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January 24, 2002

Ms. Magalie Roman Salas
Secretary
Federal Communications Commission
445 12th Street, SW
Washington, D.C. 20554

Re: Initiation of Cost Review Proceeding for Residential and Single-Line Business Subscriber Line Charge (SLC) Caps; CC Docket Nos. 96-262, 94-1.

Dear Ms. Salas,

Pursuant to Sections 1.415, and 1.419 of the Commission's Rules, enclosed please find the Comments of the Ad Hoc Telecommunications Users Committee in the above-captioned matter.

If you have any questions regarding this filing, please do not hesitate to contact me.

Sincerely,

Kevin S. DiLallo

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

In the Matter of

Initiation of Cost Review Proceeding	)	
for Residential and Single-Line Business	)	CC Docket No. 96-262, 94-1
Subscriber Line Charge (SLC) Caps	)	

COMMENTS OF AD HOC
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COMMENTS OF AD HOC
TELECOMMUNICATIONS USERS COMMITTEE

The Ad Hoc Telecommunications Users Committee (the "Ad Hoc Committee") submits these Comments in response to the September 17, 2001 Public Notice in the above-referenced docket.[1] For the reasons set forth below, the Commission should reject the cost studies submitted by the price cap local exchange carriers ("LECs"), and, based on other cost studies discussed herein, raise the cap on the residential and single-line business subscriber line charge ("SLC") to $6.50.

INTRODUCTION AND SUMMARY

The price cap LECS' forward-looking cost studies are inadequately supported and inconclusive; therefore, the Commission should not rely on them to assess whether to raise the SLC cap on residential and single-line business customers. There is no reason, however, that the Commission can not look to other data to make such an assessment, such as the ARMIS data it relied on in

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1 *Initiation of Cost Review Proceeding for Residential and Single-Line Business Subscriber Line Charge (SLC) Caps,* CC Dkts. Nos. 92-262, 94-1, DA 01-2163 (released September 17, 2001) (the "Public Notice").

the initial *CALLS Order*,[2] the forward-looking cost Synthesis Model used to determine the need for Universal Service Fund support, or the Total Element Long-Run Incremental Cost ("TELRIC") studies adopted in numerous state Unbundled Network Element ("UNE") cost proceedings. Each of these alternatives to the price cap LECs' cost studies supports the increase in the SLC cap planned for July 1, 2002. To the extent the Commission raises that cap, it should concurrently and correspondingly lower the multiline business presubscribed interexchange carrier charge ("PICC"). Conversely, if the Commission determines that an increase in the SLC cap is not cost-justified, it should re-evaluate the need for the PICC.

DISCUSSION

I. THE FORWARD-LOOKING COST STUDIES FILED BY THE PRICE CAP LOCAL EXCHANGE CARRIERS ARE UNSUPPORTED, DEFICIENT, AND OF DUBIOUS ACCURACY.

In the *CALLS Order*,[3] the Commission raised the cap for the primary residential and single-line business SLC to $4.35, effective July 1,2000, and to $5.00, effective July 1, 2001. Although the Commission has approved raising the cap to $6.00 on July 1, 2002, and to $6.50 on July 1, 2003, any increases above the $5.00 level will require verification that they are "appropriate and reflect higher costs where they are to be applied."[4] Thus, the Commission announced

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[2] *Access Charge Reform, Price Cap Performance Review for Local Exchange Carriers, Low-Volume Long Distance Users, Federal-State Joint Board on Universal Service*, Sixth Report and Order in CC Docket No. 96-262 and 94-1, Report and Order in CC Docket No. 99-249, Eleventh Report and Order in CC Docket No. 96-45, 15 FCC Rcd 12962 (2000) ("*CALLS Order*").

[3] *Id*.

[4] *Id*., ¶¶ 70, 83.

in the *CALLS Order* that it will "initiate and complete a cost review proceeding prior to any scheduled increases above this cap taking effect to determine the appropriate SLC cap."[5]

On September 17, 2001 the Commission released a *Public Notice* initiating the cost review proceeding for residential and single-line business SLC caps.[6] The price cap LECs were directed to file forward-looking cost information for the provision of retail voice grade access to the public switched network. On November 16, 2001, the seven price cap LECs (BellSouth, Cincinnati Bell, Citizens, Qwest, SBC, Sprint, Verizon) filed their respective cost review information[7] to support the raising the SLC above $5.00, as required by the *CALLS Order*.[8]

A. Each LECs has provided only a summary of its cost model results, and none has provided the complete forward-looking cost models electronically.

Regrettably, these cost studies lack the detail necessary for the Commission to complete a thorough cost review. Indeed, they are not studies at all, but summary sheets depicting the costs produced by a variety of unsupported, and in many cases undocumented, cost models. The incomplete nature of the price cap LECs' cost data renders it moot. Although, as SBC has stated, "this is not a rate-setting proceeding,"[9] if the Commission is to rely on the

5 *Id.*, ¶ 83.

6 *Supra,* note 1.

7 BellSouth filed corrections to its cost review information on December 7, 2001.

8 *CALLS Order* at ¶ 79.

9 SBC Cost Submission at 3.

LECs' forward-looking costs when determining the appropriate SLC cap, it must be able to validate the LECs' numbers. The level of detail provided, however, does not allow the Commission to determine whether the purported costs are in fact forward-looking or even accurate.

