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March 8, 2000

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FEDERAL COMMUNICATIONS COMMISSION
OFFICE OF THE SECRETARY

Via Hand Delivery

Ms. Magalie Roman Salas
Office of the Secretary
Federal Communications Commission
445 Twelfth Street, S.W.
Twelfth Street Lobby, TW-A325
Washington, D.C. 20554

Re: Notification of Written *Ex Parte* in CC Dkt. Nos. 94-1; 96-45; 99-249; 96-262

Dear Ms. Salas:

Pursuant to section 1.1206 of the Commission's rules, the Coalition for Affordable Local and Long Distance Service ("CALLS") files an original and eight copies (two copies per docket) of a memorandum and attachments detailing modifications to the CALLS plan for universal service and interstate access charge reform.

Please contact me with any questions.

Sincerely

John T. Nakahata

JTN/krs
Attachments

RECEIVED
MAR 08 2000
FEDERAL COMMUNICATIONS COMMISSION
OFFICE OF THE SECRETARY

Before the
Federal Communications Commission
WASHINGTON, D.C.

IN THE MATTER OF	)	
	)	
Price Cap Performance Review for Local Exchange Carriers	)	CC DOCKET NO. 94-1
	)	
Federal State Joint Board on Universal Service	)	CC DOCKET NO. 96-45
	)	
Low-Volume Long Distance Users	)	CC DOCKET NO. 99-249
	)	
Access Charge Reform	)	CC DOCKET NO. 96-262

MEMORANDUM IN SUPPORT OF THE REVISED PLAN OF THE COALITION FOR AFFORDABLE LOCAL AND LONG DISTANCE SERVICE ("CALLS")

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

March 8, 2000

TABLE OF CONTENTS

SUMMARY

The Coalition for Affordable Local and Long Distance Services ("CALLS") submits its Modified Universal Service and Access Reform Proposal, which reflects amendments to its plan for interstate access charge and universal service reform. The modifications build on the strengths of the original plan and provide even greater public interest benefits. The changes have a common thrust: *they reduce consumer charges, especially for the low volume consumer.* In brief, the revised plan, together with additional unilateral long distance pricing commitments by AT&T and Sprint, incorporates:

- Lower caps on Subscriber Line Charges ("SLCs") than under the original CALLS proposal, both initially and throughout the five year plan;
- An interim cost review to verify the caps for residential and single line business Subscriber Line Charges;
- A $2.1 billion reduction in switched access usage rates on July 1, 2000, if all companies participate, and a nearly 50% reduction in switched access rates over five years, without shifting local switching costs to primary residence and single line business end user charges (as would have resulted from the original plan);
- Elimination of minimum usage charges for AT&T basic schedule long distance callers, and preservation of a no-minimum plan by Sprint, provided that there is a $2.1 billion reduction in switched access usage rates as of July 1, 2000;
- Guaranteed rate reductions in special access services for the first four years of the plan;
- A commitment by CALLS to work with the FCC Consumer Information Bureau to develop a consumer education plan.

These modifications to the plan grew out of comments and suggestions of state commissioners, end users, public interest groups and Commission staff. The revised plan therefore amounts to a carefully balanced and intricate resolution of the thorny issues of universal service and access charge reform. It provides the Commission with the best opportunity it has ever had to move beyond contentious debate and adopt a solution.

BEFORE THE
FEDERAL COMMUNICATIONS COMMISSION
Washington, D.C.

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

Memorandum in Support of the Revised Plan of the Coalition for Affordable Local and Long Distance Service

The Coalition for Affordable Local and Long Distance Services ("CALLS") today submits its Modified Universal Service and Access Reform Proposal (Appendix A, attached), which reflects amendments[1] to its plan for interstate access charge and universal service reform.[2] CALLS also submits revised draft proposed rules (Appendices B-D) to aid the Commission and commenters.[3] Taken as a whole, the CALLS plan provides a comprehensive blueprint for reform in an area that has challenged the Commission for nearly two decades and has become increasingly urgent since the

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1 See, Letter from John T. Nakahata to Magalie Roman Salas, Outline of Modifications to CALLS Proposal (filed Feb. 28, 2000).

2 See, Memorandum in Support of the Coalition for Affordable Local and Long Distance Service Plan (filed Aug. 20, 1999).

3 Due to time constraints, these are preliminary draft rules. CALLS continues to review these drafts and will file updates as necessary with the Commission. These drafts and any updates will be posted to the CALLS website: www.phonepolicy.com.

passage of the Telecommunications Act of 1996 ("1996 Act") and the emergence of packet-based networks like the Internet.

