Before the
FEDERAL COMMUNICATIONS COMMISSION
Washington, DC 20554

In the Matter of Presubscribed Interexchange Carrier Charges	CC Docket No. 02-53 CCB/CPD File No. 01-12 RM-10131

REPLY COMMENTS OF VERIZON[1]

Most commenters agree that the Commission should retain the $5.00 "safe harbor" for the level of presubscribed interexchange carrier ("PIC") change charges. Although mechanization of the PIC change process has increased since the rate was set in 1984, the record shows that around half of all PIC changes still involve manual procedures, and additional functions, such as PIC freeze/unfreeze and slamming administration, have added costs to the process. If the Commission decides to establish a new safe harbor, it should include all of the costs associated with the PIC change process, including PIC freeze costs, slamming costs, and a reasonable allocation of overhead costs. In addition, in the absence of a rate prescription under section 205 of the Act, the Commission cannot prohibit the local exchange carriers from filing cost-supported tariffs for rates above the benchmark.

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[1] The Verizon telephone companies ("Verizon") are the affiliated local telephone companies of Verizon Communications Inc. These companies are listed in Attachment A.

I. The Record Supports Retention Of The $5.00 Benchmark.

Most parties agree that the $5.00 benchmark has continuing validity in light of the complex manual and electronic processes that are involved in processing PIC change orders, implementing the changes, updating the databases, and providing confirmations to the interexchange carriers. ***See*** SBC, 9-11; NECA, 3-4; NTCA, 2-4; Beacon, 2-3; Sprint, 3-12; BellSouth, 4-5; CBT, 4-5. They demonstrate that, despite increasing levels of mechanization over the years, a substantial portion of PIC change orders must be processed manually, either because they are not submitted through electronic interfaces, or because they fall out of the mechanized systems for manual intervention. ***See, e.g.***, BellSouth, 5 (34 percent processed manually); SBC, 4 (55 percent); CBT, 3 (60 percent). The facile assumption of some commenters that costs can only have decreased over the years due to increasing levels of mechanization ignores the fact that carriers have added new systems and capabilities to provide better and faster service to the interexchange carriers and to meet new responsibilities such as administering PIC freezes and acting as the executing carrier in complying with the Commission's slamming rules. ***See, e.g.,*** BellSouth, 5; Sprint, 6-7. In addition, labor rates for customer service representatives and other personnel involved in PIC processing have increased as much as 43 percent in the last nine years alone. ***See*** Sprint, n. 10.

The record also shows that the $5.00 charge has not harmed competition in the interexchange market, which continues to exhibit high churn rates. ***See, e.g.,*** Sprint, 3-5; SBC, 10. As noted by WorldCom (at n. 2), the charge has not inhibited end users from changing interexchange carriers, since the carriers normally cover the charge as part of their marketing costs. For the interexchange carriers, $5.00 is insignificant compared to their overall acquisition and lifetime costs for advertising, fulfillment, production, marketing, and commission costs. ***See*** Sprint, 5.

Some commenters argue that the $5.00 benchmark is no longer valid, because unit costs must have decreased since the benchmark was established in 1984. ***See, e.g.,*** AT&T, 4; ASCENT, 4-6. However, as they concede, the benchmark was never based on a finding that the local exchange carriers' costs to process a PIC change actually were $5.00 in 1984. ***See, e.g.,*** AT&T, 2. Therefore, treating that as the starting point and adjusting it for productivity changes would not reflect current costs. In fact, several local exchange carriers sought to establish higher charges in 1985 based on data showing that their costs were substantially higher than $5.00. ***See*** *Annual 1985 Access Tariff Filings*, 2 FCC Rcd 1416, ¶¶ 255-274 (1987). Although the Common Carrier Bureau rejected most of these filings as having insufficient cost detail, it recognized developing PIC change costs represented "a difficult challenge." Id., ¶ 274. The Bureau accepted one carrier's filing for a $10.00 charge based on a showing that its costs were $9.84. ***See*** id., ¶ 257. Since it is likely that actual costs were much higher than $5.00 in 1984, the Commission cannot simplistically assume that costs have steadily declined from that level.

