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BEFORE THE
FEDERAL COMMUNICATIONS COMMISSION
WASHINGTON, D.C. 20554

In the Matter of	
Access Charge Reform	CC Docket No. 96–262
Price Cap Performance Review for Local Exchange Carriers	CC Docket No. 94–1

REPLY COMMENTS
of the
GENERAL SERVICES ADMINISTRATION

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Summary

In its order reforming interstate access charges for LECs under price cap regulation, the Commission prescribed a series of annual increases in the cap on SLCs for primary residential and single business lines, conditional on review of the carriers' cost data. Here, GSA responds to comments by parties on the cost submissions by LECs addressing the increase in this cap to $6.00 monthly that is presently scheduled for July 1, 2002.

Several parties assert that the carriers' submissions do not support the increase, but GSA urges the Commission not to heed these claims. Although the cost submissions are incomplete in some respects, end users explain that the increase is justified by data now in the Commission's accounting system. Moreover, independent support for the increase is provided by the Synthesis Model that the Commission employs to determine the need for universal service funding, and by many studies used by state commissions to determine the costs of UNEs.

In addition, comments by carriers and end users demonstrate that increasing the SLC cap will reduce cross–subsidies in the access charge structure. Changes in the SLC cap for residential and single line business users should be accompanied by significant reductions in the PICC, now assessed only on multi–line business users. Commenters explain that the PICC has a history of anti–competitive actions, and the charges billed to end users bear little relationship to costs. Thus, any action to reduce or eliminate business multi–line PICCs will be a major step in rationalizing the interstate access charge regime.

Finally, GSA notes that one party urges the Commission to consider requiring LECs to employ lower SLCs in the few states where the costs are below the cap. GSA believes that this step is appropriate because it will further align charges with costs. However, if the Commission decides to employ state–specific SLCs, it should re–examine the need for <u>any</u> multi–line business PICC in jurisdictions with costs under the SLC cap.

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REPLY COMMENTS of the GENERAL SERVICES ADMINISTRATION

The General Services Administration ("GSA") submits these Comments on behalf of the customer interests of all Federal Executive Agencies ("FEAs") in response to the Public Notice ("Notice") in CC Docket Nos. 96–262 and 94–1 released on September 17, 2001. The Notice seeks comments and replies on cost submissions by local exchange carriers ("LECs") concerning caps on subscriber line charges ("SLCs") for primary residential and single business lines.

I. INTRODUCTION

On May 31, 2000, the Commission adopted proposals advanced by the Coalition for Affordable Local and Long Distance Service ("CALLS") to reform the system of interstate access charges for LECs under price cap regulation.[1] Among its actions to rationalize the structure of access charges, the Commission prescribed

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1 *In the Matter of Access Charge Reform and Price Cap Performance Review for Local Exchange Carriers*, CC Docket Nos. 96–262 and 94–1, Sixth Report and Order, *Low–Volume Long–Distance Users*, CC Docket No. 99–249, Report and Order, *Federal–State Joint Board on Universal Service*, CC Docket No. 96–45, Eleventh Report and Order, 15 FCC Rcd 12962 ("*CALLS Order*"), *aff'd in part, rev'd in part, and remanded in part, Texas Office of Public Util. Counsel et al. v. FCC*, 5th Cir. Nos. 00–60434 (5th Cir. September 10, 2001).

increases in the maximum SLC for primary residential and single business lines to $4.35 monthly on July 1, 2000, and $5.00 monthly on July 1 of the following year.[2]

At the same time, the Commission tentatively set additional increases in this cap to $6.00 monthly on July 1, 2002, and $6.50 monthly on July 1, 2003.[3] However, the Commission cautioned that it would subsequently review increases above $5.00 monthly to ensure that they were appropriate in view of the carriers' costs.[4] The instant Notice acknowledges the need for this review, permitting carriers to submit data supporting the increase for the current year, and inviting comments by other parties on these submissions.

On November 16, 2001, eight LECs submitted data on their access costs.[5] Four of these carriers specified their interstate costs associated with the SLC cap on a weighted average basis for their entire operating region. On an aggregate basis, Aliant supports a cap of $7.21, BellSouth supports a cap of $7.01, Cincinnati Bell supports a cap of $5.65, and Qwest supports a cap of $7.00.[6] The other LECs with cost submissions do not show an overall weighed average, but their costs are generally in the same range.

