the interexchange basket described in § 61.42(d)(4), in those carriers' annual access tariff filings, shall be made pursuant to the following formula:

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

□

where the terms in the equation are described section (b)(1)(i) above.

(b)(2) Adjustments to local exchange carrier PCIs, in tariff filings other than the annual access tariff filing, for the Common Line Basket described in § 61.42(d)(1), for the traffic-sensitive basket described in § 61.42(d)(2), the trunking basket described in § 61.42(d)(3), the interexchange basket described in § 61.42(d)(4), and the Special Access~~marketing expense~~ basket described in § 61.42(d)(56), shall be made pursuant to the formulas set forth in paragraph (b)(1) of this section, except that the "w(GDP-PI-X)" component of those PCI formulas shall not be employed.

(c) Starting July 1, 2000, the common line basket will now be controlled by the amount of CMT Revenue per line as of July 1, 2000, not a PCI formula. This CMT revenue per line amount shall be adjusted for exogenous treatment and hyper-inflation pursuant to Section 61.45(b)(1)(iii) and 61.45(d). The allowed revenues may change over time to reflect changes in the base period demand.~~(c)(1) In the event that a local exchange carrier imposes a per-minute carrier common line charge pursuant to § 69.154 of this chapter, and subject to paragraphs (c)(2) and (c)(3) of this section, adjustments to local exchange carrier PCIs in the annual access tariff filing for the common line basket designated in § 61.42(d)(1) shall be made pursuant to the following formula:~~

~~Display Image~~

~~(2) Adjustments to local exchange carrier PCIs, in tariff filings other than the annual access tariff filing, for the common line basket described § 61.42(d)(1), shall be made pursuant to the formulas set forth in paragraph (b)(1) of this section, except that the "w[(GDP-PI-X-(g/2))/(1 +~~

~~(g/2))]" component of that PCI formula shall not be employed. In non-annual price cap filings, g will be equal to 0.~~

~~(3) The formula set forth in paragraph (c)(1) of this section shall be used by a local exchange carrier only if that carrier is imposing a carrier common line charge pursuant to § 69.154 of this chapter. Otherwise, adjustments to local exchange carrier PCIs for the common line basket designated in § 61.42(d)(1) shall be made pursuant to the formula set forth in § 61.45(b)(1)(i).~~

(d) The exogenous cost changes represented by the term "~~D~~Z" in the formula detailed in paragraphs (b) and (c) of this section shall be limited to those cost changes that the Commission shall permit or require by rule, rule waiver, or declaratory ruling.

(1) Subject to further order of the Commission, those exogenous changes shall include cost changes caused by:

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

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

(iii) Changes in the Separations Manual;

(iv) Changes to the level of obligation associated with the Universal Service Fund obligation described in Part 54 of this chapter;

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

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

(vii) Retargeting the PCI to the level specified by the Commission for carriers whose base year earnings are below the level of the lower adjustment mark, subject to the limitation in § 69.731 of this chapter is waived for the tariff filing of July, 2000, but not for subsequent years.~~.~~

(viii) Inside wire amortizations.

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

(2)(i) Local exchange carriers specified in § 61.41 (a)(2) or (a)(3) shall also make such temporary exogenous cost changes as may be necessary to reduce PCIs to give full effect to any sharing of base period earnings required by the sharing mechanism set forth in the Commission's Second Report and Order in Common carrier Docket No. 87-313, FCC 90-314,

adopted September 19, 1990. Such exogenous cost changes shall include interest, computed at the prescribed rate of return, from the day after the end of the period giving rise to the adjustment, to the midpoint of the period when the adjustment is in effect.

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

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

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

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

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

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

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

(h) [Reserved.]