All of the reporting carriers were remiss in failing to provide adequate information within their filings. Verizon, for example, submitted a one-page summary of the state-level forward-looking average costs per line,[10] with a total of thirteen pages describing the methodology *for all three cost models*. In contrast, Verizon filed hundreds of pages of testimony, provided hundreds of pages of documents via discovery, and furnished electronic copies of its cost models to other parties (subject to appropriate proprietary agreements) in state proceedings in New Jersey and Maryland in which rates for unbundled network elements were set.[11] This enabled other parties to examine Verizon's model methodologies and understand how it calculated costs. Both the regulators and other parties were able to make adjustments and run sensitivities to the models to identify cost drivers and derive costs that more accurately conformed to the definition of "forward-looking." Information such as this is required to make an appropriate assessment of the LECs' cost models; however, the information Verizon and the other LECs have provided is sadly lacking in nearly every

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[10] Verizon Cost Submission, Attachment D.

[11] *In the Matter of the Board's Review of Unbundled Network Elements Rates, Terms and Conditions of Bell Atlantic New Jersey, Inc.*, New Jersey BPU Docket No. TO00060356. *In the Matter of the investigation into Rates for Unbundled Network Elements Pursuant to the Telecommunications Act of 1996*, Maryland PSC Case No. 8879.

respect, and it prevents the Commission from making a meaningful assessment of their actual forward-looking costs throughout their service territory.[12]

Moreover, none of the carriers provided the electronic models used to calculate the forward-looking costs reported in their summary tables. As such, almost all the inputs used in the models were undisclosed, making it impossible to: (1) determine whether the inputs are indeed "forward-looking"; (2) offer a meaningful critique of the studies; and (3) run sensitivity analyses to identify/modify cost drivers. All the price cap LECs have filed forward-looking cost studies with state commissions for years in UNE proceedings. These filings included the electronic models they relied upon, and all input assumptions have therefore been fully disclosed and debated. But such was not the case here; therefore, it is impossible to complete a thorough review of the cost studies and their respective methodologies.

Except for Cincinnati Bell and Sprint, each LEC has submitted cost estimates using proprietary cost studies unique to its own operations, as summarized in Table 1, below. The cost models listed in the table differ widely in methodology and chosen inputs, and it would be unreasonable to expect any participant in this proceeding, or the Commission itself, to analyze carefully even one of the cost models without the working electronic model and complete accompanying documentation.

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[12] Qwest and BellSouth provide a higher level of detail in their cost filings. For example, BellSouth provided a summary of the resulting investment costs and reported disaggregated direct, shared and common costs for each BellSouth State. However, the higher level of detail provided by both Qwest and BellSouth is not sufficient to allow Commenters to validate the forward-looking costs reported in their cost filings.

Table 1**	
Price Cap LEC	**Forward-Looking Cost Models Employed**
BellSouth	BellSouth Telecommunications Loop Model Switching Cost Information System – Model Office (Telcordia) BellSouth Simplified Switching Tool – Port BellSouth Cost Calculator
Cincinnati Bell	FCC High Cost Proxy Model, Default National Inputs
Citizens	CostMap Wireline Model
Qwest	LoopMod Model Retail Cost Program
SBC	SBC Loop Cost System Switching Information Cost Analysis Tool CAPCS
Sprint	FCC High Cost Proxy Model, Default National Inputs for all states except Florida.
Verizon	Loop Cost Analysis Model (VZ-New England and VZ-South) Integrated Cost Model (VZ-West) Link Cost Model (VZ-New England, VZ-New York) VCOST (All)

B. The LECs did not disclose most of the inputs used in the models, making it a meaningful critique impossible.

In addition to not providing the complete cost studies electronically, the LECs have elected not to share with the Commission the actual inputs used and the assumptions made in calculating the costs they submitted to the Commission. SBC has explained that it "is not providing the actual inputs for the cost models [because they] are proprietary and competitively sensitive."[13] Verizon stated that it has used GAAP depreciation lives, actual corporate cost of capital, actual fill factors, and actual common overhead factors, but it has failed to state with specificity the value of each of these inputs. Without this information, it is impossible to critique the input values and assumptions used or

[13] SBC Cost Submission at 4.

to recommend different input values and assumptions. Indeed, it is impossible to determine whether or not the cost results are forward-looking in nature.

There are hundreds of factor inputs in a typical forward-looking cost model, but there are several controversial key inputs that have dominated recent evaluations of forward-looking models in state and federal proceedings. Five of these, which have been recognized as significant cost drivers in forward-looking cost models, are:

> **Cost of Capital:** Only four out of the seven carriers identified the cost of capital used in their respective cost studies.[14]
>
> **Debt/Equity Ratio:** The Debt/Equity ratio reflects the company's capital structure and is used to calculate the company's cost of capital. None of the seven carriers identified the debt/equity ratios used in their respective cost studies.
>
> **Depreciation Lives:** Only one carrier (Verizon) identified the depreciation lives used in its cost studies (GAAP depreciation lives); two carriers used the HCPM model, which employs the default FCC economic depreciation lives; and the remaining four carriers indicated that they used "economic" depreciation lives, but did not elaborate on what "economic" depreciation lives they actually used.
>
> **Fill Factors:** Fill factor inputs represent the target level of working capacity at which the company would place additional facilities. None of the seven carriers identified the actual fill factors (copper feeder, copper distribution, fiber cable, fiber electronic equipment, etc.) used in their respective cost studies.[15]
>
> **Percentage Next Generation Digital Loop Carrier (NGDLC) Investment:** There are two types of Digital Loop Carrier (DLC) systems: Universal DLC and Integrated DLC (IDLC). The percentage of the company's facilities

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14 Tthe inputs used in the HCPM model, which was used by both Cincinnati Bell and Sprint to calculate their forward-looking costs, are publicly available; but neither Cincinnati Bell nor Sprint identified the HCPM inputs used to calculate their respective costs, and they are not included as carriers that specifically divulged the cost of capital value used. This treatment applies to all other carrier counts reported in this section.