On January 24, 2002, GSA submitted Comments with conclusions and recommendations based on its review of the carriers' cost submissions. In summary, GSA explained that the carriers' data justify the cap increase scheduled a few months

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2 *CALLS Order*, paras. 76–104.

3 *Id.*

4 *Id.*, para. 83.

5 Cost data were submitted by Aliant Communications Co. ("Aliant"), BellSouth Telecommunications Inc. ("BellSouth"), Cincinnati Bell Telephone Company ("CBT"), Citizens Communications Company ("Citizens"), Qwest Corporation ("Qwest"), SBC Communications ("SBC"), Sprint Corporation ("Sprint"), and Verizon Communications Corp. ("Verizon").

6 Submission of Aliant, p. 1; Submission of BellSouth, p. 1; Submission of Cincinnati Bell, p. 4; and Submission of Qwest, Attachment 1.

from now. Consequently, GSA urged the Commission to increase the cap to at least $6.00 effective on July 1, 2002, in order to reduce subsidies now existing in the system of interstate access charges.[7] Moreover, GSA urged the Commission to take further steps to reduce existing cross–subsidies by accelerating phase–out of the Presubscribed Interexchange Carrier Charge ("PICC") for business multi–lines and transitioning to a single SLC cap for all types of lines, including primary residential, non–primary residential, single business lines, and business multi–lines.[8]

Besides GSA, five parties submitted comments in response to the Notice. In these Reply Comments, GSA responds to the positions and recommendations by those parties.

II. THE COMMISSION SHOULD NOT HEED CLAIMS THAT CARRIERS' COST STUDIES FAIL TO SUPPORT A CHANGE IN THE CAP FOR PRIMARY RESIDENTIAL AND SINGLE BUSINESS LINES.

A. Alleged infirmities in the LECs' submissions do not justify continuing the current SLC cap.

Several parties assert that the Commission should not proceed with its plan to raise the SLC cap for primary residential and single business lines because the carriers' cost submissions do not support the increase. For example, the People of the State of California and the California Public Utilities Commission ("CPUC") claim that the submissions are "wholly inadequate" to justify any increases in the SLCs.[9] CPUC's comments specifically address the cost submissions by SBC and Verizon, claiming that both filings lack essential data and other necessary information.[10]

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7 Comments of GSA, pp. 3–5.

8 *Id.*

9 Comments of CPUC, pp. 5–7.

10 *Id.*, pp. 7–15.

Similarly, the National Association of State Utility Consumer Advocates ("NASUCA") details numerous alleged omissions and deficiencies in the cost studies.[11] For example, NASUCA states that carriers do not specify their assumptions concerning capital costs, depreciation requirements, and plant utilization factors.[12] Also, according to NASUCA, the carriers employ defective cost models and fail to apportion costs correctly between the interstate and intrastate jurisdictions.[13]

Even recognizing these claims, GSA urges the Commission not to forego an increase in the SLC cap for primary residential and single business lines. As the Ad Hoc Telecommunications Users Committee ("Ad Hoc") notes, the Commission already has data from its Automated Reporting Management Information System ("ARMIS") that supports the planned increase in the residential and single business line SLC cap described in the *CALLS Order*.[14]

Moreover, there is independent evidence to confirm the costs shown by the price cap LECs. In its comments, Ad Hoc explains that the Commission can look to at least two sources for corroboration.[15] These independent sources are the Synthesis Model that the Commission employs to determine the need for universal service funding, and the Total Element Long–Run Incremental Cost ("TELRIC") cost study results adopted by state commissions for determining the costs of unbundled network elements ("UNEs") pursuant to CC Docket No. 96–98.[16]

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11 Comments of NASUCA, pp. 13–37.

12 *Id.*, pp. 27–32.

13 *Id.*, pp. 17–25.

14 Comments of Ad Hoc, p. 10.

15 *Id.*, p. 12.

16 *Id.*

The table below shows the range of access line costs for the states served by the four largest price cap LECs according to the Synthesis Model and the state regulators' findings.[17]

Maximum Access Line Costs
(25 percent interstate portion)

Local Exchange Carrier	FCC Synthesis Model	State Commission UNE Cost Findings
BellSouth (9 states)	$ 9.82	$ 6.58
Verizon (12 states)	$ 8.56	$ 7.47
SBC (13 states)	$ 6.98	$ 6.30
Qwest (14 states)	$ 8.37	$ 8.14

These data confirm the interstate access line costs in the submissions by price cap LECs on November 16, 2001. They provide additional support for an increase in the SLC cap to $6.00 this coming July.

