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May 26, 2000

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MAY 26 2000
FEDERAL COMMUNICATIONS COMMISSION
OFFICE OF THE SECRETARY

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

Re: Coalition for Affordable Local and Long Distance Service Proposal – CC Dockets 96-262, 94-1, 96-45, 99-249

Dear Ms. Salas:

On May 25, 2000, I spoke with Kyle Dixon, Legal Advisor to Commissioner Michael Powell, regarding the above captioned dockets. I told Mr. Dixon that CALLS opposed the proposal of the Ad Hoc Telecommunications Users Group to bill the multiline business presubscribed interexchange carrier charge (PICC) directly to end users.

The residential and single line business PICC and the multiline business PICC under today's rules serve very different purposes. The residential and single line business PICC recovers price capped permitted revenues per line that cannot be charged in residential and single line business SLCs because of the SLC caps. As such, the residential and single line business PICC is part of the average cost recovery mechanism for service to those same residential and single line business lines.

By contrast, multiline business SLCs in virtually all areas fully recover price capped permitted revenues per line. The multiline business PICC therefore generally recovers price capped permitted revenues per line that cannot be charged to residential and single line business customers because of the residential and single business SLC and PICC caps, rather than recovering price capped permitted revenues per line associated with multiline business lines. Under current rules, the multiline business PICC is a transitional rate element that would be reduced provided that primary residence and single line business PICCs continue to increase. Furthermore, because the interexchange carriers charge a PICC recovery charge averaged nationwide, this transitional charge today is spread across all multiline business customers, rather than being assessed only from charges to multiline businesses in higher cost study areas.

The CALLS plan's differential treatment of residential/single line business PICCs and multiline business PICCs reflects these differences in the structure and purpose of today's charges. Under the CALLS plan, the residential/single line business PICC is eliminated and a transition is created to move residential/single line business cost recovery almost entirely into the residential/single line business SLCs and interstate access universal service support. This reform is consistent with the Commission's longstanding policy objective of aligning charges with the "cost causer."

Under CALLS, the multiline business PICC remains a transitional element that does not recover revenues from the "cost causer." The MLB PICC will continue to decline as the residential/single line business SLC increases over time. CALLS projects that beginning in 2001, this charge will drop rapidly, provided that the Commission does not subsequently alter proposed schedule of changes in the primary SLC caps. By July 2003, the multiline business PICC charge should average approximately ten cents per line, and may well be even lower than that. The multiline business PICC would decline more rapidly with higher SLC caps, but that would be more disruptive for residential and single line business consumers.

Given the reality that there must be a transition for residential/single line business SLC charges, retaining the existing structure of the multiline business PICC is the most equitable result. Were the Commission to adopt Ad Hoc's proposal to bill PICCs directly to end users, the transition would have a significant negative impact on higher cost areas, with consequences for rural economic development. Under today's rules and the CALLS proposal, with the PICC billed to the IXC, the PICC recovery is averaged across all geographic areas. Under Ad Hoc's proposal, with the multiline business PICC billed directly to end users, in those higher cost areas where price capped revenues per line are significantly above even a $4.35 primary residence SLC cap, the multiline businesses in those areas alone would face a multiline business surcharge. In addition to hurting rural economic development, this also places incumbent LECs at a significant, regulatorily created competitive disadvantage when competing to serve multiline business customers in the more dense portions of these higher cost study areas.

In addition, it is premature now to consider Ad Hoc's proposal. A better time to consider whether Ad Hoc's proposal is necessary is at the end of the CALLS five-year transition period. At that time, the Commission would have finished its review of primary residential/single line business SLC caps, and it could consider how to address any remaining multiline business PICC charges together with its evaluation of the interim interstate access universal service fund mechanisms created by the CALLS plan.

Finally, I told Mr. Dixon that the CALLS ILECs could not implement Ad Hoc's proposed change in time for July 1, 2000. Because of differences in PICCs for centrex customers, the MLB PICC charge cannot simply be added to the MLB SLC charge.

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

Sincerely,

John T. Nakahata /krs

John T. Nakahata

Counsel to the Coalition for Affordable Local and Long Distance Service

JTN/krs

cc: Mr. Larry Strickling, Chief, Common Carrier Bureau
Ms. Jane Jackson, Chief, Competitive Pricing Division
Ms. Dorothy Attwood, Legal Advisor to the Chairman
Ms. Sarah Whitesell, Legal Advisor to Commissioner Tristani
Ms. Rebecca Beynon, Legal Advisor to Commissioner Furchtgott-Roth
Mr. Jordan Goldstein, Legal Advisor to Commissioner Ness