15 Sprint identified a fiber fill factor of 75% as a Florida Specific Value when it ran the HCPM separately for Sprint-Florida. Sprint Cost Submission at A-2.

> served over UDLC and IDLC is typically specified in a cost model, as is the percentage use of Next Generation DLC (NGDLC), which is the forward-looking technology for IDLC systems. None of the seven carriers identified the relevant shares of UDLC, IDLC or NGDLC shares that were used in their respective cost studies.

The assumptions made regarding each of the key inputs outlined above have a profound effect on the final cost numbers generated by the studies, and yet the LECs have failed to disclose this information to the Commission. Ad Hoc is therefore unable to provide any meaningful insight into whether the carriers relied upon appropriate and reasonable forward-looking assumptions in computing their costs. Similarly, the Commission will be unable to use the data to verify whether an increase in the SLC is warranted. Commission use of these cost studies would constitute arbitrary and capricious decision-making.

II. DUE TO THE INADEQUACY OF THE LECS' COST STUDIES, THE COMMISSION SHOULD CONSIDER OTHER AVAILABLE COST INFORMATION TO DETERMINE THE NEED FOR AN INCREASE IN THE RESIDENTIAL AND SINGLE-LINE BUSINESS SLC CAP.

Although the Commission stated in the *CALLS Order* that it would undertake a cost review prior to increasing the cap on the residential and single-line business SLC, it did not limit its review to consideration of forward-looking cost studies submitted by the price cap LECs; rather, the Commission merely indicated that the price cap LECs "have agreed to provide, and we will examine, forward-looking cost information."[16] Similarly, the Modified Proposal of the CALLS sponsors does not suggest that the Commission should be limited to the price cap LECs' forward-looking studies.[17] Thus, neither the Commission's Order

16 *CALLS Order* at ¶ 83.

17 *See* Modified Proposal, at § 2.1.2.2.3.

nor the Modified Proposal specifically excludes other types of cost information from consideration, such as (1) embedded/accounting costs (which has been used in the past to set/justify common line charges); or (2) other forward-looking cost studies/results.

Because the Commission is unable to use the forward-looking cost studies submitted by the price cap LECs in this proceeding, it should consider other cost information to verify whether an increase to the residential and single-line business SLC cap is warranted. Two alternatives the Commission might consider are: (1) implement the increases to $6.00 on July 1, 2002 and $6.50 on July 1, 2003[18] predicated on the standard ARMIS cost data initially used to justify the SLC cap increase in the first instance; or (2) assess other forward-looking cost studies that have been analyzed at either the state or federal level to determine the appropriateness of raising the cap above its current level.

A. The Commission may still proceed with its plan to raise the SLC cap for residential and single-line business service, as set forth in the *CALLS Order*.

There is no reason why the Commission should refrain from moving forward with the planned increases to the residential and single-line business SLC cap to $6.00 on July 1, 2002 and $6.50 on July 1, 2003, predicated on the long-standing notion that embedded accounting costs support a SLC cap well above the ages-old $3.50, the $4.35 cap implemented on adoption of the CALLS Proposal, and even the current cap of $5.00.

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18 *CALLS Order*, ¶ 70, citing Modified Proposal at § 2.1.2.2.1.

Table 2, below, provides a carrier-by-carrier analysis of the most current relevant ARMIS data for access line costs, which is the interstate portion of the monthly USF cost per line.[19] As indicated in the Table, the data demonstrate that the planned increase to the residential and single-line business SLC cap above $5.00 is still warranted in more than half the states.[20] The Commission should not lose sight of the fact that an increase in the residential and single line business SLC *cap* of $1.00 will not translate into an increase of $1.00 for all residential customers. In short, the Commission already has ARMIS data that justifies the planned increases to the residential and single-line business SLC cap outlined in the *CALLS Order*.

Table 2
Embedded Access Line Costs
Calculated Using ARMIS Unseparated USF Costs

RBOC	State	Annual Unseparated USF Cost	Monthly Unseparated USF Cost	25% Interstate Portion
Bell South				
	AL	$250.83	$20.90	$5.23
	FL	$252.15	$21.01	$5.25
	GA	$283.55	$23.63	$5.91
	KY	$293.74	$24.48	$6.12
	LA	$276.32	$23.03	$5.76
	MS	$342.69	$28.56	$7.14
	NC	$285.08	$23.76	$5.94
	SC	$322.95	$26.91	$6.73
	TN	$272.74	$22.73	$5.68
Verizon (Bell Atlantic)				
	DC	$86.33	$7.19	$1.80
	DE	$200.47	$16.71	$4.18
	MA	$174.16	$14.51	$3.63
	MD	$202.72	$16.89	$4.22
	ME	$277.67	$23.14	$5.78

19 Unseparated data is reported in ARMIS 43-04, line 9005. The interstate portion is calculated by multiplying the unseparated cost per line by 25%.