The modifications described below build on the strengths of the original plan and provide even greater public interest benefits. In brief, the revised plan, together with additional unilateral long distance pricing commitments by AT&T and Sprint, incorporates:

- Lower caps on Subscriber Line Charges ("SLCs") than under the original CALLS proposal, both initially and throughout the five year plan;
- An interim cost review to verify the caps for residential and single line business Subscriber Line Charges;
- A $2.1 billion reduction in switched access usage rates on July 1, 2000, if all companies participate, and a nearly 50% reduction in switched access rates over five years, without shifting local switching costs to primary residence and single line business end user charges (as would have resulted from the original plan);
- Elimination of minimum usage charges for AT&T basic schedule long distance callers, and preservation of a no-minimum plan by Sprint, provided that there is a $2.1 billion reduction in switched access usage rates as of July 1, 2000;
- Guaranteed rate reductions in special access services for the first four years of the plan;
- A commitment by CALLS to work with the FCC Consumer Information Bureau to develop a consumer education plan.

These changes preserve and enhance the substantial benefits of the CALLS plan. The modified CALLS plan yields strong, upfront consumer benefits, a stable, robust and explicit universal service support system for rural and low-income Americans, and regulatory stability that will promote competition and investment in all markets. The modified CALLS plan continues to promote investment by incumbents and entrants in all markets, especially rural and residential markets, while also reducing the combined local and long distance telephone bills by over $4.60 per month for an AT&T customer who makes no long distance calls. The Commission now has the opportunity to adopt a plan that is a clear win for consumers, the country, and all companies investing to compete in telecommunications.

The modified plan is still comprised of three essential and interdependent parts. First, the plan establishes an explicit and portable universal service support mechanism of $650 million, replacing support that currently is implicit in interstate access charges. Because the CALLS plan renders this support explicit and portable to competitive local exchange carriers, it will preserve and enhance universal service for rural and small town America and make it more likely that competition, new investment, and new services will come to those areas as well. In addition, low-income consumers continue to be protected through an increase in Lifeline support.

Second, the plan consolidates and simplifies the existing patchwork of loop charges. The residential and single line business pre-subscribed interexchange carrier charge ("PICC") is consolidated with the SLC and eliminated. As a result of reducing the primary residence/single line business SLC cap from the original CALLS plan and consolidating the residential/single line business SLC and PICC charges, most consumers will see their total combined SLC and PICC-"pass-through" line charges fall by $0.65 on July 1, 2000, rather than increasing by approximately $0.50 on that date, as would occur under current rules. This yields a combined benefit for consumers of $1.15 per month. Although the nominal residential and single line business SLC cap thereafter is permitted to increase gradually in most areas, most primary residence and single line business SLCs will never reach the $6.50 cap. In addition, the FCC should initiate a proceeding to review the primary residence/single line business SLC progression after July 2001 to verify that it reflects underlying costs in those areas where higher SLCs would apply, and the signatory LECs will submit cost information to assist in that review. The PICC for non-primary lines is eliminated immediately. Multiline business PICCs and the carrier common line charge ("CCLC") are eliminated in the vast majority of areas over the plan's five-year term.

Third, the modified plan provides for an immediate $2.1 billion reduction in per minute switched access charges, as provided for in the original CALLS proposal, and in addition, guarantees reductions in special access rates. With the exception of X-factor reductions related to special access, X-factor reductions will be targeted to reduce switched access usage rates to $0.0055 for the Bell Companies and GTE, and $0.0065 for the other price cap incumbent LECs. Both AT&T and Sprint, in their separate letters related to long distance pricing, committed to flow these savings through to residential and business consumers over the life of the plan.[4] By reducing the component of long distance costs attributable to traffic-sensitive charges, the reductions will ease the tension between the switched network and the packet-based services that are typically billed on a flat-rated basis.

These modifications respond to issues raised by commenters and FCC staff over the course of this proceeding. The changes enhance the original plan and have a common thrust: *they reduce consumer charges, especially for the low volume consumer.* AT&T basic schedule customers who make no long distance calls will see combined local and long distance bills cut almost in half, dropping by over $4.60 per month on

[4] See, Letter from Richard Juhnke to Magalie Roman Salas (filed Feb. 25, 2000); Letter from JoelLubin to Magalie Roman Salas (filed Feb. 25, 2000).