~~(i)(1)(i) Notwithstanding the provisions of paragraphs (b) and (c) of this section, and subject to the limitations of paragraph (j) of this section, including but not limited to the [DELTA] Z reductions discussed in paragraph (j)(2), any price cap local exchange carrier that is recovering~~

~~interconnection charge revenues through per-minute rates pursuant to § 69.124 or § 69.155 of this chapter shall target, to the extent necessary to eliminate the recovery of any residual interconnection charge revenues through per-minute rates, any PCI reductions associated with the common line and traffic sensitive baskets, designated in §§ 61.42(d)(1) and (2), that result from the application of the formulas in paragraphs (b) and (c) of this section.~~

~~(ii) As specified in paragraph (j)(2) of this section, any price cap local exchange carrier that is targeting PCI reductions to the residual interconnection charge pursuant to paragraph (i)(1)(i) of this section shall exclude the [DELTA] Z/R component of the PCI for the trunking basket designated in § 61.42(d)(3) from those calculations.~~

~~(iii) Any local exchange carrier that is targeting PCI reductions to the residual interconnection charge pursuant to paragraph (i)(1)(i) of this section shall not make any adjustment to its PCIs for the common line and traffic sensitive baskets, designated in §§ 61.42(d)(1) and (2) respectively, as a result of the application of the formulas in paragraphs (b) and (c) of this section, other than the adjustments resulting from calculation of the " [DELTA] Z/R component of those formulas.~~

~~(iv) The reductions described in paragraph (i)(1)(i) are to be made after the adjustment is made to the PCI for the trunking basket designated in § 61.42(d)(3) resulting from the application of the formulas in paragraphs (b) and (c) of this section.~~

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

~~(3) [Reserved]~~

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

~~(j) In determining the extent of the targeting that shall occur pursuant to paragraphs (i)(1) and (i)(1) of this section and § 61.47(i)(1) and (i)(2), local exchange carriers shall (1) compute their anticipated residual interconnection charge amount by excluding revenues that are expected to~~

~~be reallocated to cost-causative facilities-based charges in the future. To determine interconnection charge amounts so excluded in connection with the July 1, 1997 tariff filings, the following local exchange carriers shall use as an estimate of the residual interconnection charge revenues the specified residual interconnection charge percentage: NYNEX, 77.63 percent; BellSouth, 56.93 percent; U S West, 59.14 percent; Bell Atlantic, 63.96 percent; Southwestern Bell Telephone, 69.11 percent; and Pacific Bell and Nevada Bell, 53.52 percent. Each remaining price cap local exchange carrier shall estimate a residual interconnection charge in an amount equal to 55 percent of its current interconnection charge revenues. For subsequent tariff filings in which the PCI reductions are to be targeted to the interconnection charge, these initial estimates shall be adjusted to reflect the actual amounts that have or will be reallocated. If the use of these estimates results in more PCI reductions being targeted to the interconnection charge than required to eliminate the per-minute interconnection charge, the local exchange carrier shall make the necessary exogenous adjustments to reverse the effects of the excess targeting.~~

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

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

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

Targeted Revenue Differential = R * (GDP-PI - X) for the Marketing portion of the Common Line Basket, the Traffic Sensitive Basket and the Trunking Basket. The Common Line Targeted Revenue Differential = $R_{(less\ MOU\ R)}$*(GDPPI - X), where R contains USAC receipts plus ($R_{(mou)}$)adjusted for "g"*(GDPPI-X),

Where g = For annual filings only, the ratio of minutes of use per access line during the base period, to minutes of use per access line during the previous base period, all minus 1.

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

(3) Until a Tariff entity's Average Traffic Sensitive Charge equals the Target Rate for the first time, the aggregate reductions within a given tariff filing entity from application of the X-factor adjustment in the price cap formula across all of that entity's interstate price cap baskets outlined in Sections 61.42 (d)(1),(2) and (3) will be targeted to reduce the following rates for that tariff filing entity, in order of priority:

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

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

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

(4) After an ILEC reaches the Target Rate level, the Average Traffic Sensitive Rate will be recalculated each Annual Filing following. This process will identify the new Average Traffic Sensitive Charge for the new base period level. Due to change in base period demand and inclusion of new services for that Annual Tariff filing, the absolute level of a tariff entity's Average Traffic Sensitive Charge may change. The resulting new Average Traffic Sensitive Charge level will be what that tariff entity will be measured

against during that base period. For example, if a company was at $0.0055 during the 2000 Annual Filing, that level may change to $0.0058 in the 2001 Annual filing due to demand and new services. Therefore, it will be the $0.0058 that the tariff entity will be measured against for all non-annual filings. Likewise, if a company was at $0.0055 during the 2000 filing, that level may change to $0.0053 in the 2001 Annual Filing due to demand and new services. In that case, it will be at the $0.0053 level that the tariff entity will be measured.