20 Table 2 contains data for RBOCs only.

	NH	$257.96	$21.50	$5.37
	NJ	$203.00	$16.92	$4.23
	NY	$204.82	$17.07	$4.27
	PA	$203.83	$16.99	$4.25
	RI	$221.32	$18.44	$4.61
	VA	$225.26	$18.77	$4.69
	VT	$305.76	$25.48	$6.37
	WV	$306.59	$25.55	$6.39
SBC				
	Ameritech - IL	$169.03	$14.09	$3.52
	Ameritech - IN	$199.25	$16.60	$4.15
	Ameritech - MI	$185.96	$15.50	$3.87
	Ameritech - OH	$179.65	$14.97	$3.74
	Ameritech - WI	$188.67	$15.72	$3.93
	SWBT - AR	$321.56	$26.80	$6.70
	SWBT - KS	$271.57	$22.63	$5.66
	SWBT - MO	$238.68	$19.89	$4.97
	SWBT - OK	$246.14	$20.51	$5.13
	SWBT - TX	$258.00	$21.50	$5.38
	Pacific Bell - CA	$168.17	$14.01	$3.50
	Nevada Bell - NV	$227.07	$18.92	$4.73
	SNET - CT	$221.30	$18.44	$4.61
Qwest				
	AZ	$285.53	$23.79	$5.95
	CO	$298.17	$24.85	$6.21
	IA	$196.52	$16.38	$4.09
	ID	$270.03	$22.50	$5.63
	MN	$205.17	$17.10	$4.27
	MT	$321.74	$26.81	$6.70
	ND	$215.79	$17.98	$4.50
	NE	$250.68	$20.89	$5.22
	NM	$337.23	$28.10	$7.03
	OR	$283.63	$23.64	$5.91
	SD	$249.89	$20.82	$5.21
	UT	$261.62	$21.80	$5.45
	WA	$232.39	$19.37	$4.84
	WY	$442.50	$36.88	$9.22
Source:				
ARMIS Table 43-04, year 2000, column b, row 9005.				

B. In the alternative, the Commission can look to forward-looking cost results from other proceedings to support adjusting the residential and single-line business SLC cap.

Assuming the Commission disregards the price cap LECs' studies, if it finds it necessary to examine forward-looking cost study results to justify the planned increase in the residential and single-line business SLC cap, it can look to at least two models: the Synthesis Model results (which it uses in assessing the need for Universal Service funding); and/or the Total Element Long Run Incremental Cost (TELRIC) study results adopted by state PUCs for purposes of costing out Unbundled Network Elements (UNEs) in accordance with CC Docket 96-98.

1. The Synthesis Model

The "Synthesis Model" is a forward-looking cost model adopted by the Commission in CC Docket No. 96-45 to assess the need for Universal Service funding.[21] Combining elements of the BCPM version 3.0, the Hatfield Model version 5.0a and the Hybrid Cost Proxy Model version 2.5,[22] the Synthesis Model was thoroughly analyzed and critiqued by numerous parties, and was ultimately modified and adopted by the Commission as an accurate representation of the forward-looking cost of access lines when determining universal service funding requirements.[23] The Synthesis Model is a national cost model that produces statewide results that are not distinguished by carrier.

Outputs from the Synthesis Model encompass loop and port costs, as well as retail/marketing costs and common overhead costs. Average national costs

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21 *Federal-State Joint Board on Universal Service*, 5th Report and Order, CC Dockets 96-45, 97-160, 13 FCC Rcd 21323 (1998) (*Platform Order*).

22 *Federal-State Joint Board on Universal Service*, 10th Report and Order, CC Dockets 96-45, 97-160, 14 FCC Rcd 20156, 20162, ¶ 8 (1999) (*Inputs Order*).

23 See Inputs Order.

associated with retail and marketing efforts were estimated by the Commission to be $3.71 per line on an unseparated basis.[24]

Other parties might argue that cost studies employed in attributing universal service funds may incorporate different (and inapplicable) methods of assigning common overhead costs to the access line as compared with a straightforward forward-looking access line cost study. The Commission, however, can make adjustments to the Synthesis Model as it deems necessary to more accurately account for common overhead costs for the purposes of this proceeding.

The outputs of the Commission's forward-looking Synthesis Model are summarized in Table 3. The interstate portion of the cost is calculated by applying a 25% interstate factor to the total cost amount.

Table 3
Forward-Looking Access Line Costs
Calculated Using the FCC's Synthesis Model

RBOC	State	Statewide Average Monthly Forward-Looking Cost	25% Interstate Portion
Bell South			
	AL	$33.08	$8.27
	FL	$21.06	$5.26
	GA	$23.12	$5.78
	KY	$30.80	$7.70
	LA	$27.29	$6.82
	MS	$39.29	$9.82
	NC	$24.30	$6.08
	SC	$27.19	$6.80
	TN	$27.37	$6.84

[24] The Commission adopted national average costs rather than company-specific costs of $3.62 for "Service Expense/Customer Operations" and $0.09 for "Marketing." *Id.*, at 20305, 20321 and 20423.

