DOCKET FILE COPY ORIGINAL
RECEIVED
APR 14 2000
FEDERAL COMMUNICATIONS COMMISSION
OFFICE OF THE SECRETARY

Before the
Federal Communications Commission
Washington, D.C. 20554

In the Matter of	)	
	)	
Coalition for Affordable Local and Long Distance Services (CALLS) Modified Proposal	)	DA 00-533
	)	
Access Charge Reform	)	CC Docket No. 96-262
	)	
Price Cap Performance Review for Local Exchange Carriers	)	CC Docket No. 94-1
	)	
Low-Volume Long Distance Users	)	CC Docket No. 99-249
	)	
Federal-State Joint Board on Universal Service	)	CC Docket No. 96-45

REPLY COMMENTS
OF THE
UNITED STATES TELECOM ASSOCIATION

The United States Telecom Association (USTA) respectfully submits its reply to comments filed April 3, 2000 in the above-referenced proceeding. In its comments, USTA supported the CALLS modified proposal as a voluntary option for price cap LECs and urged the Commission to approve the modified CALLS plan and make it available as a voluntary option for all price cap LECs. In its reply comments, USTA will address certain accommodations that should be made if the Commission does not approve CALLS as a voluntary option and will respond to specific issues raised by several commenting parties.

The CALLS plan addresses the access charge, price cap and universal service rules that are incompatible with the competitive marketplace and the unique circumstances facing incumbent price cap LECs within their serving areas. As USTA pointed out in its comments, the modified CALLS plan provides even greater benefits to customers than the original CALLS proposal as it will lower the overall bill for the majority of customers and simplify the actual bill

itself. CALLS provides for explicit recovery of implicit universal service support in a competitively neutral manner. CALLS includes an economically efficient access rate structure which is far superior to the ill-advised proposals of the Commission to impose a capacity-based rate structure, which no carrier supports, as well as the retroactive application of growth adjustments. CALLS also allows for deaveraging of the SLC to better ensure that SLC rates reflect the appropriate economic cost in a particular geographic area.

Absent appropriate Commission action, USTA has consistently maintained that individual carriers must be permitted to adopt regulatory plans, such as CALLS, so that they can achieve their business objectives and compete in the marketplace. The modified CALLS plan reflects a resolution of these complex issues that is acceptable to the signatories. USTA recognizes that the modified plan may not be suitable for all price cap LECs. As USTA has already indicated, use of the agreed upon X-Factor of 6.5 percent negotiated by the CALLS participants as a way to meet the targeted access charge reductions does not represent a measure of productivity and may not be appropriate for optional price cap LECs.[1] In addition, several price cap LECs provided evidence that the target rate level for the "other price cap incumbent LECs" proposed by CALLS does not reflect the underlying economic costs of these companies.[2] The target rate should reflect the unique operating costs of the other price cap LECs to ensure that their access charges fully recover their costs. USTA supports the voluntary application of the modified CALLS plan. If the Commission requires price cap carriers to adopt the plan, which it should not, the Commission must include the specified accommodations necessary to reflect the unique circumstances identified in the comments.

---

[1] *See,* Broadwing at 2 and Global Crossing at 8.
[2] Comments of Citizens at 4-10 and VALOR at 3.

Several parties apparently misunderstand the modified CALLS plan and have offered alternatives, which, if adopted, would make CALLS unacceptable to all price cap LECs. These parties apparently view this proceeding as another opportunity to eviscerate the benefits of price cap regulation. One of the more egregious and ill-advised suggestions made by the Texas Office of Public Utility Counsel, CFA and Consumers Union (Joint Parties) is to include all lines in all zones as well as all universal service funding in the cost studies which CALLS proposes to undertake to verify the caps for residential and single line business SLCs at a specified level. USTA opposes the imposition of any cost study for carriers under price cap regulation. The Joint Parties have never understood the fact that price cap regulation is different from traditional cost of service regulation. Allegations of improper cost allocation are irrelevant under price cap regulation because prices are capped not earnings. Price cap regulation eliminates any direct linkage between costs and prices because prices are determined pursuant to a formula. Cost studies, even as proposed in CALLS, are not necessary. As the Commission has clearly explained,

