



# PUBLIC NOTICE

FEDERAL COMMUNICATIONS COMMISSION  
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**DA 00-533**

**Released: March 8, 2000**

**COALITION FOR AFFORDABLE LOCAL AND LONG DISTANCE SERVICES (CALLS)  
MODIFIED PROPOSAL  
CC DOCKET NO. 96-262, CC DOCKET NO. 94-1, CC DOCKET NO. 99-249,  
CC DOCKET NO. 96-45**

**Pleading Cycle Established**

**COMMENTS: March 30, 2000**

**REPLY COMMENTS: April 13, 2000**

By this Notice the Commission invites supplemental comment on the proposal of the Coalition for Affordable Local and Long Distance Service (CALLS) for universal service and interstate access charge reform. CALLS submitted its original proposal on July 29, 1999. On September 15, 1999, the Commission released a Notice of Proposed Rulemaking (NPRM) seeking comment on whether the Commission should adopt all or some portion of the CALLS proposal, or an alternative plan.<sup>1</sup> On March 8, 2000, the CALLS members filed a written *ex parte* submission containing a modified version of the proposal (modified proposal). A copy of the submission is attached to this Notice. The Commission seeks comment on whether it should adopt all or some portion of the modified proposal.

In separate letters, the CALLS long-distance signatories have made a number of commitments to consumers with respect to the ways in which they would pass on the benefits they would receive if CALLS were adopted. Copies of the AT&T and Sprint letters, which were filed as written *ex parte* submissions on February 25, 2000, are attached to this Notice. The Commission seeks comment on the commitments made in these letters, and how the Commission should enforce them.

Regulatory Flexibility Analysis. The NPRM in this proceeding contained an Initial Regulatory Flexibility Analysis (IRFA) as required by the Regulatory Flexibility Act (RFA).<sup>2</sup> This Notice sets forth substitute rules for those contained in the NPRM. The IRFA is therefore revised as follows.

<sup>1</sup> Access Charge Reform, Low-Volume Long Distance Users, Federal-State Joint Board on Universal Service, CC Docket Nos. 96-262, 94-1, 99-249 and 96-45, Notice of Proposed Rulemaking, FCC 99-235 (rel. Sept. 15, 1999).

<sup>2</sup> See 5 U.S.C. § 603. The RFA, *see* 5 U.S.C. § 601 *et seq.*, has been amended by the Contract with America Advancement Act of 1996, Pub. L. No. 104-121, 110 Stat. 847 (1996) (CWAA). Title II of the CWAA is the Small Business Regulatory Enforcement Fairness Act of 1996 (SBREFA).

As required by the RFA, this IRFA of the possible significant economic impact on small entities by the proposals in this Notice has been prepared. Written public comments are requested on the IRFA. These comments must be filed in accordance with the same filing deadlines as comments on the rest of this Notice, and should have a separate and distinct heading designating them as responses to the IRFA, to the Chief Counsel for Advocacy of the Small Business Administration (SBA) in accordance with the RFA.<sup>3</sup>

Legal Basis. This rulemaking action is supported by sections 4(i), 4(j), 201-205, 254, and 403 of the Communications Act of 1934, as amended, 47 U.S.C. §§ 154(i), 154(j), 201-205, 254, and 403.

Description and Estimate of the Number of Small Entities to Which the Notice will Apply. The RFA generally defines the term "small entity" as having the same meaning as the term "small business." In addition, the term "small business" has the same meaning as the term "small business concern" under the Small Business Act unless the Commission has developed one or more definitions that are appropriate for its activities.<sup>4</sup> A small business concern is one which: (1) is independently owned and operated; (2) is not dominant in its field of operation; and (3) meets any additional criteria established by the SBA. The SBA has defined a small business for Standard Industrial Classification (SIC) category 4813 (Telephone Communications, Except Radiotelephone) to be a small entity that has no more than 1500 employees.<sup>5</sup>

Total Number of Telephone Companies Affected. *Price Cap Local Exchange Carriers.* The Commission does not have data specifying the number of these carriers that are either dominant in their field of operations, are not independently owned and operated, or have more than 1,500 employees, and thus is unable at this time to estimate with greater precision the number of price cap LECs that would qualify as small business concerns under the SBA's definition. However, there are only 13 price cap LECs. Consequently, significantly fewer than 13 providers of local exchange service are estimated to be small entities or small price cap LECs that may be affected by these proposals. Although small price cap LECs have been included in this RFA analysis, this RFA action has no effect on Commission analyses and determinations in other, non-RFA contexts. In particular, treatment here of small price cap LECs as "non-dominant" for SBA size standards has no effect on Commission determinations of "dominance" in other, common carrier, contexts.

*Competitive Local Exchange Carriers.* Neither the Commission nor the SBA has

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<sup>3</sup> See 5 U.S.C. § 603(a).

<sup>4</sup> See 5 U.S.C. § 601 (3) (incorporating by reference the definition of "small business concern" in 15 U.S.C. § 632).

<sup>5</sup> 13 C.F.R. § 121.201.

developed a definition of small providers of local exchange service. The closest applicable definition under SBA rules is for telephone telecommunications companies other than radiotelephone (wireless) companies.<sup>6</sup> The most reliable source of information regarding the number of competitive LECs nationwide of which the Commission is aware appears to be the data that the Commission collects annually in connection with the Telecommunications Relay Service (TRS). According to the Commission's most recent data, 129 companies reported that they were engaged in the provision of either competitive access provider services or competitive local exchange carrier services.<sup>7</sup> The Commission does not have data specifying the number of these carriers that are either dominant in their field of operations, are not independently owned and operated, or have more than 1,500 employees, and thus is unable at this time to estimate with greater precision the number of competitive LECs that would qualify as small business concerns under the SBA's definition. Consequently, the Commission estimates that fewer than 129 providers of local exchange service are small entities or small competitive LECs that may be affected by these proposals.

Description of Projected Reporting, Recordkeeping, and Other Compliance Requirements. The revised CALLS proposal would require price cap LECs to file with the Universal Service Administration Corporation (USAC) additional information pertaining to line counts by zone and customer class, revenue data, and information regarding zone boundaries. Competitive LECs would also have to file with USAC line counts by zone and customer class. The filings are on a quarterly basis. Otherwise, it is not clear whether, on balance, the proposals will increase or decrease price cap LECs' administrative burdens.

Steps Taken To Minimize Significant Economic Impact on Small Entities, and Significant Alternatives Considered. The proposals made by CALLS could have varying positive or negative impacts on price cap LECs, including any such small carriers. The alternative to consideration of adopting the CALLS proposal at this time would be to continue in effect the existing access charge and universal service fund rules. Public comments is welcomed on modifications of the CALLS proposal rules that would reduce any potential impacts on small entities. Specifically, suggestions are sought on different compliance or reporting requirements that take into account the resources of small entities; clarification, consolidation, or simplification of compliance and reporting requirements for small entities subject to the rules; and whether waiver or forbearance from the rules for small entities is feasible or appropriate. Comments should be supported by specific economic analysis.

Federal Rules That May Duplicate, Overlap, or Conflict With the Proposed Rules. None.

Paperwork Reduction Act. The NPRM released September 15, 1999 contained either a proposed or modified information collection. As part of its continuing effort to reduce the

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<sup>6</sup> Standard Industrial Classification (SIC) Code 4813.

<sup>7</sup> FCC, Common Carrier Bureau, *Carrier Locator: Interstate Service Providers*, Figure 1 (number of carriers paying into the TRS Fund by type of carrier) (Jan. 1999).

paperwork burden, the Commission invites the general public and the Office of Management and Budget (OMB) to take this opportunity to comment on the following information collections contained in the proposal published in the NPRM as modified by the modified proposal herein, as required by the Paperwork Reduction Act of 1995, Public Law 104-13. Public and agency comments are due at the same time as other comments on the Notice; OMB comments are due 60 days from the date of publication of the Notice in the Federal Register. Comments are requested concerning (a) whether the proposed collection of information is necessary for the proper performance of the functions of the Commission, including whether the information shall have practical utility; (b) estimates of the collection burden; (c) ways to enhance the quality, utility, and clarity of the information collected; and (d) ways to minimize the burden of the collection of information on the respondents, including the use of automated collection techniques or other forms of information technology.

