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April 19, 2000

EX-PARTE - VIA ELECTRONIC FILING

Ms. Magalie Roman Salas
Secretary
Federal Communications Commission
The Portals
445 12th St., SW
Washington, DC 20554

Re: In the matter of Coalition for Affordable Local and Long Distance Service Modified Proposal, CC Dockets 94-1, 96-45, 96-262, 99-249

Dear Ms. Salas:

On April 17, 2000, the Coalition for Affordable Local and Long Distance Service ("CALLS") filed Reply Comments in the above–captioned dockets. By clerical error, the attached Chart "Issues and Answers" was not filed. Please accept this *ex parte* as an addendum to the Reply Comments filed on April 17.

In accordance with Commission rules, this letter is being filed electronically in each of the above captioned dockets.

Sincerely,

/ s /

Evan R. Grayer
Counsel for the Coalition for Affordable Local and Long Distance Service

Attachment

Issues and Answers

ISSUES RAISED BY PARTIES	ANSWERS
General	
The cost review should not be limited to common line costs recovered through the SLC. The FCC should be permitted to review other rate elements. (Level 3, at 2-4)	CALLS proposed to submit data solely to verify the progression in the caps in the residential and single line business SLCs. Prices for switched access elements will drop dramatically, much faster than under FCC rules as they stand today.
Locking rates in for five years will mean that regulators and not the marketplace will dictate companies' success. (Level 3, at 3-4)	In general, the CALLS plan enhances opportunities for competitive entry especially by making interstate access-related universal service funding available to CLECs for the first time. Price caps are caps, not floors.
A universal service and access charge reform plan should not be voluntary. (Montana Public Service Commission, at 2; Iowa Utilities Board, at 6-7)	The Commission can create other universal service and access charge reform plans for companies that do not elect to participate, or that are not covered by this plan. Price cap LEC participation in the CALLS plan is voluntary.
Revenue data is not available to analyze the overall impact of the plan. (Wisconsin PSC, at 3; MCI, at 3-5)	Incumbent LEC tariffs and tariff review plans are a matter of public record. CALLS data filed in September allows parties to calculate 1998 demand information, which is also available through publicly filed sources. CALLS filed extensive draft rules to permit parties to make their own analysis based on actual proposed rules. The information filed by CALLS is more specific and detailed than virtually all FCC Notices of Proposed Rulemaking. CALLS will share its own projections on a confidential, no citation, basis with interested parties.

ISSUES RAISED BY PARTIES	ANSWERS
<u>Common Line</u>	
CALLS would permit incumbent LECs to game price caps by using exogenous adjustments. (Ad Hoc at 6-8)	This is a theoretical rather than a real problem. The FCC has existing rules that limit the type of adjustments subject to exogenous treatment. The FCC substantially limited the types of accounting changes that qualify for exogenous treatment in the 1995 price cap order. Price Cap Performance Review for Local Exchange Carriers, *First Report and Order*, 10 FCC Rcd 8961 (1995)
SLC deaveraging should be restricted to the percentage difference between incumbent LECs' deaveraged network elements. (CPUC 3)	Deaveraging permitted under CALLS is always less than the percentage difference in UNE prices (excluding voluntary reductions).
The FCC's payphone policies treat base recovery on forward looking costs are likely to result in double recovery of SLCs and PICCs because the SLC and the PICC are not needed for full recovery of payphone costs. Therefore, PSPs should be exempt from the SLC and the PICC. (APCC, at 5-7)	Resolution of these issues is not central to the CALLS proposal. Other FCC proceedings are addressing these issues. *See*, *e.g.*, Wisconsin Public Service Commission; Order Directory Filings, CCB/CPD No. 00-1, DA 00-347 (rel. March 2, 2000). These issues can and should be resolved in that proceeding.
Multi-line business PICCs should be rolled up into Multi-line business SLCs , because in the past, IXCs have not passed on to end users. (Ad Hoc at 9-10)	This would have an impact on comparability between urban and rural areas because some areas (*e.g.*, GTE areas) would have very high combined MLB SLCs and PICCs. PICC pass-throughs, on the other hand, are rate averaged. In any case, this should cease to be an issue by 2002, when MLB PICCs are largely phased out.