Verizon (Bell Atlantic)			
	DC	$16.78	$4.19
	DE	$21.32	$5.33
	MA	$19.98	$4.99
	MD	$20.74	$5.18
	ME	$32.24	$8.06
	NH	$25.95	$6.49
	NJ	$19.02	$4.75
	NY	$20.09	$5.02
	PA	$21.51	$5.38
	RI	$20.79	$5.20
	VA	$22.68	$5.67
	VT	$34.00	$8.50
	WV	$34.22	$8.56
SBC			
	Ameritech - IL	$22.15	$5.54
	Ameritech - IN	$25.25	$6.31
	Ameritech - MI	$24.37	$6.09
	Ameritech - OH	$23.82	$5.95
	Ameritech - WI	$24.92	$6.23
	SWBT - AR	$27.93	$6.98
	SWBT - KS	$24.44	$6.11
	SWBT - MO	$27.17	$6.79
	SWBT - OK	$25.87	$6.47
	SWBT - TX	$23.06	$5.76
	Pacific Bell - CA	$19.78	$4.95
	Nevada Bell - NV	$20.04	$5.01
	SNET - CT	$22.31	$5.58
Qwest			
	AZ	$20.57	$5.14
	CO	$22.91	$5.73
	IA	$23.84	$5.96
	ID	$27.43	$6.86
	MN	$24.29	$6.07
	MT	$32.10	$8.03
	ND	$25.89	$6.47
	NE	$28.68	$7.17
	NM	$25.89	$6.47
	OR	$23.99	$6.00
	SD	$27.34	$6.84
	UT	$20.97	$5.24
	WA	$22.39	$5.60
	WY	$33.47	$8.37

Source:

Before the Federal Communications Commission, Universal Administrative Service Company, Federal Universal Service Support Mechanisms Fund Size Projections And Contribution Base For The Second Quarter 2001, Appendix High Cost (HC11), February 6, 2001.

As is evident by the data appearing in Table 3, the results of the Synthesis Model support an increase in the residential and single-line business SLC cap, as 46 states have separated forward-looking costs that exceed $5.00 per line, and 27 states' costs exceed $6.00, the next step in the cap progression pursuant to the *CALLS Order*.

2. TELRIC Studies Adopted by State PUCs

As the Commission is aware, for years state PUCs have been analyzing and ultimately adopting forward-looking cost studies developed by the price cap LECs for purposes of setting cost-based rates for UNEs. As an alternative to the Synthesis Model, the Commission could examine the results of these TELRIC studies to assess the need to increase the cap on the residential and single-line business SLC. Although the Ad Hoc Committee does not take a position on the veracity of the studies and their attendant inputs and outputs, as adopted by the states, the detail with which these factors have been debated at the state level would provide more solid footing for the Commission than the unsupported "black box" studies filed by the price cap LECs in the instant proceeding.

The appropriate UNEs to include in any comparison to "access line" costs would be the 2-wire Loop and Switch Port.[25] Of course, UNEs are wholesale in nature, and exclude retailing or marketing expenses.[26] For the purposes of this proceeding, however, it is appropriate for the cost results to include retail and marketing costs, as these costs are relevant when considering cost recovery for

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[25] SBC Cost Submission at 4; Qwest Cost Submission at 2; BellSouth Cost Submission at 1; Cincinnati Bell Cost Submission at 3; and Verizon Cost Submission, Attachment D, at 1.

[26] Note that these costs were included in the results of the Synthesis Model.

the common line. As indicated above, in the *Inputs Order*, the nationwide average retailing and marketing costs associated with an access line were estimated to be $3.71 per line on an unseparated basis; therefore, calculating another forward-looking cost benchmark is as easy as summing the costs of an unbundled loop and unbundled port for each carrier in each state, adding in $3.71 for marketing and retailing costs, and subsequently applying an interstate separations factor of 25%. Table 4 provides the results of this calculation.

Table 4

Forward-Looking Access Line Costs
Calculated Using Statewide Average TELRIC UNE Rates

RBOC	State	Loop Cost	Monthly Port Cost	Retail/Mktg estimate	Total Monthly Forward-Looking Cost	25% Interstate Portion
Bell South						
	AL	$19.04	$2.50	$3.71	$25.25	$6.31
	FL	$13.76*	$1.62	$3.71	$19.09	$4.77
	GA	$16.51	$1.85	$3.71	$22.07	$5.52
	KY	$20.00	$2.61	$3.71	$26.32	$6.58
	LA	$19.35*	$2.20	$3.71	$25.26	$6.32
	MS	$16.71*	$2.11	$3.71	$22.53	$5.63
	NC	$16.71	$2.19	$3.71	$22.61	$5.65
	SC	$18.48*	$2.35	$3.71	$24.54	$6.14
	TN	$18.00	$1.89	$3.71	$23.60	$5.90
Verizon (Bell Atlantic)						
	DC	$10.81	$1.55	$3.71	$16.07	$4.02
	DE	$12.05	$2.23	$3.71	$17.99	$4.50
	MA	$14.98	$2.00	$3.71	$20.69	$5.17
	MD	$14.50	$1.90	$3.71	$20.11	$5.03
	ME	$17.53	$2.24*	$3.71	$23.48	$5.87
	NH	$17.99	$2.22	$3.71	$23.92	$5.98
	NJ	$9.52	$0.73	$3.71	$13.96	$3.49
	NY	$14.81	$2.50	$3.71	$21.02	$5.26
	PA	$14.06	$1.90*	$3.71	$19.67	$4.92
	RI	$12.05*	$4.47	$3.71	$20.23	$5.06
	VA	$13.60	$1.30	$3.71	$18.61	$4.65
	VT	$14.41	$1.03	$3.71	$19.15	$4.79
	WV	$24.58	$1.60	$3.71	$29.89	$7.47
SBC						