July 1, 2000.[5] AT&T light user customers with, for example, 10 minutes of long distance calling could see local and long distance bills fall by over $2.50.[6] Even for those low volume residential consumers who would pay the highest possible SLCs at the end of the plan, monthly bills would still be lower at the end of this plan than they are today. In response to concern from both consumer representatives and state regulators, this modified plan now unambiguously delivers clear, demonstrable consumer benefits, both initially and throughout the plan.

These consumer benefits are, however, only possible if this plan is implemented coincident with the 2000 price cap LEC tariffs. Delay serves no public policy goal, and will deprive consumers of these immediate, tangible benefits.

More than ever, the CALLS plan provides a clear path toward access charge and universal service reform. The plan substantially reduces charges to consumers, preserves universal service in a manner that enhances competition and investment, and creates an interstate access charge rate structure that is more consistent with the development of the Internet and other packet-based services. The CALLS plan, taken as a whole, accomplishes all of these goals in a manner consistent with sound economic principles and the dictates of the 1996 Act. Swift adoption of the plan will pave the way for broad growth of competition and affordable universal service in all telecommunications markets.

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5 See, Appendix E.

6 *Id.*

I. Pro-Consumer Modifications to Common Line/Universal Service Reform

The original plan proposed several reforms to common line and universal service regulation. These reforms were designed to rationalize the Commission's complex rules in a way that would further the goals of the 1996 Act and benefit consumers, especially low-income consumers and those in rural and other high cost areas. Among other things, the plan's universal service and common line reforms enhance competition and otherwise benefit consumers by making universal service support portable to CLECs; simplify consumer bills through the consolidation of common line charges into a single, flat-rated SLC; and allow for limited geographical deaveraging. In addition, the plan makes universal service support explicit, and therefore furthers a principal goal of the 1996 Act.

Two amendments to the plan enhance consumer benefits through common line and universal service reforms.

First, the progression of SLC caps both begins at a lower level initially and maintains lower levels throughout the five-year term of the plan. Second, after July 1, 2001, when the primary residential and single line business SLC cap reaches $5.00, CALLS proposes that the Commission should initiate a proceeding for the purpose of verifying that the progression of change in the primary residence and single business SLC caps is appropriate in the UNE zone or zones where they would apply and that the progression reflects higher costs in these zones.

A. SLC Caps Reduced from Original CALLS Plan.

In the original plan, single line residence and single line business SLC caps were increased according to the following schedule:

January 1, 2000	$5.50
July 1, 2001	$6.25
July 1, 2002	$6.75
July 1, 2003	$7.00

The revised CALLS plan proposes that the SLC caps begin at a significantly lower level, increase more slowly, and maintain a lower level throughout the five-year period:

July 1, 2000	$4.35
July 1, 2001	$5.00
July 1, 2002	$6.00
July 1, 2003	$6.50

These measured changes in the progression of SLC caps, together with AT&T's and Sprint's unilateral long distance pricing commitments, remove any basis for concern that the CALLS plan will harm callers who make few long distance calls. These adjustments also allay any concerns regarding affordability for non-Lifeline "working poor" consumers, as low volume consumers will pay less in total charges under the modified CALLS plan than they pay today, even if they live in areas that will pay a SLC of $6.50 after July 2003.

Although the progression of the SLC caps has been slowed, the modified proposal maintains the same level of switched access rate reductions as was provided under the original CALLS plan. For example, in the original plan, switched access rates were reduced in part by shifting 25% of incumbent LEC local switching revenues into common line charges to be collected through subscriber line charges, including primary residence and single line business subscriber line charges. Under the revised plan, this transfer does not occur, and the revenues are largely eliminated, subject to limited safeguards for smaller, rural carriers. Therefore, although switched access rates will fall dramatically (and therefore result in lower long distance bills for consumers), residential and single line business end users will pay a maximum SLC initially of only $4.35, increasing at most to $6.50 by 2003, and they will pay no PICC pass-through charges. Most residential and single line business consumers, of course, will pay a SLC significantly below the cap.