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§ 61.46 Adjustments to the API.

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

$$API_t = API_{t-1}[S_i v_i,(p_t/p_{t-1})i]$$

where

API[t] = the proposed API value,

API[t-1] = the existing API value,

P[t] = the proposed price for rate element "i,"

P[t-1] = the existing price for rate element "i," and

v[i] = the current estimated revenue weight for rate element "i," calculated as the ratio of the base period demand for the rate element "i" priced at the existing rate, to the base period demand for the entire basket of services priced at existing rates.

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

(c) Any price cap tariff filing proposing rate restructuring shall require an adjustment to the API pursuant to the general methodology described in paragraph (a) of this section. This adjustment requires the conversion of existing rates into rates of equivalent value under the proposed structure, and then the comparison of the existing rates that have been converted to reflect restructuring to the proposed restructured rates. This calculation may require use of carrier data and estimation techniques to assign customers of the preexisting service to those services (including the new restructured service) that will remain or become available after restructuring.

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

~~CCL[MOU]=CL[MOU] * (1+% change in CL PCI)-(EUCL[MOU]+PICC[MOU])*1/(1+(g/2))~~

~~Where:~~

~~CCL[MOU]=the sum of each of the proposed Carrier Common Line rates multiplied by its corresponding base period Carrier Common Line minutes of use, divided by the sum of all types of base period Carrier Common Line minutes of use,~~

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

~~EUCL[MOU]=maximum allowable End User Common Line rates multiplied by base period lines, and divided by the sum of all types of base period Carrier Common Line minutes of use,~~

~~PICC[MOU]=the common line portion of maximum allowable Presubscribed Interexchange Carrier charge rates multiplied by base period lines, and divided by the sum of all types of base period Carrier Common Line minutes of use, and~~

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

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

The maximum allowable carrier common line (CCL) MOU charges shall be computed pursuant to the following methodology:

$$CCL_{mou} = CMT - EUCL - USAC - VR - PICC$$

where

CMT = Pricecap CMT Revenue as defined in § 61.3(aa).

EUCL = Maximum recoverable EUCL revenue based on charges established pursuant to § 69.152.

USAC = USAC support for which the carrier qualifies under § 54.802.

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VR = Voluntary Reduction pursuant to § 69.152(q)(8).

PICC = Maximum recoverable PICC revenue based on charges established pursuant to § 69.153.

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

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

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

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

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

(i) In no case shall a price cap local exchange carrier include data associated with services offered pursuant to contract tariff in the calculations required by this section.

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§ 61.47 Adjustments to the SBI; pricing bands.

[PUBLISHER'S NOTE: 64 FR 46584, 46590, Aug. 26, 1999, effective Sept. 27, 1999, purported to remove and reserve paragraph (i)(1) in § 61.49. However, this instruction could not be implemented, because the text does not exist within the section. Upon calling the agency, it was determined that the amendment should instead be implemented in § 61.47. In accordance with the apparent intent of the agency, the amendment has been implemented. It is expected that the agency will issue a correction in the Federal Register.]

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

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

where

SBI[t] = the proposed SBI value,

SBI[t-1] = the existing SBI value,

P[t] = the proposed price for rate element "i,"

P[t-1] = the existing price for rate element "i," and

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

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

(c) In the event that the introduction of a new service requires the creation of a new service category or subcategory, a new SBI must be established for that service category or subcategory beginning at the first annual price cap tariff filing following completion of the base period in which the new service is introduced. The new SBI should be initialized at a value of

100, corresponding to the service category or subcategory rates in effect the last day of the base period, and thereafter should be adjusted as provided in paragraph (a) of this section.

(d) Any price cap tariff filing proposing rate restructuring shall require an adjustment to the affected SBI pursuant to the general methodology described in paragraph (a) of this section. This adjustment requires the conversion of existing rates in the rate element group into rates of equivalent value under the proposed structure, and then the comparison of the existing rates that have been converted to reflect restructuring to the proposed restructured rates. This calculation may require use of carrier data and estimation techniques to assign customers of the preexisting service to those services (including the new restructured service) that will remain or become available after restructuring.