	Ameritech - IL	$9.81	$5.01	$3.71	$18.53	$4.63
	Ameritech - IN	$8.20	$5.34	$3.71	$17.25	$4.31
	Ameritech - MI	$10.15	$2.53	$3.71	$16.39	$4.10
	Ameritech - OH	$5.93*	$4.63	$3.71	$14.27	$3.57
	Ameritech - WI	$10.90	$3.71	$3.71	$18.32	$4.58
	SWBT - AR	$18.75*	$2.75	$3.71	$25.21	$6.30
	SWBT - KS	$14.04	$1.61	$3.71	$19.36	$4.84
	SWBT - MO	$12.71*	$1.74*	$3.71	$18.16	$4.54
	SWBT - OK	$14.84	$2.25	$3.71	$20.80	$5.20
	SWBT - TX	$14.15	$2.90	$3.71	$20.76	$5.19
	Pacific Bell - CA	$10.03*	$2.88	$3.71	$16.62	$4.16
	Nevada Bell - NV	$19.83	$1.63	$3.71	$25.17	$6.29
	SNET - CT	$12.49	$3.31	$3.71	$19.51	$4.88
Qwest						
	AZ	$21.98	$1.61	$3.71	$27.30	$6.83
	CO	$19.65*	$1.15	$3.71	$24.51	$6.13
	IA	$20.15	$1.15	$3.71	$25.01	$6.25
	ID	$25.52	$1.34	$3.71	$30.57	$7.64
	MN	$17.87	$1.08	$3.71	$22.66	$5.67
	MT	$27.41	$1.45	$3.71	$32.57	$8.14
	ND	$16.41*	$1.27	$3.71	$21.39	$5.35
	NE	$14.32	$1.37	$3.71	$19.40	$4.85
	NM	$17.75*	$1.38	$3.71	$22.84	$5.71
	OR	$15.00	$1.14	$3.71	$19.85	$4.96
	SD	$7.01*	$1.84	$3.71	$12.56	$3.14
	UT	$20.00	$0.89*	$3.71	$24.60	$6.15
	WA	$11.33	$1.34	$3.71	$16.38	$4.10
	WY	$19.05*	$1.53	$3.71	$24.29	$6.07

* Highest-density zone cost was employed for those states without statewide average costs.

Sources:

"A Survey of Unbundled Network Element Prices In The United Sates", National Regulatory Research Institute (NRRI), Spring 2001.

Federal-State Joint Board on Universal Service, CC Dockets 96-45, 97-160, Tenth Report and Order, adopted October 21, 1999, released November 2, 1999, Appendix D, page D-5.

As was the case with the Commission's Synthesis Model, the interstate portion of these forward-looking cost studies also provides compelling support for an increase in the residential and single-line business SLC cap, as 29 states demonstrate interstate costs in excess of the current $5.00 SLC cap, while 14 states' costs exceed $6.00.

III. IF THE COMMISSION CONCLUDES THAT IT SHOULD USE FORWARD-LOOKING STUDIES TO ASSESS AN INCREASE IN THE SLC CAP, IT SHOULD APPLY A CONSISTENT FORWARD-LOOKING STANDARD TO ASSESSMENT OF COMMON LINE CHARGES TO BUSINESS CUSTOMERS, NAMELY THE MULTI-LINE SLC AND PICC.

Athough the price cap LECs' inadequate cost studies provide insufficient information on which to act, the Commission can and should move forward with the scheduled increases in the residence and single-line business SLC cap, based on the embedded and forward-looking cost data presented in Section II, above. It is, however, critically important that, if the Commission uses a forward-looking cost study to determine the appropriate residential and single-line business SLC cap, it must also use the same forward-looking study to calculate the multi-line business SLC and PICC.

Such parallel application of forward-looking cost studies to multiline business SLC calculations and to residential and single-line SLC calculations is appropriate whether the Commission relies on the inadequate cost studies submitted by the price cap LECs in this proceeding (which it should not), current ARMIS data, or the forward-looking results of the Synthesis Model or UNE studies adopted by state PUCs. Failure to utilize consistent standards when calculating the costs for recovery will eliminate the possibility that these common line costs will be recovered accurately, and will eradicate the progress the Commission has made in identifying and eliminating subsidies within these rates. Applying a forward-looking standard for the costs attributed to residential lines and an embedded standard to business lines may result in over-recovering the appropriate share of common line costs from business customers, which would be neither a fair nor reasonable outcome of the Commission's efforts at restructuring common line rates.