> Price cap regulation fundamentally alters the process by which incumbent LECs determine the revenues they are permitted to obtain from interstate access charges for access services. Briefly stated, cost of service regulation is designed to limit the profits an incumbent LEC may earn from interstate access service, whereas price cap regulation focuses primarily on the prices that an incumbent LEC may charge and the revenues it may generate from interstate access services. Under the Part 69 cost-of-service rules, revenue requirements are based on embedded or accounting costs allocated to individual services. Incumbent LECs are limited to earning a prescribed return on investment and are potentially obligated to provide refunds if their interstate rate of return exceeds the authorized level. By contrast, although the access charges of price cap LECs originally were set at the cost-of-service levels that existed at the time they entered price caps, their prices have been limited ever since by price indices that have been adjusted annually pursuant to formulae set forth in our Part 61 rules. Price cap carriers whose interstate access charges are set by these pricing rules are permitted to earn returns significantly higher than the prescribed rate of return that incumbent LECs are allowed to earn under cost of service rules. Price cap regulation encourages incumbent LECs to improve their efficiency by harnessing profit-making incentives to reduce costs, invest

efficiently in new plant and facilities, and develop and deploy innovative service offerings, while setting price ceilings at reasonable levels.[3]

There is absolutely no rationale to support returning to cost of service regulation or to support even the reintroduction of any aspect of traditional cost of service regulation to price cap carriers, including the imposition of new cost studies. The evidence is clear that price cap regulation has worked and has benefited consumers. Between January 1, 1991 and June 30, 1999, access customers enjoyed the accumulated benefit of approximately $23 billion in access price reductions. Access rates will continue to decline even without the CALLS proposal.[4] The Commission itself has demonstrated that between 1989 and 1999, the period in which price cap regulation has been in effect, telephone consumers have reaped dramatic benefits relative to other utility and service prices. For example, during that period, the price for all telephone services rose less than one percent per year while the price for water/sewer rose almost five percent, the price for public transportation rose over four percent, the price for postage stamps rose three and a half percent and the price for natural gas rose two percent.[5]

The Joint Parties and several state commissions suggest that the CALLS plan does not appropriately address the recovery of loop costs. This assertion is incorrect. Reform of common line pricing, as proposed by CALLS, is a critical step in complying with the requirement of the Telecommunications Act of 1996, recently upheld by the Fifth Circuit Court of Appeals, that universal service support be explicit, in ensuring that cost recovery is economic and in achieving the principles of cost causation. There is widespread consensus among economists that when

---

[3] Access Charge Reform, Price Cap Performance Review for Local Exchange Carriers, Transport Rate Structure and Pricing, End User Common Line Charges, CC Docket Nos. 96-262, 94-1, 91-213 and 95-97, *First Report and Order*, FCC 97-158 (rel. May 16, 1997) at ¶ 26.

[4] *See,* USTA Comments, Access Charge Reform, Price Cap Performance Review for Local Exchange Carriers, MCI Telecommunications Corporation Emergency Petition for Prescription of Access Charges, Consumer Federation of America Petition for Rulemaking, CC Docket Nos. 96-262, 94-1, 97-250 and RM 9210, filed October 26, 1998.

[5] FCC Industry Analysis Division, Common Carrier Bureau, "Trends in Telephone Service", Table 13.1, March 2000.

costs are fixed and do not vary with the volume of use, as loop costs are, those costs should be recovered on a flat rated basis. The Commission has already taken steps to modify its rules to permit such economic recovery of non-traffic sensitive costs. The CALLS proposal is consistent with the Commission's access reform policies as well as with the statutory requirements for universal service in that it continues to eliminate implicit access charge-based universal service support and allows for recovery of non traffic sensitive costs on a flat rated, explicit basis.