B. Verification of Primary Residential and Single Line Business SLC Caps for Higher Cost UNE Zones.

As an additional safeguard to respond to concerns of consumer groups and state commissions, after July 1, 2001, when the primary residential and single line business SLC cap would reach $5.00, CALLS proposes that the Commission initiate a proceeding for the purpose of verifying that the progression of change in the primary residence and single business SLC caps beyond $5.00 is appropriate in the UNE zone or zones where they would apply and that the progression reflects higher costs in these zones.

To facilitate this verification, the LEC members of the Coalition commit to providing the Commission with economic data, including data identifying the forward-looking costs associated with the provision of retail voice grade access to the public switched telephone network for those areas.[7] In the event that the Commission finds that the progression of caps beyond $5.00 in a certain UNE zone or zones does not reflect higher costs in such UNE zone or zones, the Commission should at that time set an appropriate cap for such UNE zone or zones.[8]

C. Effect on Universal Service Fund

Although the SLC caps have been reduced, this change will not affect the size of the interstate access related universal service fund. The fund will remain at $650 million

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7 Nothing herein alters or waives the CALLS members' positions with respect to the legality, definition, application, or use of forward-looking costs.

8 If the Commission acts to establish a SLC cap lower than the proposed SLC caps, it may result in a higher CCL rate than would otherwise occur. The Commission should adjust the multiline PICC to the extent necessary to mitigate the change in CCL rates.

annually, and support will be distributed in accordance with the original plan, with the previously proposed $7 threshold for residential line support. Given the difficulty of determining the size of the fund and the level of SLC caps, the temporary adjustment in the SLC caps need not change the size of the fund. By establishing the $650 million universal service support, the Commission will gain experience and develop an empirical basis during the five year term from which it can evaluate the plan's operation. This experience will assist the Commission in determining the levels of the fund and/or primary residence and single line business SLC caps to be effective after July 2005.

In addition, there is no reason to alter the originally proposed distribution conventions. The plan provides a methodology for distributing $650 million in Interstate Access-related USF to the areas served by each of the participating price cap LECs. This methodology again is predictable and specific. It also ensures that virtually all areas receive enough support to eliminate the multiline business PICC and carrier common line charges, and that most areas also receive support to permit geographic deaveraging of SLCs.

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

In this area, as in others, this plan reflects a balancing of public interests defined by the 1996 Act. Estimates of the amount of implicit support in interstate access charges have varied widely. Those estimates have ranged from $250 million to $3.9 billion.[9] As reflected by AT&T's calculations using the FCC's HCPM model, the outputs of that model also support creation of a universal service support mechanism of approximately $650 million.[10]

The Commission can reasonably conclude that, given the public interest and pro-competitive benefits of immediately establishing a support mechanism that will allow competition to develop, the universal service mechanisms proposed by the CALLS plan, taken in its entirety including $650 million in explicit support and proposed common line and switched access reform, meet the requirements and goals of Section 254. Moreover, the Commission has previously endorsed – and the courts have upheld – the validity of consensus industry proposals as an appropriate interim approach for reform.[11] Similarly, the state commissions have used social compacts as a basis for decision-making.[12]

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9 *See*, HAI Model Version 5.0a, CC Dkt. No. 96-45; Comments of United States Telephone Association on Further Notice of Proposed Rulemaking, CC Dkt. No. 96-45 and 96-262 (filed July 23, 1999).

10 BellAtlantic, BellSouth, GTE, and SBC do not support use of a model to calculate universal service support, and together with Sprint do not join in the citation of AT&T's model-based calculation.

11 *See*, *MCI Telecommunication Corp. v. FCC*, 712 F.2d 517, 532-33 (D.C. Cir. 1983) ("ENFIA"); *see also*, Advanced Television Systems and Their Impact Upon the Existing Television Broadcast Service, *Fourth Report and Order*, 11 F.C.C. Rcd. 17771 (1996).

12 *See*, *for example*, D.C. Public Service Commission Formal Case 814, Phase 4, Order 11545 (rel. Nov. 17, 1999) (approval of settlement agreement regarding infrastructure deployment); Indiana Utility Regulatory Commission, Cause No. 41324, Interim Order (rel. February 16, 2000) (approving OSS settlement agreement)

II. Reductions in Switched and Special Access Rates

Under existing rules, the Commission regulates interstate access charge levels through a price cap mechanism adjusted by inflation and an annual productivity offset. The productivity offset, or "X-factor," has been the subject of extensive regulatory proceedings and litigation, and it has created significant uncertainty in the marketplace. The CALLS plan is designed to end this regulatory gridlock by adopting an X-factor of 6.5 % to reach target rates for local switching and switched transport.