(e) Pricing bands shall be established each tariff year for each service category and subcategory within a basket. Each band shall limit the pricing flexibility of the service category, subcategory, as reflected in the SBI, to an annual increase of a specified percent listed in this paragraph, relative to the percentage change in the PCI for that basket, measured from the levels in effect on the last day of the preceding tariff year. For local exchange carriers subject to price cap regulation as that term is defined in § 61.3(~~x~~cc~~)~~, there shall be no lower pricing band for any service category or subcategory.

(1) Five percent:

(i) Local switching (traffic sensitive basket)

(ii) Information (traffic sensitive basket)

(iii) Database Access services (traffic sensitive basket)

(iv) 800 Database Vertical Services subservice (traffic sensitive basket)

(v) Billing Name and Address (traffic sensitive basket)

(vi) Local switching trunk ports (traffic sensitive basket)

(vii) Signalling Transfer Point Port Termination (traffic sensitive basket)

(viii) Voice grade (trunking and Special Access basket)

(ix) Audio/Video (Special Access~~trunking~~ basket)

(x) Total High Capacity (trunking and Special Access baskets)

(xi) DS1 subservice (trunking and Special Access baskets)

(xii) DS3 subservice (trunking and Special Access baskets)

(xiii) Wideband (Special Access~~trunking~~ basket)

(2) Two percent:

(i) Tandem-Switched Transport (Trunking basket)

(ii) Signalling for Tandem Switching (Trunking basket)

(3) Zero percent: Interconnection charge (Trunking basket)

(f) A local exchange carrier subject to price cap regulation may establish density zones pursuant to the requirements set forth in § 69.123 of this chapter, for any service in the trunking and Special Access baskets, other than the interconnection charge set forth in § 69.124 of this chapter. The pricing flexibility of each zone shall be limited to an annual increase of 15 percent, relative to the percentage change in the PCI for that basket, measured from the levels in effect on the last day of the preceding tariff year. There shall be no lower pricing band for any density zone.

(g)-(i)(1) [Reserved]

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

(3) Through December 31, 1997, the SBI reduction required by paragraph (i)(1) of this section shall be determined by dividing the sum of the dollar amount of any PCI reduction required by § 61.45(i)(1) by the dollar amount associated with the SBI for the service category designated in § 61.42(e)(2)(vi), and multiplying the SBI for the service category designated in § 61.42(e)(2)(vi) by one minus the resulting ratio.

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

(5) Effective July 1, 2000, notwithstanding the requirements of paragraph (a) of this chapter and subject to the limitations of § 61.45(i), if a local exchange carrier is recovering an Average

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Traffic Sensitive Charge greater than the respective Target Rates of $0.0055 or $0.0065, any reductions to the PCI for the Traffic Sensitive or Trunking baskets designated in §§ 61.42(d)(2) and (3) resulting from the application of the provisions of § 61.45(b), and the formula in § 61.45(b) and from the application of the provisions of §§ 61.45(i)(1), and (i)(2) shall be directed to the SBIs of the service categories designated in §§ 61.42(e)(1) and (2).

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

(k) In no case shall a price cap local exchange carrier include data associated with services offered pursuant to contract tariff in the calculations required by this section.

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§ 61.48 Transition rules for price cap formula calculations.

(a)-(h) [Reserved]

(i) Transport and Special Access Density Pricing Zone Transition Rules -- (1) Definitions. The following definitions apply for purposes of paragraph (i) of this section:

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

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

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

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

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

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

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

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

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

and pricing bands to limit the pricing flexibility of the services included in each density pricing zone category, as reflected in its SBI, as follows:

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

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

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

(ii) [Reserved]

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

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

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

(A) DS1 special access services;

(B) DS3 special access services;

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

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

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

(F) Tandem-switched transport; and

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

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

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

(j) ~~Video Dialtone Services. For local exchange carriers subject to price cap regulation, the video dialtone services basket, as designated in § 61.42(d)(5), shall be established with an initial PCI and API level of 100 in the first annual price cap tariff filing following competition of the base period in which the initial video dialtone service was introduced. The initial value of 100 for the PCI and API for video dialtone service prior to adjustment of inflation and productivity shall correspond to the rates in effect just prior to the effective date of the annual filing in which rates for video dialtone service are initially included in the video dialtone basket.~~