Filing Comments. Pursuant to Sections 1.415 and 1.419 of the Commission's rules, 47 C.F.R. §§ 1.415, 1.419, interested parties may file comments on or before March 30, 2000. Interested parties may file reply comments on or before April 13, 2000. Comments may be filed using the Commission's Electronic Comment Filing System (ECFS) or by filing paper copies. See Electronic Filing Documents in Rulemaking Proceedings, 63 Fed. Reg. 24,121 (1998).

Comments filed through the ECFS can be sent as an electronic file via the Internet to <<http://www.fcc.gov/e-file/ecfs.html>>. Commenters must transmit one electronic copy of the comments to each docket or rulemaking number referenced in the caption. In completing the transmittal screen, commenters should include their full name, Postal Service mailing address, and the applicable docket or rulemaking number. Parties may also submit an electronic comment by Internet e-mail. To get filing instructions for e-mail comments, commenters should send an e-mail to [ecfs@fcc.gov](mailto:ecfs@fcc.gov), and should include the following words in the body of the message, "get form <your e-mail address.>" A sample form and directions will be sent in reply. Parties who choose to file by paper must file an original and four copies of each filing. Commenters must submit two additional copies for each additional docket or rulemaking number. All filings must be sent to the Commission's Secretary, Magalie Roman Salas, Office of the Secretary, Federal Communications Commission, 445 Twelfth Street, S.W., TW-A325, Washington, D.C. 20554.

Parties also must send three paper copies of their filing to Wanda Harris, Competitive Pricing Division, 445 Twelfth Street S.W., Fifth Floor, Washington, D.C. 20554. In addition, commenters must send diskette copies to the Commission's copy contractor, International Transcription Service, Inc., 1231 20th Street, N.W., Washington, D.C. 20037.

## **MODIFIED UNIVERSAL SERVICE AND ACCESS REFORM PROPOSAL**

After having reviewed the comments and reply comments with respect to the CALLS proposal filed July 29, 1999 (as revised and clarified by Attachment A and B to the CALLS Comments), and having over the past several months discussed the proposal with numerous parties, including public interest groups, state utility commissioners and the staff of the Federal Communications Commission, the Coalition for Affordable Local and Long Distance Service modifies its proposal, as outlined below, to respond to the concerns that have been raised, and to provide even greater benefits for consumers. This modified proposal would be effective for 5 years, beginning July 1, 2000.

- 1. ILEC Recovery of Universal Service Contributions.** As of July 1, 2000, price cap incumbent LECs (ILECs) will establish a separate rate element to recover universal service contributions.
  - 1.1.** The USF rate element will be charged to all end users.
  - 1.2.** The USF rate element may be assessed on a per line basis or as a percentage of interstate retail revenues, and at the option of the ILEC it may be combined for billing purposes with other end user retail rate elements.
  - 1.3.** Upon implementation, ILEC USF assessments (a) are removed from existing price cap baskets at the same percentage adjustment as they went into the price cap baskets using adjustments accounting for demand, X- and "g"-factors, and (b) are not subject to the Price Cap formula in future years.
  - 1.4.** An ILEC opting to assess the USF rate element on a per line basis may apply that charge using the "equivalency" relationships established for the multiline business PICC for Primary Rate ISDN service, as per FCC Rule 69.153(f)(2), and for Centrex lines, per FCC Rule 69.153(g)(1).
- 2. Common Line Rate Structure Simplification, Deaveraging of Common Line Rates and Universal Service.**

**Overview:** SLCs, PICCs and CCL charges are ultimately unified into a single charge, which can be deaveraged, but which will not exceed \$6.50 for residential and single line business lines and \$9.20 for multiline business lines during the five-year term of this proposal. Residential and Single Line Business End User and Presubscribed Interexchange Carrier Charges are combined into a single end user charge. For primary residential lines and single line business lines, the combined total in most areas will be \$4.35 on July 1, 2000. In subsequent years, the progression of changes in the SLC cap would be as follows: \$5.00 as of July 1, 2001; \$6.00 as of July 1, 2002; and \$6.50 as of July 1, 2003. The maximum Primary Residence/Single Line Business SLC in any zone is the lower of the nominal cap, or average price cap common line revenue per line (which includes all charges currently collected through SLCs, PICCs, and CCL charges, but does not include ILEC USF contributions) for the highest cost UNE zone in a study area. For non-primary residential lines, the combined total charge will be capped at the lower of \$7.00 or the greater of the current rate or average price

cap common line revenue per line for the highest average revenue per line UNE zone in a study area.

For multiline business lines, End User and Presubscribed Interexchange Carrier Charges are not combined, and the Multiline Business (MLB) PICC will continue to be charged by the ILEC to the Interexchange Carrier. However, the MLB PICC falls dramatically for most companies as a result of reforms in other flat-rated common line charges, and the MLB PICC is eventually eliminated in most areas. Except where a carrier reduces the rate through voluntary reductions, multiline business SLCs initially will be frozen until the carrier's MLB PICC and CCL are eliminated.

After Primary Residence and Single Line Business SLC caps reach \$5.00, the Commission should initiate a proceeding for the purpose of verifying that the progression of the change in the those SLC caps is appropriate in the particular UNE zone or zones where they would apply and that the progression reflects higher costs in those zones. At such time, the incumbent LEC CALLS members would provide economic data, including identifying the forward-looking costs associated with the provision of retail voice grade access to the public switched telephone network for those areas.<sup>1</sup>

Average Carrier Common Line charges immediately fall dramatically and are eventually eliminated in most areas as a result of an additional \$650 million in universal service funding to replace implicit support currently in interstate access charges and of increasing the Primary Residential and Single Line Business SLCs.

Lifeline support would increase to hold Lifeline customers harmless against SLC rate restructuring.

SLCs can be deaveraged subject to certain limitations. Geographic deaveraging does not increase permitted price cap common line revenues (which includes all charges other than ILEC universal service contributions currently collected through SLCs, PICCs, and CCL charges). ILECs may only geographically deaverage their SLCs on the same geographic basis as state-approved UNE loop zones. ILECs can have up to 4 SLC zones, absent FCC review and approval. ILECs can choose which zones to consolidate if they have more than 4 UNE zones. SLCs in lower cost zones cannot be greater than SLCs in the same customer class in higher cost zones. Within a given zone, the Multiline Business SLC cannot fall below the Non-Primary Residential SLC, which cannot be less than the Primary Residential and Single Line Business SLC. For geographic deaveraging other than through voluntary reductions -- except if the Commission, after completion of the cost review and consideration of study area revenue per line and transitional universal service mechanisms, determines that the Primary Residence/Single Line Business SLC cap progression in a particular zone or zones is not appropriate and sets a different cap for that zone or zones -- an ILEC must eliminate its CCL and MLB PICC before it can begin geographically to deaverage the SLC within a study area, and an ILEC's deaveraged SLC in the lowest cost zone cannot be less than a minimum level. A deaveraged price cap common line revenue per line is calculated for each zone. The relative price cap revenue per line in each zone reflects the relative UNE rates in that zone,

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<sup>1</sup> Nothing herein alters or waives the CALLS members' positions with respect to the legality, definition, application or use of forward-looking costs.

and the level of revenue per line in each zone is such that the ILEC can recover total permitted price cap common line revenues.

The proposal provides new federal universal service support (separate and distinct from the current universal service support for high cost areas) of \$650 million per year to replace implicit support in interstate access charges for price cap LECs. In any UNE loop deaveraging zone where the average common line revenue per line for that zone would exceed \$7.00 per line for residential lines and \$9.20 for multiline business lines, this additional interstate universal service support would provide a portion of the difference. This proportion would be set to target the overall amount of USF support to replace implicit support in interstate access rates for all price cap LEC areas at \$650 million nationwide. The amount of universal service support to each study area is also adjusted on a three year phased-in basis so that by July 1, 2003, CCL and multiline business PICC charges will be eliminated in most areas served by price cap ILECs.