This approach is reasonable, given that it is a settlement between buyers and sellers negotiating at arms-length.[13] As discussed above, the Commission has previously adopted the product of an industry-wide settlement negotiation in an effort to further the public interest, particularly when — as in this case — the settlement will apply for a limited period of time.[14] Since the Commission has already operated under a 6.5% X-factor, it is reasonable to use this adjustment factor to reach a predetermined and agreed upon price level. Hence, there is no reason for the X-factor battles to continue. As the D.C. Court of Appeals has admonished, "the best must not become the enemy of the good, as it does when the [Commission] delays making any determination while pursuing the perfect tariff."[15]

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13 The magnitude of usage sensitive switched access reductions is the same under the modified plan as under the original CALLS proposal. The target usage sensitive switched access rates are also the same in both the modified and the original proposal. In the comments and replies with respect to the original proposal, no party offered any evidence to support any claim that these reductions or target rates result in predatory prices.

14 *See, infra,* note 12.

15 *MCI Telecoms Corp. v. FCC,* 627 F.2d 322, 341-342 (D.C. Cir. 1980).

In response to comments regarding the level and structure of the access rate reforms,[16] CALLS proposes several modifications to the plan. First, the revised plan no longer generally shifts local switching costs to common line, marketing or TIC elements. Shifting these costs to common line elements would have increased some primary residence and single line business SLCs, among other charges. Eliminating this shift, subject only to limited safeguards for smaller, rural carriers and for those carriers facing disproportionate initial reductions per line reduces total primary residence and single line business SLC charges under the plan.[17]

The second change involves the mechanism used for targeting reductions to switched access. The plan reduces switched access usage-based revenues by $2.1 billion in its first year. This reduction is accomplished by reducing rates on average traffic sensitive rates and carrier common line charges excluding SLCs and PICCs. Under the original plan, the 6.5% initial reduction was to apply to all access rates, including special access. As discussed below, under the revised plan, special access rates are reduced in the first year by 3.0% rather than 6.5 %. In order to accomplish the same switched access usage-based $2.1 billion reduction in the first year, further reductions must be taken from the switched trunking and local switching baskets. Additional reductions to average traffic sensitive charge rates necessary to achieve a total of $2.1 billion reduction in switched access rates on July 1, 2000, will be calculated as a percentage of the local switching element of all price cap LECs. Carriers, however, may take these reductions against any of the average traffic sensitive charge rate elements, provided that they still generate the same amount of reductions. At least a proportionate share of the additional reduction in average traffic sensitive charge rates will be taken from

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16 See, *for example*, Comments of Time Warner Telecom (filed Nov. 12, 1999); Comments of the People of the State of California and the California Public Utilities Commission, at 20-21 (filed Nov. 12, 1999).

17 See, Appendix A, paragraphs 3.2.4.1 and 3.2.4.2 for a description of these exceptions.

local switching rates. These additional reductions to average traffic sensitive charge rates – those necessary to achieve a $2.1 billion reduction in switched access usage rates after implementing all other changes under the plan – may not be offset by increases in other rate elements, except for limited safeguards for mid-sized price cap carriers that serve rural areas.[18]

While the proposal provides for switched access reductions that are commensurate with those expected of the larger LECs, these LECs will be allowed to "pool" all or a portion of the reductions and target them for recovery from sources other than residential end users and per-minute charges, until the conclusion of the cost review proceeding. Building a safeguard for these companies into the plan is consistent with Commission precedent, and restricting the manner in which recovery takes place ensures that end user customers will enjoy the full benefits of the CALLS plan.

In other contexts, the Commission has recognized that the disparity between large and mid-size LECs goes far beyond differences in customer base. Due to their size, mid-sized LECs generally have different economies of scale than do the large LECs; they incur greater costs to provide service, do not receive the same volume discounts from vendors, and overall, shoulder a disproportionate burden, both in terms of time and expense, in meeting regulatory costs.[19] The recovery safeguard proposed in the CALLS plan recognizes these disparities, as does the existing differential in target rates for the non-carrier common line switched access charges.

Similarly, in implementing its plan for universal service, the Commission has carefully distinguished between rural and non-rural providers, understanding that

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18 *See*, Appendix A, paragraph 3.2.4.1 for a description of the exception for smaller rural carriers.