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

(l) *Traffic Sensitive Revenues.*

(1) In the July 1, 2000 Annual Filing Price Cap companies will reduce the average Switched Access MOU rates in the industry by a total of $2.1 billion measured using the 1999 base period demand. This $2.1 billion level is based on the participation of all Price Cap LECs. If some Price Cap companies do not participate in the CALLS plan, estimates of the reductions that would have been made by those companies, had they participated in the CALLS Plan, will be included in the calculation of the $2.1 billion amount. These estimates are subject to revision after companies that do not participate in CALLS have filed their rates. The $2.1 billion reduction will be the sum of the following components:

--any change in CCL Revenue resulting from:

--the removal from access of ILEC contributions to the Federal Universal Service Mechanisms

--ILEC receipts of Interstate Access USF

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--SLC Cap increases

--Elimination of Primary and Non-Primary PICC rates

Reductions in Traffic Sensitive Rates resulting from:

-- The targeting application of GDPPI-X and any applicable "g" impacts

--Additional Switched Access reductions defined in (2) below

(2) The remainder of the amount necessary to achieve the $2.1 billion reduction will be calculated as a percentage of Local Switching Revenues. Carriers can take these additional reductions against any of the Average Traffic Sensitive Charge rate elements, however a proportional share must be taken to Local Switching rates.

Notwithstanding paragraph (1), if removing amounts of Local Switching minute of use revenues from the Traffic Sensitive would reduce the Average Traffic Sensitive Charge for that Tariff Entity below the Target Rate, then that Tariff Entity will remove only as much of the Local Switching MOU revenues from the Traffic Sensitive Basket as is necessary in order for the Average Traffic Sensitive Charge to equal the Target Rate. The additional reduction necessary to achieve the $2.1 billion will not reduce a tariff entity below its target rate.

(m) Local Switching Pooled Revenues

(1) Priced cap companies are permitted to pool local switching revenues in their common line basket under one of the following conditions.

(i) Any price cap company with reductions per line at the holding company level greater than the industry average at the holding company level may elect temporarily to pool the amount of the additional reductions above 25% of the Local Switching element revenues necessary to yield that carrier's proportionate share of a total $2.1 billion reduction in switched access usage rates on July, 1, 2000. The basis of the reduction calculation will be R at $PCI_{(t-1)}$ for the upcoming tariff year. The reductions per line amounts will be calculated as follows:

(Total ATS Reduction / Base Period EUCL Lines)

(A) Pooled local switching revenue for each filing entity within a qualifying holding company will continue for this condition until the Average Traffic Sensitive (ATS) rate for the filing entity reaches the applicable target rate. Pooled local switching revenue will be reduced each year by the GDPPI-X, as long as that company's ATS is greater

than the ATS target. Pooled local switching revenue will be eliminated in the same tariff filing when the filing entity ATS reaches the applicable target rate.

(ii) Mid-sized price cap carriers (.0065) with at least 20% of total holding company lines serving statutory "rural" study areas may elect to pool up to the following amounts:

(A) for a carrier's predominantly non-rural filing entities, the amount of the additional reductions to Average Traffic Sensitive Charge rates necessary to yield those filing entities' proportionate share of a total $2.1 billion reduction in switched access usage rates on July 1, 2000, to the extent such reductions exceed 25% of the Local Switching element revenues as of July 1, 2000 before application of price cap adjustments and other changes under the plan;

(B) for a carrier's predominantly rural filing entities, the amount of the additional reductions to Average Traffic Sensitive Charge rates necessary to yield those filing entities' proportionate share of a total $2.1 billion reduction in switched access usage rates on July 1, 2000;

(2) This section details the establishment and Allocation of Pooled Local Switching Revenue to Common Line

(i)The pooled local switching revenue for each filing entity is shifted to the common line basket within price caps. The pooled amounts are to be kept separate from CMT per line contained in the basket. Pooled local switching revenue will not be included in calculations to determine the eligibility for interstate access universal service funding.