This new universal service funding would be portable to other eligible telecommunications carriers. The amount that would be portable for each line would be deaveraged by zone within any study area that receives such support.

Any new interstate USF funds to replace implicit support in interstate access charges for price cap LECs will first offset carrier common line charges, then offset multiline business PICC charges, and then offset amounts that would otherwise be collected through Subscriber Line Charges, which may then be deaveraged.

## **2.1. Reform and Simplification of Subscriber Line Charges (SLCs) and Presubscribed Interexchange Carrier Charges (PICCs).**

### **2.1.1. Terms.**

#### **2.1.1.1. Price Cap Common Line, Marketing, TIC (“CMT”) Revenue.**

Price Cap Common Line, Marketing, and TIC Revenue is the total revenue a filing entity would be permitted to receive for Subscriber Line Charges, Presubscribed Interexchange Carrier Charges, and Carrier Common Line Charges, with the exception of amounts pooled pursuant to paragraph **3.2.4.** Price Cap CMT Revenue includes marketing expenses presently collected pursuant to FCC Rule 69.156(a), and residual interconnection charge revenues collected through PICC charges, but it does not include the current recovery of incumbent LEC universal service contributions that are first removed from existing price cap baskets pursuant to paragraph 1.3.

#### **2.1.1.2. Average Price Cap CMT Revenue Per Line.**

The Average Price Cap CMT Revenue Per Line is Price Cap CMT Revenue per month as of July 1, 2000 (after removal of recovery of ILEC universal service contributions pursuant to paragraph 1.3. and prior to adjustment for Interstate Access USF Support and application of X-factor reductions) using 1999 base period demand, divided by the base period 1999 lines. In filing entities with multiple study areas, if it becomes necessary to calculate the Price Cap CMT Revenue Per Line for a specific study

area, then the Price Cap CMT Revenue Per Line for that study area is determined as follows, using base period demand revenues, BFPs and lines as of July 1, 2000:

$$PriceCapCMTRevenuePerLine_{StudyArea} = \frac{PriceCapCMTRevenue_{FilingEntity} \cdot (BFP_{StudyArea} + BFP_{FilingEntity})}{Lines_{StudyArea}}$$

- 2.1.1.3.** Nothing in this definition precludes a price cap LEC from continuing to average rates across filing entities containing multiple study areas, where permitted under existing rules. Average Price Cap CMT Revenue Per Line will be adjusted each year to reflect exogenous adjustments, including from sales or acquisition of exchanges, and, if necessary, pursuant to paragraph 3.2.3, **Zone Average Revenue Per Line**. Zone Average CMT Revenue Per Line is the Price Cap CMT Revenue Per Line calculated for a particular state-defined zone used for deaveraging of UNE loop prices. The Zone Average Revenue Per Line is computed according to the following formula:

$$ZoneAverageRevenuePerLine = 25\% (Loop_{ZonePrice} + PortPrice) + U$$

Where:

$$U \text{ (Uniform Revenue Per Line Adjustment)} = \frac{((PriceCapCMTRevenuePerLine_{StudyArea(s)} - Base\ Period\ Lines_{StudyArea(s)}) - (25\%(\text{Sum of } (Lines_{UNEZone} \times Loop\&\ Port\ Price_{UNE\ Zone} \times 12) \text{ for all zones}))) \cdot Base\ Period\ Lines_{StudyArea(s)}}{12}$$

$Loop\&\ Port\ Price_{UNE\ Zone}^2$  = the UNE rates for unbundled loop and switch ports in that UNE zone.

**2.1.2. Primary Residential and Single Line Business Charges.**

- 2.1.2.1. Presubscribed Interexchange Carrier Charge.** Beginning on July 1, 2000, eliminate the primary residential line and single line business Presubscribed Interexchange Carrier Charge.

**2.1.2.2. Subscriber Line Charge.**

- 2.1.2.2.1. Maximum Charge.** The maximum Averaged or Zone Deaveraged SLC that may be charged in any study area or zone is the lesser of the highest Zone Average Revenue Per Line within the study area, or a nominal cap, which as of July 1, 2000 is \$4.35 per line per month. Beginning on July 1, 2001, increase the nominal cap on

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2 If the state has established two port rates, one for a port with features and one for a port without features, the applicable port rate is for a port without features.



primary residential and single line business Subscriber Line Charges according to the following schedule:

On July 1, 2001, to \$5.00;

On July 1, 2002, to \$6.00;

On July 1, 2003, to \$6.50 per line.

**2.1.2.2.2. Minimum Charge.** See paragraph 2.1.5.6.2.

**2.1.2.2.3. Verification.** After SLC caps reach \$5.00, the Commission should initiate a proceeding for the purpose of verifying that the progression of the change in the primary residence/single line business SLC caps beyond the \$5.00 cap is appropriate in the UNE zone or zones where they would apply and that the progression reflects higher costs in those zones. At such time, the incumbent LEC CALLS members would provide economic data, including identifying the forward-looking costs associated with the provision of retail voice grade access to the public switched telephone network for those areas.<sup>3</sup> In the event the Commission determines that the progression of Primary Residence/Single Line Business SLC caps from the July 2001 cap of \$5.00 in a particular zone or zones is not appropriate (i.e., not reflecting higher costs in that zone), the Commission will, by order, set an appropriate cap for that zone or zones. In a zone where the Commission has taken such action to change the applicable cap, the difference between the SLC cap that originally would have been applicable and the new SLC cap set by the Commission will not be included in the maximum permitted Averaged SLC for purposes of section 2.1.6., and that difference will be recovered through the other common line elements. In that event, the Commission should adjust the multiline PICC caps to the extent necessary to mitigate any change in CCL rates.

**2.1.2.3. Lifeline.** Increase minimum federal Lifeline support effective July 1, 2000, and coincident with changes in nominal SLC caps thereafter, so that all of the Subscriber Line Charge continues to be waived for Lifeline customers, with carriers reimbursed from the Universal Service Fund.<sup>4</sup> In subsequent years, increase minimum federal Lifeline support

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3 Nothing herein alters or waives the CALLS members' positions with respect to the legality, definition, application or use of forward-looking costs.

4 Additional Lifeline support is estimated to be \$55 million for the first year of the plan.

in the same amount as increases in the primary residential Subscriber Line Charge.

2.1.3. **Non-Primary Residential Lines.**

2.1.3.1. **Presubscribed Interexchange Carrier Charges.** Beginning on July 1, 2000, eliminate the PICC for Non-Primary Residential lines.

2.1.3.2. **Subscriber Line Charges.**

2.1.3.2.1. **Averaged Subscriber Line Charges.** Beginning on July 1, 2000, the maximum averaged Subscriber Line Charge for non-primary residential lines in a given entity will be the lesser of:

(a) \$7.00, or

(b) the greater of:

(1) the rate as of June 30, 2000 less amounts of SLC reduction pursuant to paragraph 2.1.6, or

(2) Average Price Cap CMT Revenue Per Line.

2.1.3.2.2. **Zone Deaveraged Subscriber Line Charge.**

2.1.3.2.2.1. **Maximum Charge.** The maximum Zone Deaveraged Non-Primary Residential Subscriber Line Charge will be the lesser of \$7.00 per line per month or the highest Zone Average Revenue Per Line for any zone in the study area.

2.1.3.2.2.2. **Minimum Charge.** See paragraph 2.1.5.6.2.

2.1.3.2.3. **Elimination of Distinction between Primary and Non-Primary Residential Lines.** Once the charges for primary and non-primary residential lines are equal within a zone or study area, the ILEC may eliminate the distinction between primary and non-primary lines within that zone or study area.