Some commenters claim that the local exchange carriers' more recent filings demonstrate that their costs now are substantially lower than $5.00, citing in particular BellSouth's filing of a $1.49 PIC change charge in 1990 and SNET's filing of a rate of $2.30. ***See, e.g.,*** ASCENT, 6-8; AT&T, 9; NASUCA, 3-4. However, as BellSouth points out (at 4-6), it filed the $1.49 rate based on an incorrect assumption that only a small number of PIC change orders would be processed manually in the future, an assumption that turned out to be incorrect, as noted above. In addition, BellSouth notes that its PIC change costs have increased since that time, as it has implemented new mechanized systems that are more user friendly, and it observes the amount of time and labor costs for manually processed PIC changes have increased as well. Also, the $1.49 charge did not include the costs associated with PIC freezes and slamming administration. SNET's filing incorrectly omitted the costs of significant functions associated with making PIC changes, including service order computer processing costs, CARE tape processing, updating the MARCH database, and overhead costs. ***See*** Reply Comments of SBC Communications, Inc., RM No. 10131, CCB/CPD 01-12, 1-2 (filed July 2, 2001). In addition, like BellSouth, SNET had incorrectly assumed that the percentage of PIC change orders that were processed manually would go down, when in fact it has gone up (from 30 percent in 1996 to 57 percent in 2001). ***See*** id.

ASCENT argues (at 6-7) that Verizon's own filing in 1993 showed that costs were below $5.00. Actually, that filing showed that Verizon's (then Bell Atlantic's) costs were $4.96, hardly inconsistent with a $5.00 rate, and those costs did not include the costs of administering PIC freezes/unfreezes or slamming complaints. Similarly, most of the state studies that support current local PIC change charges do not include the costs of PIC freezes or slamming. For these reasons, the record simply will not support setting a lower benchmark based on prior filings.

In addition, it is clear that each carrier's costs vary, depending upon the systems it has created to process PIC changes and the percent of these changes that require manual procedures.[2]

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[2] AT&T argues (at 10-12) that the Commission should require all carriers to adopt the industry standard Customer Accounts Record Exchange ("CARE") process established by the Ordering and Billing Forum to execute and confirm PIC changes. However, as AT&T recognizes, this proposal is directed at the timeliness and accuracy of information about PIC changes and freezes, not the cost of providing this service. While Verizon supports the CARE process (***see*** Verizon, Attachment F), imposition of this standard on an industry-wide basis as a

For instance, BellSouth observes (at 5) that only 34 percent of its PIC change orders are manual, while other carriers have much higher percentages of manual orders. The Commission cannot arbitrarily pick one carrier's cost submission and treat it as a standard for the industry.

II. The Benchmark Should Reflect All Of The Costs Of The PIC Change Process.

If the Commission establishes a new benchmark, it should include all relevant costs. The comments show that PIC change costs have actually increased in some respects due to the additional functions that the local exchange carriers have assumed in recent years, including new operating support systems as well as the costs of administering PIC freezes and slamming rules. ***See, e.g.***, SBC, 6-9; Sprint, 10. The Commission also should allow a reasonable allocation of overhead costs to the PIC change charges. ***See, e.g.,*** BellSouth, 6.

WorldCom argues (at 5) that recovery of the costs of administering PIC freezes should not be included in the PIC change charge, because consumers should not bear additional costs for services that they do not request or receive. However, as NASUCA observes (at 8), it is perfectly appropriate to provide this service without an extra charge, as customers request this service to protect themselves from unauthorized PIC changes. Since local exchange carriers incur the costs of administering PIC freezes/unfreezes as part of their responsibility for making PIC changes, the costs of these functions should be recovered in the PIC change charge.

ASCENT argues (at 10-15) that slamming costs should not be included in the PIC change charge, because all carriers incur the costs of complying with the Commission's slamming rules.

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way of improving the quality of PIC processing is beyond the scope of this proceeding, which is limited to the rate that may be charged for PIC changes.