In a similar vein, the purpose of calculating and levying the PICC on interexchange carriers is to recover the shortfall between the (actual) interstate portion of the access line cost for residential and single-line businesses and the cap on the subscriber line charge for these customers.[27] If the residential and single-line business SLC cap is set using a forward-looking standard and the multiline business SLC cap is set using an embedded cost standard, and the Commission seeks to recover the entirety of the embedded costs incurred by the price cap LECs,[28] then the multiline business PICC may need to be raised should such a proposal generate additional revenue shortfalls. Such an outcome would be inconsistent with access charge reform in general and the CALLS Proposal in particular.[29]

If the Commission chooses to rely upon forward-looking studies in setting the SLC cap for residential and single-line business services, then the only manner in which the Commission can maintain the integrity of its attempts at access charge reform would be to rely upon the same forward-looking studies in setting the SLC cap and PICC for multiline business services.

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[27] ***Id*. *CALLS Order*, ¶ 107.

[28] Which it presumably would, given that no mention has been made to adjusting the level of currently collected costs.

[29] *CALLS Order*, ¶ 72.

IV. ANY INCREASE IN THE SLC CAP SHOULD RESULT IN A REDUCTION TO THE MULTILINE BUSINESS PICC; AND IF AN INCREASE IS UNSUPPORTED, THE NEED FOR THE MULTILINE BUSINESS PICC SHOULD BE QUESTIONED.

The Commission has ample evidence to support an increase in the residential and single-line business SLC cap; however, any increase in the revenue generated by the residential and single-line business SLC must be offset by lowering the amount collected through common line charges. This concept is memorialized in the Modified Proposal and was adopted by the Commission in the *CALLS Order*:[30]

> Each year, the net increase in maximum permitted Subscriber Line Charge revenues . . . will be offset by reducing other charges as follows, in order of priority:
>
> (1) Terminating CCL Charges until the Terminating CCL rate is $0.00; then
> (2) Originating CCL Charges until the Originating CCL rate is $0.00; then
> (3) Multiline Business PICC until the Multiline Business PICC rate is $0.00; then
> (4) Subscriber Line Charges, which may be deaveraged pursuant to paragraph 2.1.5., above.[31]

Thus, wherever the Commission determines to raise the SLC cap for residence and single-line business service, a concurrent reduction is warranted for the remaining common line charges.

In those areas where an increase in the residence and single-line business SLC cap is *not* justified by the cost data, a complete reassessment of the need for the multiline business PICC is required. The multiline business

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30 *CALLS Order,* ¶ 72 (citing the Modified Proposal at §§ 2.1.4.1, 2.1.6).

31 Modified Proposal at § 2.1.6.

PICC is designed to recover the difference between what the residential and single-line business SLC *needs* to be and what it actually *is*.[32] If the Commission finds insufficient evidence to support an increase in the SLC cap, it should find insufficient evidence to support the multiline business PICC as a subsidy mechanism, and it should re-examine the need for multiline business PICC at all.

V. THE MULTILINE BUSINESS PICC SHOULD BE INCORPORATED INTO THE MULTILINE BUSINESS SLC.

In the *CALLS Order*, the Commission rejected the notion that the multiline business PICC should be consolidated with the multiline business SLC "because doing so would exaggerate the difference between business end-user charges in high cost and low cost areas and impact rate comparability between urban and rural areas."[33] In making this determination, the Commission rejected the Ad Hoc Committee's assertion that IXCs mark-up the multiline business PICC well above the average rate, and that combining the two rate elements would put competitive pressure on price cap LECs to lower the multiline business PICC to remain competitive with other LECs.[34] The Commission inherently recognized the Committee's concerns, however, by stating that it would "revisit this issue during the cost review proceeding."[35]

The Ad Hoc Committee renews its position that the Commission should eliminate the multi-line business PICC and adjust the multi-line business SLCs to

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32 *CALLS Order*, ¶ 107.

33 *CALLS Order*, ¶ 107.

34 *Id.*

35 *Id.*, ¶ 109.

match the proposed changes in multi-line business PICCs; thus, the new multi-line business SLCs would equal the sum of the proposed SLCs and the proposed PICCs over the term of the CALLS Proposal.[36]

This change to the CALLS Proposal is important to Ad Hoc's members because the historical behavior of long distance carriers indicates that they will not fully flow through to multi-line business customers all reductions in the multi-line business PICCs. In particular, while the nationwide weighted average LEC-billed PICC is approximately $1.18 per month,[37] the long distance carriers mark-up this figure as follows: AT&T bills its multi-line business customers a PICC of $2.60 per month;[38] MCIWorldCom bills its multi-line business customers a PICC of $2.61;[39] and Sprint bills its multi-line business customers a PICC of $3.25.[40] The long distance carriers offer no persuasive explanation for their higher PICCs.

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36 In its Reply Comments, CALLS justified its decision not to consolidate the multi-line business ("MLB") SLC and PICC because, "A consolidated MLB SLC would not recover just the average costs associated with providing the MLB lines, but rather would contain a substantial recovery of the average costs of serving other classes of customers." CALLS Reply Comments at 41 (filed Dec. 3, 1999). This argument does nothing, however, to address Ad Hoc's concern that IXCs are marking up these MLB PICCs. CALLS's argument is simply a red herring to divert attention from the long distance carriers' indefensible PICC markups.

37 Verizon-West operating companies (previously GTE operating companies) are excluded from the calculation of the weighted-average PICC. The LECs' PICCs are weighted by total switched access lines, as reported in FCC *Statistics of Communications Common Carriers*, 2000.

38 AT&T Business Service Guide, Version 5, Effective January 1, 2002. Accessed January 21, 2002: http://serviceguide.att.com/ABS/ext/TCSummary.cfm?OID=502.