2.1.4. **Multiline Business Lines.**

2.1.4.1. **Presubscribed Interexchange Carrier Charges.**

The cap on the Multiline Business will be \$4.31 per line on July 1, 2000.<sup>5</sup> Multiline Business PICCs remain assessed to the interexchange carrier. This charge will be eliminated over time in most areas pursuant to paragraph 2.1.6.

2.1.4.2. **Subscriber Line Charges.**

2.1.4.2.1. **Averaged Subscriber Line Charges.** Beginning on July 1, 2000, and in the absence of voluntary reductions, the averaged Subscriber Line Charge for multiline business lines in a given entity that has not deaveraged SLCs will be the lesser of:

- (a) \$9.20, or
- (b) the greater of:
  - (1) the rate as of June 30, 2000, less amounts of SLC reductions pursuant to paragraph 2.1.6, or
  - (2) Average Price Cap CMT Per Line.

Except when the incumbent LEC reduces the rate through voluntary reductions, the averaged multiline business SLC initially will be frozen until the entity's multiline business PICC and CCL are eliminated.

2.1.4.2.2. **Zone Deaveraged Subscriber Line Charge.**

2.1.4.2.2.1. **Maximum Charge.** The maximum Zone Deaveraged Multiline Business Subscriber Line Charge will be the lesser of \$9.20 per line per month or the highest Zone Average Revenue Per Line for any zone in the study area.

2.1.4.2.2.2. **Minimum Charge.** See paragraph 2.1.5.6.2.

2.1.5. **Limitations on Deaveraging of Subscriber Line Charges.** Except as otherwise noted, these limitations apply both to deaveraging pursuant to 2.1.6(4) and to deaveraging through voluntary reductions.

2.1.5.1. **All Geographic Deaveraging According to UNE zones.** All geographic deaveraging of SLCs by customer class must be done according to UNE zones. If a state has not created geographically

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<sup>5</sup> If the Commission acts to establish a SLC cap lower than the proposed SLC caps, it may result in a higher CCL rate than would otherwise occur. The Commission should adjust the multiline PICC to the extent necessary to mitigate the change in CCL rates.

deaveraged UNE rates for loops, the incumbent LEC may not deaverage its SLCs in that state.

- 2.1.5.2. No More Than 4 Zones for Interstate Pricing and Interstate Universal Service Purposes Without FCC Approval.** Solely for the purposes of determining interstate subscriber line charges and the interstate universal service funding described in Section 2.2, an ILEC may not have more than four geographic SLC/USF zones absent a review by the FCC. Where an ILEC has more than four state-created UNE zones and the FCC has not approved use of additional zones, the ILEC will determine, at its discretion, which state-created UNE zones to consolidate so that it has no more than four zones for the purpose of determining interstate subscriber line charges and interstate universal service funding.
- 2.1.5.3. Relationship Between Multiline Business, Non-Primary Residential And Primary Residential And Single Line Business SLCs Within A UNE Zone.** Within a given UNE zone, the multiline business SLC may not be lower than the SLC for non-primary residential lines, and the non-primary residential line SLC may not be lower than the primary residential and single line business SLC.
- 2.1.5.4. Relationship Between SLCs for the Same Customer Class in Different UNE Zones in a Study Area.** For any given customer class (i.e. Primary Residential and Single Line Business, Non-Primary Residential, or Multiline Business) and any given zone, the Zone Deaveraged SLC in that zone must be greater than or equal to the Zone Deaveraged SLC in the zone with the next lower Zone Average Revenue Per Line. (That is, Zone 4 SLCs must be greater than or equal to Zone 3 SLCs, which must be greater than or equal to Zone 2 SLCs, which must be greater than or equal to Zone 1 SLCs, where Zone 1 is the zone with the lowest Zone Average Revenue Per Line, and Zone 4 (if there is one) is the zone with the highest Zone Average Revenue Per Line).
- 2.1.5.5. Revenues From all Zones Cannot Exceed Revenues from Averaged SLCs.**

The sum of all revenues per month that would be generated from all deaveraged SLCs in all zones within a study area plus Study Area Access Universal Service Support for that study area divided by the number of lines in that study area cannot exceed Average Price Cap CMT Revenue Per Line for that study area. In addition, the sum of revenues per month that would be generated from all deaveraged SLCs in all SLC deaveraging zones within a filing entity, plus revenues per month from all SLC, multiline business PICC and CCL charges from study areas within that filing entity that have not geographically deaveraged SLCs, plus the sum of all Study Area Access Universal

Service Support in all study areas within the filing entity, divided by the number of lines, cannot exceed Average Price Cap CMT Revenue Per Line for the filing entity.

**2.1.5.6. Limitations Applicable Only To Zone SLC Deaveraging Pursuant To Paragraph 2.1.6, or Through Increases in Other Zone Deaveraged SLCs.**

**2.1.5.6.1. Elimination of PICC and CCL Prior to SLC Deaveraging.** Except where an incumbent LEC deaverages through voluntary reductions -- and except if the Commission, after completion of the cost review and consideration of study area average revenue per line and transitional universal service mechanisms pursuant to 2.1.2.2.3, determines that the Primary Residence/Single Line Business SLC cap progression in a particular UNE zone or zones is not appropriate and sets a different cap for those zones -- before an incumbent LEC may geographically deaverage its SLC rates, its Originating and Terminating CCL and Multiline Business PICC rates in that study area must equal \$0.00. Deaveraging through voluntary reductions may be undertaken without regard to the levels of the CCL or Multiline Business PICCs.

**2.1.5.6.2. Minimum Charge.** Except where the incumbent LEC chooses to lower the deaveraged SLC through voluntary reductions, the minimum Zone Deaveraged Subscriber Line Charge in any zone in a study area is at least the lowest Minimum SLC for any zone in that study area. Minimum SLC is Zone Average Revenue Per Line adjusted to recover the difference between Study Area Universal Service Support (as defined in paragraph 2.2.3.2) and Study Area Above Benchmark Revenues (as defined in paragraph 2.2.3.1.2.) first from lines in Zone 1, until the SLCs in Zone 1 equal to the SLCs for Zone 2, and then from lines in Zones 1 and 2 equally until SLCs in those zones reach the Zone 3 SLC rates (with all SLCs subject to the applicable residential and multiline business lines nominal caps). This is done as follows:

- (1) Determine the difference between Study Area Above Benchmark Revenues and Study Area Universal Service Support.
- (2) Apply the difference calculated in Step 1 to increase the Zone 1 minimum SLC until either the entire difference has been offset, or the Zone 1 minimum

Zone Deaveraged Subscriber Line Charge equals Zone Average Revenue Per Line for Zone 2.

- (3) Apply any remaining difference not offset by Step 2 to increase the minimum Zone Deaveraged Subscriber Line Charge in both Zone 1 and Zone 2 until either the entire remaining difference has been offset, or the minimum Zone Deaveraged Subscriber Line Charge for Zones 1 and 2 equals Zone Average Revenue Per Line for Zone 3.
- (4) Apply any remaining difference not offset by Step 3 to increase the minimum Zone Deaveraged Subscriber Line Charge for Zone 1, Zone 2 and Zone 3 until either the entire remaining difference has been offset, or the minimum SLC for Zones 1, 2 and 3 equals Zone Average Revenue Per Line for Zone 4.

The parties agree that current law governs any further minimum price restrictions on geographic deaveraging through voluntary reductions, and any party may, as under current law, seek to have a proposed tariff declared unlawful either in the tariffing process or pursuant to a complaint.

**2.1.5.6.3. Voluntary Reduction.** A "Voluntary Reduction" is one in which the incumbent LEC reduces prices other than through offset of net increase in subscriber line charge revenues or universal service revenues pursuant to paragraph 2.1.6, or through increases in other zone deaveraged Subscriber Line Charges.

2.1.6. **Phased Elimination of Carrier Common Line and Multiline Business Presubscribed Interexchange Carrier Charges, and SLC Deaveraging.** Each year, the net increase in maximum permitted Subscriber Line Charge revenues (calculated by summing across all line classes in a study area the products of the maximum permitted Averaged Subscriber Line Charge for each class, times the number of lines in each class, times 12, and subtracting the sum across all line classes in a study area the products of the maximum permitted Averaged Subscriber Line Charge during the base period for each class, times the number of lines in each class, times 12) from changes specified in paragraph 2, and any universal service revenues received pursuant to paragraph 2.2, 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.