This misses the point. Interexchange carriers recover these costs in the rates that their customers pay, and the local exchange carriers are entitled to do the same. As ASCENT notes (at 13), the local exchange carriers are only seeking to recover in the PIC change charge the costs that they incur as the "executing carriers" when an unaffiliated interexchange carrier has slammed a customer. The only issue is whether these costs should be recovered in the PIC change charge or in some other rate element. Since the costs are directly related to the local exchange carriers' responsibility to administer PIC changes, the most appropriate way of recovering them is through the PIC change charge. In addition, WorldCom is wrong that the local exchange carriers assess a separate fee when switching a customer back from an unauthorized carrier. The local exchange carriers eliminated this separate charge, at the Commission's direction, when the Commission adopted its new slamming rules. ***See*** *Implementation of the Subscriber Carrier Selection Changes Provisions of the Telecommunications Act of 1996; Policies and Rules Concerning Unauthorized Changes of Consumers Long Distance Carriers*, 15 FCC Rcd 15996, ¶¶ 84-85 (2000). The carriers now assess only the $5.00 PIC change charge when switching a customer back from the unauthorized carrier, and this charge should include the costs of resolving slamming complaints.

WorldCom argues (at 4) that the PIC change charge should cover only the costs of electronic PIC changes. However, as the comments show, a substantial number of PIC change orders require manual processing, including those that are initiated by end users through the service centers and those that are initiated by interexchange carriers but fall out of the mechanized process for manual intervention. ***See, e.g.***, Sprint, 8. There is no reason to exclude these costs, which have always been recovered in the PIC change charge.

NASUCA argues (at 5) that it is no longer a difficult task to determine the costs of making PIC changes, since the Commission could use the total element long run incremental cost ("TELRIC") methodology to establish a new benchmark. This is incorrect. Even if the PIC change charge had been based on a cost showing, which it was not, the costing methodology would not have been TELRIC. The TELRIC methodology is designed to determine the forward-looking costs of providing unbundled network elements under section 251(c)(3) of the Act, not for pricing services outside of price caps. In addition, identifying the costs of all of the electronic and manual systems used to implement PIC changes is no easy task, and it cannot be done using existing forward-looking cost models such as the Commission's universal service proxy model. Rather, it would require the type of detailed cost analysis that the Commission recognized in 1984 is very difficult to develop.

The Commission should reject WorldCom's argument (at 7) that the local exchange carriers should not be allowed to charge a fee higher than a ceiling established by the Commission. Unlike a benchmark, which simply establishes a "safe harbor" within which rates will not be suspended and investigated, a rate ceiling would require the Commission to prescribe the rate under section 205 of the Act. To do that, the Commission would have to establish a record, based on a "full opportunity for hearing," that the prescribed rate, and only the prescribed rate, was "just and reasonable." ***See*** 47 U.S.C. § 205(a); *AT&T v. FCC*, 449 F.2d 439 (2nd Cir. 1971). This would require an evidentiary investigation of the carriers' costs, and it would require the Commission to show that the prescribed rate was just and reasonable for every carrier. ***See***, ***e.g.***, NTCA, 3. The purpose of a "safe harbor" is to avoid such a cost investigation, which would be time consuming, costly, and difficult. WorldCom's proposal that the PIC change rate should be set at the level of costs using "the most technologically efficient system," and not based on the carriers' actual costs, is an admission that its approach be an end run around the evidentiary requirements for a rate prescription under section 205.

ACUTA argues (at 2-3) that PIC change charges should be limited to a 9-to-1 ratio for Centrex customers, similar to the ratio that the Commission adopted for presubscribed interexchange carrier charges ("PICCs") applicable to Centrex lines. However, the Commission adopted that ratio because multi-line business PICCs are not cost-based charges, but instead are subsidies of single-line business and residential loops, which have lower caps on PICCs and subscriber line charges. ***See*** *Access Charge Reform*, 12 FCC Rcd 16606, ¶¶ 35-36 (1997). In contrast, the PIC change charge is not a subsidy – it is a safe harbor for a cost-based charge for making each PIC change. There is no basis for exempting some customers from paying the same charge as other customers.

Conclusion

For the foregoing reasons, the Commission should retain the current $5.00 safe harbor for PIC change charges.

Respectfully submitted,

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