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Ms. Marlene H. Dortch
Secretary
Federal Communications Commission
445 12th Street S.W.
Washington, D.C. 20554

RE: *Joint Petition of Price Cap Holding Companies for Conversion of Average Schedule Affiliates to Price Cap Regulation and Limited Waiver Relief, WC Dkt. No. 12-63*

Dear Ms. Dortch:

On September 20th, Joel Lubin, David Hostetter, Saikat Sen, Christi Shewman, and the undersigned representing AT&T Services Inc. met with Victoria Goldberg, Pam Arluk, Dick Kwiatkowski (via telephone) and Doug Slotten of the Pricing Policy Division of the Wireline Competition Bureau to discuss the above-referenced proceeding. AT&T is an avid supporter of companies converting to price caps. However, when a rate-of-return company exits the NECA pool to convert to price caps, it should follow a guiding principle of revenue neutrality. A company that exits the NECA pool should not be allowed to set initial rates to generate more revenues as a result of its conversion to a non-pooling company than it was entitled to settle for as a member of the NECA pool. To ensure revenue neutrality, the Commission should treat this as a two-step conversion process that: (1) establishes initial rates to reflect exiting the pool; and (2) initializes price cap indices.

Accordingly, the Bureau should require the Joint Petitioners to establish initial interstate special access rates in accordance with § 61.38 of the Commission's rules, which is the same basis for ratemaking as the rates they were charging the day before they exited the pool.¹ If the Joint Petitioners are permitted to convert the basis of ratemaking to § 61.39 when they establish initial interstate special access rates, these initial rates will not be revenue neutral. Using NECA data, AT&T estimates that the Joint Petitioners' initial interstate special access rates are overstated by approximately \$10.6M and may be overstated by as much as \$15M. The Joint Petitioners' initial special access rates are overstated because they are based on cost and demand data for the July 1, 2011 – June 30, 2012 test period rather than projected data for the test period applicable to the July 3, 2012 rates they were charging the day before they exited the NECA pool. NECA's July

¹ The Joint Petitioners acknowledged that they were not eligible to make their tariff filings in accordance with § 61.39 and filed Applications for Special Permission to waive the eligibility requirements of this rule. Although the Wireline Competition Bureau granted the Joint Petitioners' requests for purposes of making their respective tariff filings, these filings were suspended and are under investigation. The Bureau may require the Joint Petitioners to file their initial special access rates in accordance with § 61.38 as a condition of granting the Joint Petitioners' waiver request to convert to price caps.

3, 2012 special access rates reflect substantial special access demand growth, which is not included in the initial special access rates proposed by the Joint Petitioners. To ensure their conversions to exit the NECA pool are revenue neutral, Joint Petitioners should establish initial special access rates using the same basis for ratemaking as the day before their conversions.²

Further, AT&T noted that the Commission's ICC Transition rules require the Joint Petitioners to establish their initial interstate switched access rates using a different methodology than was used to determine initial special access rates. The starting point for Joint Petitioners' initial interstate switched access rates, unlike their interstate special access, should be to establish the December 29, 2011 rate levels that will be their capped interstate rates and target rates for Step 2 of the transition. AT&T believes the switched access rates proposed by Joint Petitioners represent their December 29, 2011 rates because they are based on data for the test period that was used to set these December 29th rates. AT&T does not believe Joint Petitioners should be required to refile their Step 1 intrastate tariffs when their new target rates are lower than the target rates they used in their Step 1 tariff filings. The Joint Petitioners' new target rates should be used starting with Step 2 of their ICC transition.

Finally, we discussed whether the Joint Petitioners should be required to recalculate their Step 1 eligible recovery, ARC rates and CAF ICC support using the ICC Transition rules for price cap carriers. This is a particularly complex issue to address especially since these elements were already subject to the investigation of NECA's annual tariff filing. As a general principle, AT&T believes price cap conversions should be made in an annual filing. Thus, it would be appropriate to begin utilizing the price cap rules to calculate eligible recovery, ARC rates and CAF ICC support for future transition steps in the annual filing in which the price conversion occurs. For example, if the Joint Petitioners were converting to price caps in their July 1, 2013 annual filings, they would maintain their rate-of-return calculations for Step 1 amounts and begin using price cap transition recovery rules in Step 2. As mentioned above, this will be complex for a variety of reasons, including the 2012 true ups that occur in Step 3 of the transition.

Please call me if you have any questions.

Sincerely,

/s/ Brian J. Benison

cc: Victoria Goldberg
Pam Arluk
Doug Slotten
Dick Kwiatkowski

² The Joint Petitioners should use these initial special access rates and 2011 base period demand to initialize their special access price cap indices. A historical calendar year base period is consistent with the Commission's price cap rules.