Note: This is the existing order of offsets, once the residential (primary and non-primary) and single line business PICCs are stricken.

## **2.2. New Universal Service for Areas Served by Price Cap Incumbent LECs.**

2.2.1. **Implicit Support in Interstate Access Charges by Price Cap LECs.** The total amount of universal service funding to offset implicit support in interstate access charge rates (“Interstate Access USF”) for areas served by price cap incumbent LECs is targeted to be \$650 million per year.<sup>6</sup> This size for Access USF assumes a nominal residential and single line business benchmark of \$7.00, and a nominal multiline business benchmark of \$9.20 for multiline businesses. It also assumes that all price cap LECs are included. It also assumes that the new program will cover the areas currently served by all price cap LECs, except those offered for sale before January 1, 2000, and sold to a non-price cap company. If any such area does not participate in the program, either because the price cap LEC does not participate, or because the area is offered for sale after January 1, 2000, and sold to a non-price cap company, then the funding estimated for that area pursuant to paragraph 2.2.3.1.1 will not be collected or distributed as part of this plan for price cap LECs.

2.2.2. **Preliminary Minimum Access USF<sub>StudyArea</sub>**. For each study area, the preliminary minimum amount of Access USF support that study area would receive is calculated as follows:

If Average Price Cap CMT Revenue Per Line Per Month<sub>Study Area</sub> is greater than \$9.20 then:

Preliminary Minimum Access USF<sub>study area</sub> = Price Cap CMT Revenue study area –

(((\$7.00 X ILEC Residential<sub>[6]</sub> & Single Line Business Lines<sub>Study area</sub> X 12) + \$9.20 X ILEC Multiline Business Lines<sub>study area</sub> X 12))

If Average Price Cap CMT Revenue Per Line Per Month<sub>Study Area</sub> is greater than \$7.00 but less than \$9.20 then:

Preliminary Minimum Access USF<sub>study area</sub> = (Average Price Cap CMT Revenue Per Line Per Month<sub>Study Area</sub> - \$7.00) X (ILEC Residential & Single Line Business Lines<sub>Study area</sub> X 12)

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<sup>6</sup> New federal universal service support to replace implicit support in interstate access charges by price cap LECs does not include support calculated under FCC Rules 54.301 (DEM Weighting), 54.303 (Long Term Support), or 36.601 et seq. (Part 36 Universal Service Fund), or support expressly designated by the FCC to offset costs allocated to the intrastate jurisdiction.

If Average Price Cap CMT Revenue Per Line Per Month<sub>Study Area</sub> is less than \$7.00 then:

Preliminary Minimum Access USF<sub>study area</sub> = zero.

### **2.2.3. Calculation of Access USF Per Line.**

#### **2.2.3.1. Terms.**

**2.2.3.1.1. Zone Above Benchmark Revenues.** For each zone, the above benchmark revenues for that zone are calculated according to the following formula:

$$\begin{aligned} \text{ZoneAboveBenchmark Revenues} = & \\ & ((\text{ZoneAverageRevenuePerLine} - \$7.00) \times \text{All} \\ & \text{Eligible Telecommunications Carrier} \\ & \text{Residential\&SingleLineBusinessLines}_{\text{StudyArea}} \times 12) \\ & + ((\text{ZoneAverageRevenuePerLine} - \$9.20) \times \text{All} \\ & \text{Eligible Telecommunications Carrier} \\ & \text{MultilineBusinessLines}_{\text{StudyArea}} \times 12) \end{aligned}$$

The zones used for determining universal service will be the same zones that would be used for any SLC deaveraging, as described in paragraph 2.1.5.2. Where an ILEC has consolidated zones pursuant to paragraph 2.1.5.2, the consolidated zone is used for determining universal service.

- (a) For the purposes of distributing Access USF, Zone Average Revenue Per Line should be calculated pursuant to paragraph 2.1.1.3, except that there should be a one-year lag for exogenous adjustments other than those related to sales or purchases of exchanges. This lag is necessary to accommodate the tariff filing schedule.
- (b) In states that have not established UNE zones, support will be determined on a study area basis, as described in paragraph 2.2.3.3. For purposes of calculating Access USF support for study areas in states that have not established UNE zones, an interim estimate of Zone Above Benchmark Revenues will be calculated by using the FCC Proxy Cost Model or other substitute method if no model is available. In order to develop this estimate, zones will be established by assigning the lowest cost one third of lines to Zone 1,



the highest cost one third of lines to Zone 3 and the remaining lines to Zone 2.

**2.2.3.1.2. Study Area Above Benchmark Revenues.** For each study area, Study Area Above Cap Revenues is calculated by summing the Zone Above Benchmark Revenues for all zones in the study area.

**2.2.3.1.3. Nationwide Total Above Benchmark Revenues.** Nationwide Total Above Benchmark Revenues is the sum of all Study Area Above Benchmark Revenues nationwide for all price cap incumbent LEC study areas.

**2.2.3.2. Study Area Access USF Support.** Each study area's Interstate Access USF support is calculated according to the following steps:

**Step 1: Calculate Preliminary Access USF Support**

Preliminary Access USF Support is calculated according to the following formula:

$Preliminary\ Study\ Area\ Universal\ Service\ Support =$

$$Study\ Area\ Above\ Benchmark\ Revenues \times \left( \frac{\$650\ million}{Total\ Nationwide\ Above\ Benchmark\ Revenues} \right)$$

**Step 2: Calculate the Minimum Support Requirement.**

If the Preliminary Minimum Access USF<sup>7</sup><sub>Study Area</sub> exceeds the Preliminary Study Area Universal Service Support (“PSAUSS”) then the Minimum Support Requirement for that study area is calculated using the following process:

- A. For each study area, calculate the Study Area Minimum Delta. Study Area Minimum Delta = Minimum Access USF<sub>Study Area</sub> – Preliminary Study Area Universal Service Support.
- B. Nationwide, calculate the Total National Minimum Delta, which equals the sum of all Study Area Minimum Deltas.
- C. (1) If the Total National Minimum Delta is less than or equal to \$75 million then the Minimum Adjustment Amount is:

$$Minimum\ Adjustment\ Amount = Phase\ In\ Percentage \times Minimum\ Delta.$$

(2) If the Total National Minimum Delta is greater than \$75 million, then the Minimum Adjustment Amount is:

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<sup>7</sup> See paragraph 2.2.2.

$$\text{Minimum Adjustment Amount} = (\text{PhaseInPercentage}) \times (\text{MinimumDelta}) \times \left( \frac{\$75\text{million}}{\text{TotalNationalMinimumDelta}} \right)$$

The Phase In Percentage is:

50%	on	July 1, 2000
75%	on	July 1, 2001
100%	on	July 1, 2002

For those study areas with a Minimum Adjustment Amount, the Minimum Support Requirement is:

$$\text{Minimum Support Requirement} = \text{Preliminary Study Area Universal Service Support} + \text{Minimum Adjustment Amount.}$$

**Step 3: Determine the Study Area Universal Service Support.**

For study areas with a Minimum Support Requirement, Study Area Universal Service Support equals Minimum Support Requirement.

For study areas with no Minimum Support Requirements:

- (1) Determine the Total National Minimum Support Requirement (TNMSR), which equals the sum of all Minimum Support Requirements.
- (2) Study Area Universal Service Support is determined as follows:

Study Area Universal Service Support =

$$PSAUSS \times \left( \frac{\$650\text{million} - TNMSR}{\text{Nationwide Sum of PSAUSS for Study Areas where MSR is } \$0} \right)$$

The above calculations ensure that the total Interstate Access USF Support is targeted to \$650 million while the Study Area Minimum Support Requirements are phased in.