39 MCIWorldCom Service Guide, "Carrier Access Charge". Accessed January 21, 2002: http://www1.worldcom.com/publications/service_guide/products/products_currently_available/.

40 Sprint Schedule No. 11, Section 2.10.9; 3rd revised page 37, effective October 13, 2001. Accessed January 21, 2002: http://www.sprintbiz.com/cust_resources/biz_custservice/schedules/fcc11.html.

Long distance carriers have claimed that: (1) the higher charges match the ILECs' charges; and/or (2) they had to inflate the PICC to recover their costs of administering the PICC programs. These assertions are neither factually correct nor credible. They are factually incorrect because the IXCs' charges exceed the amounts the LECs charge by approximately $1.50 per month.[41] The assertions are not credible because it is impossible to believe that any IXC needs a markup of close to 50 percent above the weighted average LEC-billed PICC to cover its administrative costs. Moreover, even if true, this mark-up – which adds nothing of value to the services purchased by business customers – represents nothing more than deadweight economic loss to American businesses.

The aggregate magnitude of the mark-up is staggering. Table 5, below, contains the results of a simplified attempt to estimate the total annual deadweight economic loss to American business. As the Table demonstrates, the IXC mark-up of the business multiline PICC results in excess charges to American businesses of about three quarters of a billion dollars per year.

If the Commission maintains the current PICC structure, it should require the long distance carriers to pass through the PICCs without markup, as it is contemplating doing with the Universal Service Fund ("USF") surcharge in the current investigation of USF collection mechanisms.[42]

There is no regulatory or economic principle that justifies the long distance carriers' use of the PICCs to pad their profit margins. To prevent such unjust

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41 See Table 5.

enrichment, the PICC should be eliminated as a separate rate element and incorporated into the multiline business SLC, which would then be billed directly – and without markup – to the end user by the ILEC.

Table 5

The Annual Dead Weight Loss to the US Economy of the Existing PICC Flow-Through Plan Approaches $1-Billion		
	Billed by ILEC to IXC	**Billed by IXC to End Users**
Total Multi Line Business Access Lines [(1)]	41,306,521	41,306,521
Estimated Weighted Average PICC [(2) (3)]	$1.18	$2.68
Total Monthly PICC Revenues	$48,741,695	$110,701,476
Total Annual PICC Revenues	$584,900,337	$1,328,417,715
Dead Weight Loss: Annual Difference Between IXC and LEC PICC Revenues	**$743,517,378**	

Sources:

(1) Total Multi Line Business Access line count: Statistics of Common Carriers (SOCC), Table 2.6: Operating Statistics of Reporting Incumbent Local Exchange Carriers as of December 31, 2000.

(2) Estimated weighted average PICC (LEC to IXC) based upon weighting of switched access lines per study area for the SBC, Qwest, SWBT and Verizon companies, as reported in FCC SOCC, 2000. Verizon-West operating companies (previously GTE operating companies)

(3) Estimated weighted average PICC (IXC to end user) based upon AT&T, Sprint, MCI relative market shares - Trends in Telephone Service, August 2001, Table 10.8: Share of Total Toll Service Revenues - Long Distance Carriers Only.

CONCLUSION

The "forward-looking" cost studies submitted by the price cap LECs are undocumented and unsupported, and of no use to the Commission in its attempt

42 *Federal-State Joint Board on Universal Service; 1998 Biennial Regulatory Review, et al.,* CC Dkts. Nos. 96-45, 98-171, *et al.,* Notice of Proposed Rulemaking, 16 FCC Rcd 9892 (released May 8, 2001).

to verify the increases to the residential and single-line business SLC cap. The Commission should therefore disregard these studies.

Instead, when testing the veracity of the SLC cap increases, the Commission should consider (1) publicly available ARMIS data; (2) publicly available state-by-state results of the Commission-approved Synthesis Model; and/or (3) publicly available forward-looking costs for unbundled network elements as adopted by state PUCs in the various TELRIC proceedings that have been going on for roughly the past five years. As the data provided above attests, each of these three benchmarks provides support to the Commission's previously-ratified plan to increase the residential and single-line business SLC cap to $6.00 on July 1, 2002 and $6.50 on July 1, 2003. Simply increasing the cap on the residential and single-line business SLC in no way results in a dollar for dollar increase in the actual SLC paid by residential and single-line business users in each and every state.

If the Commission determines that forward-looking cost studies are the appropriate benchmark in setting the cap on the SLC for residential and single-line business service, it should also employ the same forward-looking cost studies in setting the other common line charges for multiline business services, namely the multiline business SLC and PICC. Failing to follow a consistent methodology in setting rates and recovering costs for residential, single-line business and multiline business services may well introduce inefficiencies, inconsistencies, and additional subsidies to common line access charges, each of which would run counter to the goals of the Commission's access charge reform efforts.

Finally, the Commission should once again consider combining the multiline business PICC with the multiline business SLC. The PICC levied by price cap LECs upon IXCs has been passed on to end users by the IXC, and in many cases the end-user is billed a higher amount. The Commission should not be an accessory to this practice. Folding the PICC into the multiline business SLC will eliminate the IXCs' opportunity to over-recover the charges imposed by the LECs, as the charge will be imposed directly upon end users by the LEC.

Respectfully submitted,

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