ISSUES RAISED BY PARTIES	ANSWERS
Universal Service	
Extending universal service to all lines creates an excessively large fund. CALLS proponents have not demonstrated that non-primary residential and multi-line business rates and current SLCs fail to cover the cost of service. (CPUC, at 6-7)	The FCC, in its First Report and Order on Universal Service, acting at the request of the state members of the Universal Service Joint Board, decided that all lines, not just primary residential lines, would be eligible for universal service support. The support benchmarks ensure that support goes only to residences and businesses in areas that have higher costs as reflected in higher permitted price cap revenues and deaveraged UNE loop and port rates.
Once target rates are achieved and traffic sensitive rates are eliminated, incumbent LEC recovery from the new universal service fund should be reduced by an amount proportional to the Price Cap Index reductions for the common line basket. (CPUC, at 3-4)	This proposal lacks basis in the record. California provides no information that supports its assumption that costs in high cost areas decline in accordance with the X-factor.
Establishing a separate line item for universal service could result in consumers paying more than under the status quo. (Florida PSC, at 2)	Other changes in the consumers' bill result in the consumer's bill falling on July 1, 2000.
CALLS' failure to quantify the universal service fund increase necessary to fund the lower SLC of the modified plan permits CALLS to ignore the detrimental impact such increases will have on consumers. (Level 3, at 4)	There will be no increase in the universal service fund as a result of the slower progression in the SLC caps, and thus there will be no increase in universal service collections from consumers as a result of that slower progression. The plan sets the Interstate Access USF at $650 million for the five year period.
Now that the cost model has been established, there is no need to adopt another "interim plan" for universal service. (Level 3, at 6)	The cost model was not adopted for the purpose of estimating absolute costs, as opposed to relative costs between states.
With respect to distribution of universal service funding, the CALLS plan appears to rely on embedded costs. This is out of step with national policy. (Montana PSC, at 2-3)	The CALLS distribution mechanism uses state-approved UNE zones, whose prices are set according to forward looking costs, under current FCC rules that deaverage price cap revenues. Support reflects both the UNE loop and port prices and total price cap permitted revenues.

ISSUES RAISED BY PARTIES	ANSWERS
<u>Universal Service</u>	
The CALLS plan would nearly double the SLC. (NASUCA, at 10-11)	Although the maximum SLC cap increases from $3.50 to $6.50 over four years, the residential PICC charge is eliminated. Other charges are also reduced for low volume consumers. Long distance rate decreases will also lower consumer bills. In addition, CALLS estimates that a sizeable majority of Americans will pay primary residential and single line business rates below the maximum cap. The bottom line is that under the CALLS plan consumers across all geographic and income groups will see benefits.
Incumbent LECs should only be permitted to recover universal service costs through a flat rate charge, since the costs are non-traffic sensitive. (Ad Hoc, at 10-11)	This is an efficiency vs. equity tradeoff. Consumer groups argue that the fee should only be charged on a percentage of interstate revenue. The real difference between the two is small, making this a theoretical rather than practical dispute. Incumbent LECs are given the ability to choose a flat rate or percentage recovery. When the fee is a percentage, it will be a percentage of a fixed rate.
Associating universal service support with UNE deaveraging renders support unpredictable, and leads to uneven distribution of support among states. (US West, at 9-10)	Support is highly predictable. States make the choice regarding averaging (which yields less USF) or greater deaveraging (which yields more). The problem and solution in the first instance are in US West's hands, together with the states.
The amount of universal service funding should be changed due to the decrease in the primary residential SLC cap.	The CALLS plan is a transitional plan. The adjustment in the progression of SLC caps need not change the size of the fund. By establishing the $650 million fund, the Commission will gain experience and develop an empirical basis during the five year term of the plan from which it can evaluate the fund's sufficiency. The Commission can subsequently evaluate the appropriate SLC caps and universal service benchmarks to apply at the end of the five year period.

ISSUES RAISED BY PARTIES	ANSWERS
Universal Service	
SLC deaveraging should not be contingent on the elimination of multi-line business PICCs, because incumbent LECs will not be able to compete with entrants making use of deaveraged UNEs. (US West at 12-13)	This amounts to an attempt to shift greater recovery from MLB customers within US West states to MLB customers in other states.

ISSUES RAISED BY PARTIES	ANSWERS
Switched Access	
The CALLS proposal to shift recovery of CMT revenue to a universal service fund is at odds with the FCC's conclusion that universal service support should be based on forward looking costs. There is no reason to conclude that CMT revenues are collected solely for universal service support. (CPUC, at 5-6)	The CALLS Access USF is based in part on forward-looking costs as reflected through UNE loop prices. The carriers that receive Access USF support are required to use the funding to support universal service. 47 U.S.C. 254(e).
Targeting X-factor reductions to trunking and traffic sensitive baskets and not to the common line basket creates random productivity reductions unrelated to the justifications which led to the development of the X-factor. (Focal, at 6-11)	The X-factor under the CALLS plan does not attempt to measure productivity. Instead, it simply describes the "glidepath" to target rates. In addition, targeting X-factor reductions promotes broad based competition, and lower long distance rates for residential and business consumers.
The proposal would grant excessive pricing flexibility, allowing LECs to apply the X-factor to competitive services and not to others. (Focal, at 14-15)	The price cap basket structure remains in place, preventing carriers from targeting reductions outside the specified baskets. The Commission always has jurisdiction to suspend or declare unlawful a rate that is predatory.
The one time additional reduction in usage-based elements proposed by CALLS in order to reach the goal of $2.1 billion is arbitrary. (ALTS, at 12)	The additional reductions in usage-based elements are voluntary actions by participating price cap LECs to reduce prices. No one alleges that these rates would be predatory. There is no reason for the Commission to refuse to permit incumbent LECs to make these reductions.