**2.2.3.3. No Access USF Above The Minimum Support Requirement For A Study Area That Has No Zone Deaveraged Prices For UNE Loops.** Notwithstanding the calculations in paragraph 2.2.3.2, in any study area for which the incumbent LEC has not established zone deaveraged UNE loop prices approved by the state, that study area

will receive the lesser of Study Area Universal Service support as calculated pursuant to Step 3, or the Preliminary Minimum Access USF. If an incumbent LEC establishes deaveraged UNE loop prices after May 1, 2000, then beginning with the subsequent quarter after it implements deaveraged UNE loop rates, that entity will receive the amount of Access USF support previously calculated pursuant to paragraph 2.2.3.2 using the methodology described in paragraph 2.2.3.1.1(b). When Access USF support is subsequently recalculated to redistribute Access USF among Price Cap ILEC service territories, support for that entity will be calculated pursuant to paragraph 2.2.3.1.1.(a).<sup>8</sup>

**2.2.4. Determination of Interstate Access USF Support Per Line.** Interstate Access USF Support Per Line is the amount per supported line (determined including all Eligible Telecommunications Carrier lines) of new interstate universal service funding to replace implicit support in interstate access that an eligible telecommunications carrier receives for serving a customer. This support is portable between eligible telecommunications carriers as customers change service providers.

**2.2.4.1. Interstate Access USF Support Per Line When Deaveraged UNE Loop Rates Have Not Been Established.** When Deaveraged UNE Loop Rates have not been established in a study area, the Interstate Access USF Support Per Line for that study area is the lesser of Study Area Universal Service Support or the Preliminary Minimum Access USF divided by total lines (all eligible telecommunications carriers) in the study area.

**2.2.4.2. Interstate Access USF Support Per Line When Deaveraged UNE Loop Rates Have Been Established.**

**Highest Cost Zone First.** The funding in each study area will be made portable for lines in the highest cost zone first, and will “cascade” to lines in lower cost zones to the extent that sufficient funding is available. Beginning with the zone with the highest Zone Average Revenue Per Line, funding will be applied in the following order of priority:

- (1) To all lines in the highest zone, to eliminate the amount per line by which Zone Average Revenue Per Line exceeds the higher of \$9.20 or the Average Revenue Per Line in the next highest zone;
- (2) If the Zone Average Revenue Per Line in the next highest zone is greater than \$9.20, then to all lines in both zones to

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<sup>8</sup> As stated in paragraph 5, nothing in this proposal supercedes, prejudices or otherwise implies a result of the UNE Remand proceeding.

eliminate the amount per line by which Zone Average Revenue per Line exceeds \$9.20;

(3) To all residential and single line business lines in the highest zone, to eliminate the amount per line that Zone Average Revenue Per Line for these lines exceeds the higher of \$7.00 or Average Revenue Per Line in the next highest zone;

(4) If the Zone Average Revenue per Line in the next highest zone is greater than \$7.00, then to all residential and single line business lines in both zones to eliminate the amount per line by which Zone Average Revenue Per Line exceeds \$7.00.

This “cascade” process will continue until all of the available funding has been assigned to lines by zone and by customer class; it may extend in similar fashion to additional zones, to the extent that their Zone Average Revenue per Line exceeds the \$9.20 and \$7.00 caps, and available funding permits. The per-line amount assigned to each multiline business line in a given zone would then be portable among eligible telecommunications carriers, as would the per-line amount assigned to each residence line and each single line business line in that zone.

**2.2.5. Commencement of New Access USF Support.** Universal service distributed pursuant to this section will begin once administrative mechanisms have been established to transfer support among eligible telecommunications carriers in the shortest interval possible given reasonable operational considerations. The parties agree that a three-month lag may be reasonable, provided that an ILEC's entitlement to receive Access USF for service to that customer stops when service stops, and that there are true-ups.

**2.2.6. Recalculation of Access USF Amounts.** Access USF support for each ILEC service territory will be recalculated on July 1, 2000, January 1, 2001, July 1, 2001, and thereafter as determined by the USF Administrator, but at least annually.

### **3. Reducing Traffic Sensitive and Special Interstate Access Rates.**

#### **3.1. Target Traffic Sensitive Interstate Access Charge Rate.**

**3.1.1.** Beginning on July 1, 2000, the participating price cap incumbent LECs will calculate the Average Traffic Sensitive (ATS) rate as the sum of the Local Switching component and the Transport component.

The Local Switching component will be calculated by dividing the proposed Local Switching revenues (Local Switching, LS trunk ports, Information Surcharge, and STP Port) by the base period Local Switching MOUs.

The Transport component will be calculated by dividing the proposed Transport revenues (Switched Direct Trunk Transport, Signaling for Switched Direct

Trunk Transport, Entrance Facilities for Switched Access Traffic, Tandem Switched Transport, Signaling for Tandem Switching and TIC) by ILEC only base period Transport MOUs (including meet-point billing arrangements for jointly-provided interstate access by an incumbent LEC and any other LEC).

For the purposes of determining whether the average traffic sensitive charge has reached the target rate, the calculations should include all the relevant revenues and minutes for services provided under generally available tariffs and services provided under contract tariffs. If in the future an access customer can use UNEs in lieu of switched access service for service other than to its local service end user, the revenues and demand for UNEs used to provide switched access services would be included in the calculation of the ATS rate. To the extent that UNEs are used to provide interstate access for CLEC end users for whom the CLEC is not also providing local service, the ILEC will measure such traffic or obtain from the CLEC a CLEC self-report of that demand and associated revenues.

- 3.1.2. Bell Companies and GTE.** For Bell Companies and GTE, the Target Rate for the Average Traffic Sensitive Rate is calculated by tariff filing entity and is \$0.0055 per minute for each tariff filing entity. For Bell Atlantic, the former NYNEX telephone companies may be treated as a separate tariff filing entity.
- 3.1.3. All Other Price Cap ILECs.** For all other price cap ILECs, the Target Rate for the Average Traffic Sensitive Rate is calculated by tariff filing entity and is \$0.0065 per minute. In addition, CALLS members are continuing to discuss whether another target would be appropriate for an entirely rural price cap company, and whether such a target can be created without also creating an undue incentive to transfer exchanges between price cap companies with different target rates.

**3.2. Interstate X-Factor Levels and Targeting of X-Factor Reductions Effective July 1, 2000.** The basic regime set up under this section is that all the price cap reductions, other than reductions to special access, flowing from an X-factor of 6.5% are initially targeted to reduce traffic sensitive charges until those charges reach the Target Rate (\$0.0055 per minute by tariff filing entity for Bell Companies and GTE, and \$0.0065 per minute by tariff filing entity for other price cap ILECs). When the filing entity's average traffic sensitive switched interstate access charge reaches the Target Rate, then the X-factor becomes equal to GDP-PI. All X-factor targeting is done at the tariff filing entity level, not at a holding company level.

- 3.2.1. Except as provided in paragraph 3.2.7. for special access elements, the interstate X-factor will be 6.5% until a Tariff Entity's average traffic sensitive access charge equals the Tariff Entity's Target Rate. If a new element is created from an existing switched access rate element (such as creating a call set-up charge out of the existing local switching rate) the revenues anticipated from that element will be included in the calculation of the average traffic sensitive access charge. With respect to services other than special access, the X-factor of 6.5% will be applied only to the extent necessary to reduce the Tariff Entity's average traffic sensitive

access charges to the Target Rate for the first time. Once the Tariff Entity's average traffic sensitive access charges reach the Target Rate for the first time, the X-factor will be GDP-PI.