GSA noted in its Comments that among the LECs submitting cost data, Cincinnati Bell was the only carrier to report aggregate costs less than $6.00 a month.[18] Other LECs show monthly costs less than $6.00 monthly in several of the more urban jurisdictions. However, the data indicate that a cap of $6.00 monthly

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17 *Id.*, pp. 13–17.

18 Comments of GSA, p. 4, citing $5.65 monthly cost in Submission of Cincinnati Bell, p. 4.

should be implemented on July 1, 2002, as contemplated by the Commission's order concerning the CALLS plan.

B. Results obtained with NASUCA's "cost model" should not be used to set the SLC cap.

Using its own approach, NASUCA provides data purporting to show the costs associated with SLCs for residential and single business lines.[19] Based on its analyses, NASUCA claims that 75 percent of residential and single–line business customers are located in UNE zones that have forward–looking interstate SLC costs of less than $5.00 monthly.[20]

As GSA explained, data submissions by the price cap LECs show that their costs are in the range of $6.00 to $7.00 monthly for most jurisdictions. Superficially, the costs indicated by NASUCA's model contrast sharply with those submissions. However, on careful consideration they are <u>not</u> inconsistent.

NASUCA does not contend that the costs of primary residential and single business lines average $5.00, but simply asserts that the majority of consumers with these lines are located in wire centers with costs of $5.00 or less. Indeed, the great majority of business multi–line users are also located in these same rate areas. In fact, as GSA noted in its Comments, costs for business multi–lines tend to be less than the costs for other types of subscribers in the same region, because larger business users are nearly always located in the most densely developed parts of an exchange area.[21] Thus, contrary to NASUCA's claims, business multi–line users bear more responsibility for the low costs than the residential and smaller business users that NASUCA purports to measure.

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19 Comments of NASUCA, pp. 38–58.

20 *Id.*, p. 42.

21 Comments of GSA, p. 7.

Moreover, the fact that the majority of subscribers are located in the lower cost urban rate zones does not indicate that the average cost for all lines in the state is the same as the average cost for those urban rate zones. The distinction is analogous to the difference between the mode and the mean of a statistical distribution. For a skewed distribution, the mode and mean will differ significantly. Higher cost places disproportionately affect the overall average, but the costs for these places are far from the mode. To determine the SLC cap, it is necessary to consider the costs for the more expensive areas, rather than simply the costs for places where the majority of subscribers are located, as NASUCA does in its analysis.

III. COMMENTS DEMONSTRATE THAT INCREASING THE SLC CAP WILL REDUCE CROSS–SUBSIDIES IN THE ACCESS CHARGE STRUCTURE.

An increase in the SLC cap will reduce cross–subsidies in the current system of interstate access charges. Indeed, comments demonstrate that even with the increases previously scheduled, SLC caps will continue to permit cross–subsidies by business multi–lines.

GSA explained that the Commission has been cautious in increasing SLCs for residential and smaller business users, but business multi–lines continue to incur much higher charges that bear no relationship to costs.[22] The business multi–line SLC continues at $9.00 monthly.[23] The PICC for these users has not been abolished, and is now capped at $4.31 monthly.[24] Thus, the combined maximum SLC and PICC for business multi–lines is now $13.31 monthly — more than two times the $6.00

22 *Id.*, p. 3.

23 *CALLS Order*, para. 106.

24 *Id.*, para. 105.

monthly slated for primary residential and single–line businesses in July 2002. A phase down in the $4.31 multi–line PICC is anticipated but not certain.[25]

In its comments, WorldCom states that there is ample justification for establishing the SLC cap for residential and single business lines above the $6.00 previously set for this July.[26] WorldCom explains that a $6.50 cap, while in some instances higher than the incumbent LECs' forward–looking costs, strikes a good balance by permitting a larger cut in the multi–line business PICC while at the same time limiting the differential between the residential SLC and the forward–looking cost.[27] Indeed, WorldCom notes, a $6.50 residential cap ensures that the differential between the SLC and forward–looking cost is much smaller for residential customers than for multi–line business customers, who have the same (or lower) costs and a $9.00 cap.[28]

GSA concurs with WorldCom on the need to eliminate cross–subsides in the access charge structure. Indeed, as GSA explained, the Commission should accelerate phase–out of the business multi–line PICC, and also transition to a single SLC cap for all types of lines.[29] Moreover, GSA explained that there are two approaches for transitioning to a single SLC cap.