Such steps will not harm consumers. In a recent *ex parte* presentation, the Ad Hoc Telecommunications Users Committee noted that the Commission's access charge policies have resulted in substantially lower long distance rates, robust competition for long distance services and no net increase in the real price of local telephone service.[6]

Under the revised CALLS proposal, the current SLCs, PICCs, and minute-based CCL charges will be consolidated into a single SLC. The plan provides that no SLC, whether deaveraged or averaged, may exceed the overall cap.[7] While this structure is more economic in that it will better ensure that charges reflect the costs of providing service, it will not result in increased costs for customers as alleged by the Joint Parties. The CALLS coalition has provided evidence that the total bill for AT&T Basic Schedule customers who place no long distance call will be cut in half, representing a savings of $4.68 per month under the CALLS proposal.[8] Low volume customers, those with long distance charges of $2 per month will save $2.62 per month. Lifeline customers will save up to $5.89 per month. Contrary to the unsupported allegations of

[6] Letter from James S. Blaszek, Counsel for Ad Hoc Telecommunications Users Committee, to Ms. Magalie Roman Salas, Secretary, Federal Communications Commission, February 25, 2000. Pursuant to the Commission's access charge policies, non traffic sensitive costs are recovered through fixed end user charges applied to residential and business subscriber line monthly bills and traffic sensitive costs are recovered through usage-based access charges.
[7] The revised CALLS plan has safeguards with respect to geographic deaveraging that ensures that rates will be reasonably comparable.
[8] Comments of CALLS at 2-6.

the Joint Parties, customers of participating carriers will experience significant savings under the revised CALLS proposal.

The last minute alternative proposed by ALTS/Time Warner will not achieve the same level of economic benefit as the revised CALLS plan. It does not sufficiently address the issue of implicit universal service support as required by the Telecommunications Act of 1996. The reduced single line SLC cap proposed by ALTS/Time Warner does not permit LECs to recover their costs in most instances and simply perpetuates current market distortions which prevent competitors from seeking to serve residential and small business customers. Such an outcome is obviously contrary to the Commission's goal to encourage local competition.

MCI/Worldcom includes an unsupported attack on price cap LEC pricing flexibility in its comments which the Commission should dismiss out of hand. MCI/Worldcom suggests that the Commission suspend the pricing flexibility rules until it permits competitors to provide special access services using UNEs. This is far beyond the scope of the CALLS proposal. The Commission properly adopted a mechanism under which price cap LECs, upon meeting specified competitive triggers, can receive limited pricing flexibility for special access and switched access services.[9] Under the plan, if the competitive triggers are not met, no pricing flexibility is permitted. The CALLS proposal is consistent with the Commission's pricing flexibility framework and does not require any modification of that framework. There is no reason to defer implementation of the pricing flexibility order and the Commission should move quickly to complete the framework for switched access services.

[9] Access Charge Reform, Price Cap Performance Review for Local Exchange Carriers, Interexchange Carrier Purchases of Switched Access Services Offered by Competitive Local Exchange Carriers, Petition of U S WEST Communications, Inc. for Forbearance from Regulation as a Dominant Carrier in the Phoenix, Arizona MSA, CC Docket Nos. 96-262, 94-1, CCB/CPD File No. 98-63, CC Docket No. 98-157, *Fifth Report and Order*, FCC 99-206 (rel. Aug. 27, 1999).

The CALLS proposal provides the Commission with a unique opportunity to address contentious and complex issues. USTA urges the Commission to adopt the revised CALLS plan as a voluntary option for price cap LECs.

Respectfully submitted,

UNITED STATES TELECOM ASSOCIATION

By: Linda L. Kent

Its Attorneys:

Lawrence E. Sarjeant
Linda L. Kent
Keith Townsend
John W. Hunter
Julie E. Rones

1401 H Street, N.W., Suite 600
Washington, D.C. 20005
(202) 326-7248

April 14, 2000

CERTIFICATE OF SERVICE

I, Robyn L.J. Davis, do certify that on April 14, 2000 Reply Comments of the United States Telecom Association were either hand-delivered, or deposited in the U.S. Mail, first-class, postage prepaid to the persons on the attached service list.

Robyn L.J. Davis