**3.2.2.** Until a Tariff Entity's average traffic sensitive interstate access charge equals the Target Rate, the aggregate reductions within a given tariff filing entity from application of the X-factor adjustment in the price cap formula across all of that entity's interstate price cap baskets, other than special access elements, will be targeted to reduce the following rates for that tariff filing entity, in order of priority:

(1) To the residual per minute Transport Interconnection Charge, until that rate is \$0.00; then

(2) To the Information Surcharge, until that rate is \$0.00; then

(3) To the Local Switching charge and Switched Transport charges until the Tariff Entity's average traffic sensitive interstate access charge equals the Target Rate. In making these reductions to Local Switching rates, the percentage of total X-factor reductions directed to Local Switching rates must be greater than or equal to the percentage that local switching revenues represent of the sum of revenues for Local Switching, Local Switching Trunk Ports, Signaling Transfer Point Port Termination, switched Direct Trunk Transport, signaling for switched Direct Trunk Transport, entrance facilities for switched access traffic, Tandem Switched Transport, and Signaling for Tandem Switching (i.e., Local Switching gets at least its proportionate share of reductions).

Once the Tariff Entity's average traffic sensitive interstate access charge equals the Target Rate for the first time, no further reductions will be mandated (i.e. if applying the full X-factor reduction for a given year would reduce average traffic sensitive interstate access charges below the Target Rate, the amount of X-factor reduction applied that year will be the amount necessary to reach the Target Rate).

In calculating aggregate X-factor reductions, the Price Cap formula should be applied against the entire common line basket, without removing amounts received through the new interstate universal service support pursuant to paragraph 2.2.

**3.2.3. CMT Adjustments After Reaching Target Rate.** Once the tariff entity average traffic sensitive access charge equals the target rate, the X-factor for the CMT Basket will equal GDP-PI as long as GDP-PI is less than or equal to 6.5 percent and greater than 0 percent. If GDP-PI is greater than 6.5% and an entity has eliminated its CCL and multiline business PICC charges, the X-factor for common line will equal 6.5%, and all SLC rates and nominal caps on SLC rates will be increased by the difference between GDP-PI and the X-factor. If GDP-PI is less than 0, the X-factor for common line will be 0.

**3.2.4. Additional One-Time Switched Access Reductions.** Switched access usage charges (including Average Traffic Sensitive Charge rates and carrier common line charges but excluding SLCs and PICCs) will fall by \$2.1 billion on July 1, 2000, assuming all price cap companies participate. After all other changes from this plan are made, additional reductions to Average Traffic Sensitive Charge rates necessary to achieve a total of \$2.1 billion reduction in switched access usage charges on July 1, 2000 would be calculated as a percentage of the local switching element of all price cap LECs, but carriers could take these reductions against any of the Average Traffic Sensitive Charge rate elements, provided that they still generated the same amount of reductions. This additional reduction will not reduce a filing entity below its Target Rate. At least a proportionate share of the additional reduction in Average Traffic Sensitive Charge rates will be taken to local switching rates. These additional reductions to Average Traffic Sensitive Charge rates would not be offset by increases in other rate elements, except for limited safeguards for smaller rural carriers and to provide for an orderly transition for carriers facing disproportionate initial reductions per line. This yields additional consumer savings.

**3.2.4.1. Safeguard for Smaller Rural Carriers.** In order to provide additional stability for rural study areas served by the smaller price cap carriers during this transitional period, \$0.0065 (i.e. "mid-sized") price cap carriers with at least 20% of total holding company lines serving statutory "rural" study areas may elect to pool up to the following amounts:

- i. for that carrier's predominantly non-rural filing entities, the amount of the additional reductions to Average Traffic Sensitive Charge rates necessary to yield those filing entities' proportionate share of a total \$2.1 billion reduction in switched access usage rates on July 1, 2000, to the extent such reductions exceed 25% of the Local Switching element revenues as of July 1, 2000 before application of price cap adjustments and other changes under the plan;
- ii. for that carrier's predominantly rural filing entities, the amount of the additional reductions to Average Traffic Sensitive Charge rates necessary to yield those filing entities' proportionate share of a total \$2.1 billion reduction in switched access usage rates on July 1, 2000;

subject to a maximum of the amount that the carrier can recover from common line elements other than primary residence/single line business SLCs and CCL across all filing entities within that holding company without exceeding the nominal caps on those elements ("pooled amounts"). The pooled amounts may be recovered across common line elements other than primary residential single line

business SLCs and CCL within the same holding company. The pooled amounts will offset a portion of that carrier's additional reductions (i.e., those taken after all other changes resulting from the plan) to Average Traffic Sensitive Charge rates necessary to achieve that carrier's portion of a price cap LEC total of \$2.1 billion reduction in switched access usage charges on July 1, 2000. The additional reductions in excess of pooled amounts will be taken without offset. Nothing in this provision reduces the total drop in a carrier's Average Traffic Sensitive Charge rates or CCL rates on July 1, 2000. The pooled amounts and the recovery thereof do not affect calculations of universal service support. We understand that in the proceeding the Commission initiates after July 1, 2001, the Commission will review whether retaining this pooling or transferring the pooled amounts to common line is appropriate.

**3.2.4.2. Transitional Safeguard for Companies with Above Average Initial Reductions.**

In order to provide for an orderly transition, any price cap company with reductions per line at the holding company level greater than the industry average at the holding company level may elect temporarily to pool the amount of the additional reductions to Average Traffic Sensitive Charge rates necessary to yield that carrier's proportionate share of a total \$2.1 billion reduction in switched access usage rates on July 1, 2000, to the extent such reductions exceed 25% of the Local Switching element revenues as of July 1, 2000 before application of price cap adjustments and other changes under the plan.

The pooled amounts may be recovered across common line elements other than primary residence/single line business SLCs and CCL within the same filing entity, provided that the carrier agrees that an X-factor of 6.5 would continue for that filing entity until Average Traffic Sensitive Charge reaches the applicable target rate and the pooled amount is eliminated. Nothing in this provision reduces the total drop in a carrier's Average Traffic Sensitive Charge rates or CCL rates on July 1, 2000. The pooled amounts and the recovery thereof do not affect calculations of universal service support.

**3.2.5. Exogenous Adjustments.** After July 1, 2000, exogenous adjustments will be applied only to services other than those constituting traffic sensitive interstate access charges.

**3.2.6. Annual Filings After Reaching Target Rate.** With each annual filing, the Average Traffic Sensitive Rate will be recalculated and set at the new base period level. Due to changes in base period demand and inclusion of new services for that Annual Tariff filing, the absolute level of a Tariff Entity's Average Traffic Sensitive Charge may change. The resulting new Average Traffic Sensitive Charge level will be what that Tariff Entity will measured against during that base period. This prevents a carrier from increasing Average Traffic Sensitive charge



elements that may be in the same basket as other elements (e.g. special access) as a result of price reductions in those other elements.

**3.2.7. Special Access.** Rates for special access services will be reduced according to the applicable price cap mechanisms using an X-factor equal to 3.0% in 2000, and an X-factor equal to 6.5% in 2001, 2002, and 2003. Thereafter, there will be a price cap freeze for special access (i.e. X equals inflation).

**3.2.8. No February 2001 Cost Studies.** ILECs are no longer required to file cost studies on February 8, 2001, as otherwise would be required by paragraph 267 of the *Access Reform First Report and Order* (adopted May 7, 1997). Paragraph 267 of the First Report and Order is rescinded.

#### **4. Other Changes to Interstate Access Charge Rate Levels.**

**4.1. Changes to the Interstate X-factor.** No company will advocate changes to the interstate X-factor other than as outlined in paragraph 3.

**4.2. Prospective Interstate Adjustments.** The companies agree that Paragraphs 2-3 are a just, reasonable and fair means of moving usage sensitive interstate access rates to a point achieved by the above mechanisms. Therefore, other adjustments, such as changes in the interstate X-factor, changes in interstate access rates for price cap ILECs based on results of present or future Continuing Property Records audits, changes in interstate access rates for price cap ILECs based on changes in the Prescribed Rate of Return, and changes in the rate structure for Common Line, Traffic Sensitive (Local Switching, Local Switching Trunk Ports, Signaling Transfer Point Port Termination, switched Direct Trunk Transport, signaling for switched Direct Trunk Transport, entrance facilities for switched access traffic, Tandem Switched Transport, the residual and service-related Transport Interconnection Charges, Information Surcharge, and Signaling for Tandem Switching) and Other (all other interstate access charges not included in Common Line or Traffic Sensitive, as defined here) charges by price cap ILECs, are unnecessary. Nothing in this agreement precludes implementation of a separations freeze based on current separations factors.