19 It was for these very reasons that the Commission recently determined that mid-sized price cap LECs should be permitted to use Class B Accounts and submit their cost allocation manuals based on the Class B System of Accounts. *See*, 1998 Biennial Regulatory Review – Review of Accounting and Cost Allocation Requirements, *Report and Order*, 14 F.C.C. Rcd. 11396 (1999).

caution must be employed when defining support levels for rural, high-cost areas. It is for all these same reasons that the CALLS plan provides for distinct, but balanced treatment for mid-sized, rural LECs with respect to switched access rate reductions.

It is important to recognize that this particular provision of the proposal affects only those rate reductions above and beyond the reductions that result from the operation of the existing price cap rules. Consequently, those mid-sized LECs qualifying for this provision will still make their normal price cap rate reductions. Moreover, these companies will also implement the additional switched access rate reductions called for by the modified CALLS plan.

The proposal further recognizes that, in some instances, reduction of those qualifying mid-sized LECs' total revenues beyond that required by existing price cap rules may not be appropriate. In particular, mid-sized LECs with significant rural holdings have raised the possibility that their common line revenues are below - and perhaps significantly below - their forward-looking economic costs.[20] Further examination of forward-looking costs for these companies may in fact show that common line recovery should increase rather than decrease. The safeguard for smaller, rural carriers will provide them with some revenue stability while allowing the Commission to review the level of common line recovery in more detail as part of the SLC cap proceeding beginning in 2001.

The safeguard for carriers that face above average reductions per line in the first year is designed to spread those reductions more equitably over time. Carriers that elect this option can pool a portion of their initial year reductions and recover these pooled amounts as additional components of a non-primary residential SLC or multiline business SLC or PICC. These pooled amounts will be eliminated through application of

[20] This could be due, in part, to the application of a uniform productivity offset to all price cap baskets when gains in switching and transport technology may have reduced unit cost for these services more quickly than corresponding costs for loops.

an X-factor of 6.5% beyond the date on which the average non-CCL switched access rates reach the applicable target rates.

The third change to non-common line carrier access charge rates involves the targeting of special access reductions. Under the original plan, carriers were not required to target X-factor reductions to special access services after the first year of the plan. Because productivity results were targeted to switched access, they primarily benefited residential and small business users. In order to further extend the benefits of the CALLS plan to dedicated or high volume users, the modified plan targets special access as well. The revised plan requires price cap LECs to reduce special access rates using an X-factor equal to 3.0% in 2000 and 6.5% annually in 2001, 2002, and 2003. Thereafter, there will be a price cap freeze for special access (*i.e.*, X will equal inflation). Thus, special access customers continue to be guaranteed reductions in special access rates through the modified CALLS plan.

This schedule of guaranteed reductions for special access is an important component of the unified plan. The 3.0% productivity offset in the first year is necessary for two reasons. First, special access rates will fall in the first year because incumbent LEC universal service contributions will be removed from special access rates as of July 1, 2000. Second, price cap LECs will be taking greater reductions in switched access to reach the $2.1 billion reduction than otherwise would be realized from ordinary targeted reductions. During the next 3 years, when these factors are not present, the X-factor will be 6.5%. By July 2004, the special access X-factor equals inflation so that the price cap system will encourage additional investment in those areas remaining under price caps at that time.[21]

[21] The Commission's access charge pricing flexibility order requires that services granted Phase II pricing flexibility and contract tariffs entered into during Phase I pricing flexibility be removed from price caps. Access Charge Reform, Fifth Report and Order and Further Notice of Proposed Rulemaking, 14 F.C.C. Rcd. 14221, ¶¶ 24-25 (1999) ("Pricing Flexibility Order").

III. Conclusion

The CALLS plan was conceived as a compromise among carriers with divergent interests. The proposed modifications to the plan respond to comments and suggestions by other parties, including state commissioners, consumers, public interest groups and Commission staff. The revised plan therefore amounts to a carefully balanced and intricate resolution of the thorny issues of universal service and access charge reform. It provides the Commission with the best opportunity it has ever had to move beyond contentious debate and adopt a solution.

For all the reasons described, the public interest will be served by the expeditious adoption of the plan. The public — and all segments of the telecommunications industry — should be given the opportunity to enjoy the immediate, tangible benefits of the plan.

Respectfully submitted,

By:________________________________

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March 8, 2000

A