(ii) Pooled local switching revenue will be allowed to grow based on the total access lines in the filing entity.

(iii) Pooled local switching revenue should be included in the total revenue for the common line basket in calculating the productivity reduction targeted to the traffic sensitive rate elements.

(iv) Alternative 1: Common line rate elements for each filing entity shall first be set based on CMT revenue per line without regard to the presence of pooled local

switching revenue for each filing entity. This includes, if the filing entity qualifies, the ability to de-average the EUCL rates by zone when the minute of use and PICC rates have been eliminated. Alternative 2: If the addition of the pooled amounts result in a MLB PICC rate then the filing entity would not be allowed to de-average the EUCL rates by zone.

(v) If the rates generated without regard to the presence of pooled local switching revenue for multi-line business (MLB) PICC and/or MLB SLC are below the nominal caps of $4.31 and $9.20, respectively, pooled amounts can be added to these rate elements limited to the nominal caps.

(vi) Pooled local switching revenue are first added to the MLB SLC until the rate equals the nominal cap ($9.20) or the pooled local switching revenue are fully allocated. If pooled local switching revenue remains after applying amounts to MLB SLC, add pooled local switching revenue to MLB PICC until the rate equals the nominal cap ($4.31) or the pooled local switching revenue are fully allocated. Unallocated pooled local switching may still remain. For companies pooling pursuant to 61A.48(m)(1)(i), these unallocated amounts may not be recovered from common line elements in any other filing entity.

(vii) For companies pooling pursuant to 61A.48(m)(1)(ii), pooled local switching revenue that can not be allocated to the MLB PICC and MLB SLC rates within an individual filing entity may be allocated to other filing entities within the holding company, and collected by adding these amounts to multiline business PICC and SLC rates.

(x) If pooled local switching is added to the MLB SLC for a filing entity that qualified to de-average SLCs without regard to pooled local switching, the resulting SLC rates can no longer be de-averaged. Filing entity average SLCs must be charged

(xi)In subsequent filings, pooled local switching revenues that were allocated to another filing entity will be reallocated to the filing entity from where it originated. Allocation of pooled local switching revenue will be re-calculated with each filing.

(n) Establishment of the Special Access Basket, effective 7/1/2000

(1) On the effective date, the PCI value for the Special Access basket, as defined in 61.42(d)(5) shall be equal to the PCI for the Trunking basket on the day preceding the establishment of the Special Access basket.
(2) On the effective date, the API value for the Special Access basket, as defined in 61.42(d)(5) shall be equal to the API for the Trunking basket on the day preceding the establishment of the Special Access basket.
(3) Service Category, Subcategory, and Density Zone SBIs and Upper Limits

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(i) Interconnection, Tandem Switched Transport, and Signalling Interconnection will retain the SBIs and upper limits and remain in the Trunking basket.

(ii) Audio/Video and Wideband will retain the SBIs and upper limits and be moved into the Special Access basket.

(iii) For VoiceGrade, the SBIs and upper limits in both baskets will be equal to the SBIs and upper limits in the existing Trunking basket on the day preceding the establishment of the Special Access basket. VoiceGrade density zones in the Trunking basket will retain their indices and upper limits. VoiceGrade density zones will be initialized in the Special Access basket when services are first offered in them.

(iv) For High Cap/DDS, DS1, and DS3 category and subcategories, the SBIs and upper limits in both baskets will be equal to the SBIs and upper limits in the existing Trunking basket on the day preceding the establishment of the Special Access basket. SBIs and upper limits for services that are in both combined density zones and either DTT/EF or Special density zones will be calculated by using weighted averages of the indices in the affected zones.

(A) For each DTT/EF-related zone remaining in the Trunking basket, the values will be calculated by taking the sum of the products of the DTT/EF revenues times the DTT/EF index (or upper limit) and the DTT/EF-related revenues in the combined zone times the combined index (or upper limit), and dividing by the total DTT/EF-related revenues for that zone.

(B) For each Special-related zone remaining in the Trunking basket, the values will be calculated by taking the sum of the products of the Special revenues times the Special index (or upper limit) and the Special-related revenues in the combined zone times the combined index (or upper limit), and dividing by the total Special-related revenues for that zone.