Before the
FEDERAL COMMUNICATIONS COMMISSION
Washington, DC 20554

In the Matter of National Exchange Carrier Association Petition to Amend Section 69.104 of the Commission's Rules	WC Docket No. 04-259 RM-10603

REPLY COMMENTS OF VERIZON

No one disputes the fact that applying 24 subscriber line charges ("SLCs") to derived channel services provided over T-1 facilities is inconsistent with the non-traffic sensitive common line costs of these services, which are far less than 24 times the cost of a basic analog voice loop used to provide "plain old telephone service" ("POTS"). The issue that concerns all of the commenters is how to recover the revenues that would be lost if the local exchange carriers reduced the number of SLCs for these services. Verizon agrees with AT&T that increases in other rates would be undesirable, but AT&T's proposal to put all of these increases on the multiline business SLC would only exacerbate the problem. A better solution, as Verizon proposed in its comments, is to allow the price cap carriers to apply up to five SLCs and a line port charge only to *new* T-1 derived channel services and to maintain the *status quo* for *existing* services. This would give the carriers flexibility to introduce new, innovative services over T-1 loop facilities without increasing other rates or further burdening the universal service fund.

NECA's comments (at 8-9) demonstrate that the common line cost relationship between T-1 derived channel services and POTS continues to support the application of up to five SLCs for ISDN PRI service and that it would support the application of five SLCs to other T-1 derived channels services as well. However, reducing the number of SLCs on existing services would cause a revenue shortfall that would be shifted to other customers. For the rate of return carriers, reducing the number of SLCs on existing T-1 derived channel services from 24 to five would cause a $20.7 million reduction in revenues, which would be offset by only $2.9 million of new revenues from a new line port charge. *See* NECA at 12. The $17.8 million difference would be recovered through an increase in support from the Interstate Common Line Support ("ICLS") universal service fund. For the price cap carriers, the reduction in revenues would be recovered through other rates, first through increases in SLCs, and then, in some cases, through increases in presubscribed interexchange carrier charges ("PICCs") and carrier common line charges ("CCLCs"). *See* Verizon at 3-4.

SBC proposes to avoid such impacts by maintaining the *status quo* regarding application of SLCs to derived channel services pending the resolution of broader carrier compensation issues in the Intercarrier Compensation Proceeding in CC Docket No. 01-92. *See* SBC at 6-7. However, if the Commission decides to address the issue now, SBC argues that the Commission should allow the price cap carriers to recast their Average Price Cap CMT Revenue per line under section 61.3(d) of the Commission's rules to reflect the reduction in SLC demand and to raise other price cap rates, first the SLC rates, and then PICCs and CCLCs. *See id.* at 8 & fn. 24.

AT&T argues that if the Commission allows the local exchange carriers to reduce the number of SLCs on T-1 derived channel service, it should not allow increases in PICCs, CCLCs, or universal service funding. *See* AT&T at 3-5. To avoid this, AT&T argues that the Commission should allow the carriers to recover the lost revenues only by raising the caps on multiline business SLCs.

Verizon's proposal would avoid rate increases or increased burdens on the universal service fund by applying five SLCs only to *new* T-1 derived channel services. New services are likely to be different than existing services in that they would allow the carrier or the customer to vary the number of voice channels rather than fixing them at the time the service is ordered. It would be impractical to apply the current rule to such services, because it would be difficult for billing systems to track the number of voice channels from month to month or on a real-time basis. Therefore, there is a justification for distinguishing new T-1 derived channel services from existing services in terms of the number of SLCs that would be applied. By not reducing the number of SLCs on existing services, Verizon's proposal would avoid revenue reductions that would have to be recovered elsewhere. Accordingly, the Commission should permit the local exchange carriers to apply up to five SLCs on new T-1 derived channel services, but it should permit them to continue applying up to 24 SLCs on existing T-1 derived channel services other than PRI ISDN.

If the Commission allows the carriers to apply only up to five SLCs to existing T-1 derived channel services, it should reject AT&T's arguments to recover the lost

revenues solely through increases in the multiline business SLCs.[1] Forcing one customer group to shoulder the entire burden would result in too large a rate impact. For example, as is shown in Attachment A, if Verizon increased its multiline business SLCs in Verizon West to recover the shortfall, the SLC would increase by as much as $2.81 even if port charges were implemented for derived channel services. This would have a negative impact on customers that purchase large numbers of business lines, such as Centrex customers. For this reason, the Commission should not concentrate the entire rate increase in one rate element. Rather, it should allow the increase to flow through to SLCs, PICCs and CCLCs. This would result in the costs being spread more evenly, and the impact on any one customer group would be more modest. However, the best approach is to prevent revenue shifts entirely by applying five SLCs only to new T-1 derived channel services.

[1] AT&T is incorrect in stating that this could be accomplished by modifying the Commission's rules to increase the caps on multiline business SLCs. In some cases, SLCs are limited by the average CMT revenue per line or by the June 30, 2000 rate, which may be below the SLC cap. *See* 47 C.F.R. § 69.152(d). Accordingly, to allow the price cap carriers to recover the revenue reduction caused by a reduction in the number of SLCs on T-1 derived channel services, the Commission would have to modify its rules to allow increases in the SLC caps in section 69.152(d), recalculation of the CMT revenue per line in section 61.3(d), and restatement of the June 30, 2000 rate.

Conclusion

For the foregoing reasons, the Commission should allow the local exchange carriers to continue applying 24 SLCs to existing T-1 derived channel services other than PRI ISDN, but it should allow them to apply five SLCs and a port charge for new T-1 derived channel services.

Respectfully submitted,

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Dated: December 13, 2004

Rate Delta: CMT Not Adjusted vs. CMT Adjusted

		Rate Delta: CMT Not Adjusted	Rate Delta: CMT Adjusted w/ Port Chg Revenue	Rate Delta: CMT Adjusted
GTCA	Multiline Bus, PRI ISDN, Centrex EUCL	0.905207	1.199376	1.336810
GTFL	Multiline Bus, PRI ISDN, Centrex EUCL	1.700821	2.214755	2.455477
GAIL	Multiline Bus, PRI ISDN, Centrex EUCL	2.467371	2.539969	2.869671
GAMI	Multiline Bus, PRI ISDN, Centrex EUCL	1.832028	2.097612	2.395977
GTOH	Multiline Bus, PRI ISDN, Centrex EUCL	2.763598	2.806838	3.051354
GTTX	Multiline Bus, PRI ISDN, Centrex EUCL	1.343383	1.858922	2.040275