ISSUES RAISED BY PARTIES	ANSWERS
<u>Switched Access</u>	
If the Commission adopts the plan, incumbent LEC recovery from the new universal service fund should be reduced by an amount at least proportionate to the Price Cap Index reductions for the common line basket once target traffic-sensitive access rates are reached and traffic-sensitive common line, marketing, and transport interconnection charge rate elements are eliminated. (CPUC, at 4)	This proposal lacks basis in the record. California provides no information that supports its assumption that costs in high cost areas decline in accordance with the X-factor.
Tandem transport rates should receive at least their proportionate share of reductions. By guaranteeing that rates for tandem traffic receive at least a proportionate share of the additional reduction in switched access, the FCC will ensure that the plan is competitively neutral. (Cincinnati Bell and Broadwing, at 5-6, Global Crossing, at 11)	Existing Commission rules prohibit charging predatory rates or otherwise engaging in anticompetitive pricing practices. To the extent these prices are not predatory, the FCC should permit incumbent LECs to determine which rates to lower.
The Average Traffic Sensitive Charge applied to an acquired exchange should be set at rates equal to the Average Traffic Sensitive of the acquiring company. (Citizens, at 8)	In order not to create artificial incentives to sell exchanges, as per the CALLS/VALOR *ex parte*, exchanges purchased on a going forward basis will not change target rates as a result of the sale.
CALLS' proposal for multiplicity of X factor reductions is completely arbitrary and without any economic foundation. CALLS does not explain why the level of proposed productivity factors that would apply to various baskets and services under its proposal is appropriate to these respective price cap baskets and services. (Focal, at 8)	The X-factor under the CALLS plan does not attempt to measure productivity. Instead, it simply describes the "glidepath" to target rates. In addition, targeting X-factor reductions promotes broad based competition, and lowers long distance rates for residential and business consumers.
Pooling is not an effective option for mid-size carriers serving competitive markets. (Global Crossing, at 7-8)	Pooling is not a requirement for mid-sized carriers. Those carriers can pool to the extent they wish to mitigate, but not eliminate, the initial reductions in switched access charges in excess of price cap X-factor reductions.

ISSUES RAISED BY PARTIES	ANSWERS
Switched Access	
If CALLS is adopted, states with high costs and low subscribership levels may be forced to adopt the federal access charge structure, resulting in higher SLCs and possibly more consumers dropping of the network. The Commission should consider the effect of the plan on intrastate access charge rates. (State Joint Board Members, at 11)	The CALLS plan does not require states to take any action with respect to intrastate access charges. Subscribership surveys since the institution of the SLC show that even as flat charges increased, so did telephone subscribership. The most often-cited reason for losing telephone service is high long distance bills.
Incumbent LECs should waive the Lower Formula Adjustment ("LFAM") to interstate access rates for all tariff years during the life of the proposal, because use of the LFAM may offset some of the reductions required under the modified plan. (CPUC, at 9; MCI, at 23-27)	LFAM only applies where the interstate rate of return falls below 10.25%, not the full, authorized 11.25% level, and the vast majority of price cap LECs are above that level. MCI's principal objection – that LFAM could increase multiline business PICC charges – will be rapidly reduced as the multiline business PICC rates themselves fall.
Small independent IXCs (such as resellers) will not benefit from access reductions because the savings will not be flowed through. (TRA at 3-4)	There is no reason to conclude that small independent IXCs will not benefit from the reduction in access charges. As access charges have fallen over the past 15 years, average long distance rates have fallen as well.
Mid-size LECs should have a lower X-factor because they tend to have lower costs, and therefore fewer opportunities to improve productivity growth. (Global Crossing, at 9)	X is not a productivity factor under the CALLS plan but a transition mechanism to reach rate freeze.
The five year glidepath is too long. (Level 3, 7-8)	Due to the upfront reduction, access rates fall dramatically in the first year of the plan. Ultimately rates will be at approximately half of today's levels.