First, the Commission can increase the SLC cap effective on July 1, 2002 to the level of $6.50, or even $7.00 monthly.[30] If the Commission takes this step, it should <u>rigorously enforce compensating reductions</u> in the multi–line business PICC. As

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25 *Id.*

26 Comments of WorldCom, p. 6.

27 *Id.*

28 *Id.*

29 Comments of GSA, pp. 5–6.

30 *Id.*, p. 6.

discussed above, this approach would tend to equalize disparities between rates and costs for all types of access facilities. Also, Ad Hoc explains that the PICC has a history of anti–competitive actions, with significant mark–ups by interexchange carriers ("IXCs"). Consequently, the PICCs billed to end users bear little relationship to the payments by IXCs to LECs.[31] Business multi–lines are now the only access facilities that continue to have PICCs. Thus, any action to reduce or eliminate business multi–line PICCs will be a major step in rationalizing the interstate access charge regime.

The second approach for reducing cross–subsidies, which can be implemented either independently or concurrently with the first, is to reduce the SLC cap for multi–line business lines in phased steps to meet the caps for the other types of access lines.[32] GSA explained that such a reduction in the SLC cap for business multi–lines is also supported by the cost data.[33] Except in a few cases, where carriers display highly disaggregated data for small rural areas, access costs claimed by the carriers are well under $9.00 monthly.[34] Data provided by LECs should show the costs for residential and single business lines. These data are an upper bound to the costs for business multi–lines, which should be less expensive, as explained previously in these Reply Comments.

IV. IF THE COMMISSION RAISES THE SLC CAP, IT SHOULD CONSIDER REQUIRING CARRIERS TO EMPLOY REDUCED SLCs IN LOWER–COST STATES.

Since its inception, end users in all states served by a given LEC have paid the same SLC without regard to the costs in that jurisdiction. The data submitted by some

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31 Comments of Ad Hoc, pp. 20–22.

32 Comments of GSA, p. 6.

33 *Id.*

34 *Id.*, pp. 6–7.

LECs demonstrate considerable variation in access costs from state–to–state. If the Commission is concerned that increases in the SLC cap on a carrier basis will cause consumers in lower cost states to pay too much for telephone services, it should consider requiring LECs to employ lower SLCs in states where costs are below the cap.

The Florida Public Service Commission ("FPSC") discusses this point in its comments. FPSC states that as the SLC cap increases, consumers in lower cost states will significantly subsidize telephone service in higher cost states.[35]

Data submitted by BellSouth is pertinent to this point. As noted previously in these Reply Comments, the carrier's forward–looking costs support an aggregate SLC cap of $7.01 monthly. Moreover, SLC–related costs are greater than $6.00 monthly in each of the nine states that BellSouth serves as incumbent LEC.[36] Costs are the lowest in Florida — only $6.06 a month.[37] Consequently, if the Commission adopts a $6.00 monthly SLC cap for BellSouth residential and single business lines, no exceptions are warranted. However, if the Commission should set a greater cap for BellSouth, say $6.50, it may wish to adopt a lower SLC for Florida residential and single line business users.

If the Commission decides to employ state–specific SLCs, however, it is important to heed a concern expressed by Ad Hoc. This association explains that in any states where an increase in the residential and single line business SLC cap is not justified by cost data, a complete re–assessment of the need for a multi–line business PICC is necessary.[38] In this regard, Ad Hoc states:

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35 Comments of FPSC, p. 1.

36 BellSouth Worksheet Cost Summary, p. 1.

37 *Id.*

38 Comments of Ad Hoc, p. 20.

> The multi–line business PICC is designed to recover the difference between what the residential and single line business SLC *needs* to be and what it actually *is*. If the Commission finds insufficient evidence to support the multi–line business PICC as a subsidy mechanism, it should re–examine the need for the multi–line business PICC at all.[39]

GSA concurs with Ad Hoc in this recommendation. As noted previously in these Reply Comments, the PICC has been applied unevenly, with mark–ups that mask the relationship between the charges to end users and costs. From GSA's perspective, the multi–line business PICC should not be employed in any jurisdiction where it is not needed as a rate element to recover clearly designated costs.

39 *Id.*, pp. 20–21 (emphasis in original).

V. CONCLUSION

As a major user of telecommunications services, GSA urges the Commission to implement the recommendations set forth in these Reply Comments.

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CERTIFICATE OF SERVICE

I, MICHAEL J. ETTNER, do hereby certify that copies of the foregoing "Reply Comments of the General Services Administration" were served this 14th day of February 2002, by hand delivery or postage paid to the following parties.

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