**4.3. Retrospective Interstate Adjustments.** The companies also agree not to initiate legal or regulatory action to adjust price cap determined rates for interstate access charges billed for access minutes prior to January 1, 2000, although a payee would not be precluded from accepting any refund the FCC ordered to be made and a payor will not object to or resist such a refund on the basis of this paragraph.

**4.4. Lower Formula Adjustments.** A participating price cap LEC waives the Lower Formula Adjustment to interstate access rates for rates charged during the tariff year beginning July 1, 2000, but not for subsequent years.

**4.5.** These agreements in paragraph 4 will run until July 1, 2005.

**5. Long Distance Rates and SLC Changes.** This interstate access and universal service plan is in the public interest because the interstate access reductions the plan produces will result in lower long distance bills while the SLC and universal service revenues the plan produces will

help to protect and enhance universal service and the local exchange infrastructure. The IXC signatories have separately and unilaterally met with the other interested parties, including state commissioners and FCC staff, to review the effects of the interstate access reductions under the plan on long distance customers, and have separately and unilaterally filed letters addressing long distance rates [**cite AT&T and Sprint letters**]. The incumbent LEC signatories have met with other interested parties, including state commissioners and FCC staff, to review effects of the SLC increases and SLC deaveraging under the plan on local customers, and on that basis propose the changes herein.

6. **Non-Signatory Price Cap LECs.** The signatories agree that this proposal, without modification, is a fair and reasonable compromise plan to resolve issues relating to access and universal service for price cap LECs. Accordingly, signatories agree on behalf of themselves and their current affiliates to participate in the proposal if it is approved by the FCC.

The signatories agree that non-signatory price cap LECs are not bound by the terms of this plan and that the access rules that will apply solely to non-signatory price cap LECs will be determined by the FCC. All companies, whether signatories or not, would remain free to advocate for whatever changes, if any, are appropriate to the current price cap rules that would apply only to non-signatory price cap LECs.

At their option, price cap LECs that are non-signatories to the proposal at the time of its submission may chose to become signatories to the proposal prior to its implementation following an FCC Order.

7. **Consumer Education Program.** CALLS will work with the FCC's Consumer Information Bureau to develop a consumer education program.

PART 54

Subpart E - Universal Service Support for Low-Income Consumers

§ 54.403 Lifeline support amount.

(a) The federal ~~baseline~~-Lifeline support amount shall equal:

**(1) Tier One. The tariffed rate in effect for the primary residential end user common line charge, as determined in accordance with § 69.152(d), for the qualifying low-income consumer; \$3.50 per qualifying low-income consumer.**

**(2) Tier Two.** If the state commission approves an additional reduction of \$1.75 in the amount paid by consumers, additional federal Lifeline support in the amount of \$1.75 will be made available to the carrier providing Lifeline service to that consumer; **and**

**(3) Tier Three.** Additional federal Lifeline support in an amount equal to one-half the amount of any state Lifeline support will be made available to the carrier providing Lifeline service to a qualifying low-income consumer if the state commission approves an additional reduction in the amount paid by that consumer equal to the state support multiplied by 1.5.

(b) ~~For the qualifying low-income consumer, the~~ The federal Lifeline support amount shall not exceed ~~\$7.00 per qualifying low-income consumer~~ **the tariffed rate in effect for the primary residential end user common line charge plus \$3.50**. Eligible carriers that charge federal End-User Common Line charges or equivalent federal charges shall apply the federal ~~baseline~~-Lifeline support to waive Lifeline consumers' federal End-User Common Line charges. Such carriers shall apply any additional federal support amount to a qualifying low-income consumer's intrastate rate, if the state has approved of such additional support. Other carriers shall apply the federal ~~baseline~~-Lifeline support amount, plus the additional support amount, where applicable, to reduce their lowest tariffed (or otherwise generally available) residential rate for the services enumerated in § 54.101(a)(1) through (a)(9), and charge Lifeline consumers the resulting amount.

(c) Lifeline support for providing toll limitation shall equal the eligible telecommunications carrier's incremental cost of providing either toll blocking or toll control, whichever is selected by the particular consumer.

~~(d) In addition to the \$7.00 per qualifying low-income consumer described in paragraph (a) of this section, eligible incumbent local exchange carriers that serve qualifying low-income consumers who have toll blocking shall receive federal Lifeline support in amounts equal to the presubscribed interexchange carrier charge that incumbent local exchange carriers would be permitted to recover from such low-income consumers pursuant to § 69.153(b) of this chapter. Eligible incumbent local exchange carriers that serve qualifying low-income consumers who have toll blocking shall apply~~

~~this support to waive qualifying low-income consumers' presubscribed interexchange carrier charges. A competitive eligible telecommunications carrier that serves qualifying low-income consumers who have toll blocking shall receive federal Lifeline support in an amount equal to the presubscribed interexchange carrier charge that the incumbent local exchange carrier in that area would be permitted to recover, if it served those consumers.~~

## **Subpart H—Administration**

### **§ 54.701 Administrator of universal service support mechanisms.**

(a) The Universal Service Administrative Company is appointed the permanent Administrator of the federal universal service support mechanisms, subject to a review after one year by the Federal Communications Commission to determine that the Administrator is administering the universal service support mechanisms in an efficient, effective, and competitively neutral manner.

(b) The Schools and Libraries Corporation and the Rural Health Care Corporation shall merge into the Universal Service Administrative Company by January 1, 1999; provided, however, that the merger shall not take place until the Common Carrier Bureau, acting pursuant to delegated authority, has approved the merger documents, the amended by-laws, and the amended articles of incorporation, as set forth in paragraphs (c) and (d) of this section.

(c) By December 1, 1998, the Schools and Libraries Corporation, the Rural Health Care Corporation and the Universal Service Administrative Company shall file with the Federal Communications Commission draft copies of all documents necessary to effectuate the merger.

(d) By December 1, 1998, the Universal Service Administrative Company shall file with the Federal Communications Commission draft copies of amended by-laws and amended articles of incorporation.

(e) Upon consummation of the merger of the Schools and Libraries Corporation and the Rural Health Care Corporation into the Universal Service Administrative Company, the Schools and Libraries Corporation and the Rural Health Care Corporation shall take all steps necessary to dissolve such corporations.

(f) The Administrator shall establish a nineteen (19) member Board of Directors, as set forth in § 54.703. The Administrator's Board of Directors shall establish three Committees of the Board of Directors, as set forth in § 54.705: (1) the Schools and Libraries Committee, which shall oversee the schools and libraries support mechanism; (2) the Rural Health Care Committee, which shall oversee the rural health care support mechanism; and (3) the High Cost and Low Income Committee, which shall oversee the high cost and low income support mechanism. The Board of Directors shall not modify substantially the power or authority of the Committees of the Board without prior approval from the Federal Communications Commission.

(g) The Administrator shall establish three divisions: (1) the Schools and Libraries Division, which shall perform duties and functions in connection with the schools and libraries support mechanism under the direction of the Schools and Libraries Committee of the Board, as set forth in § 54.705(a); (2) the Rural Health Care Division, which shall

perform duties and functions in connection with the rural health care support mechanism under the direction of the Rural Health Care Committee of the Board, as set forth in § 54.705(b); and (3) the High Cost and Low Income Division, which shall perform duties and functions in connection with the high cost and low income support mechanism, **and the Interstate Access Universal Service Fund Support mechanism described in Subpart I of this Part.** under the direction of the High Cost and Low Income Committee of the Board, as set forth in § 54.705(c). As directed by the Committees of the Board set forth in § 54.705, these divisions shall perform the duties and functions unique to their respective support mechanisms.

(h) The Administrator shall be managed by a Chief Executive Officer, as set forth in § 54.704. The Chief Executive Officer shall serve on the Committees of the Board established in § 54.705.

### **Sec. 54.702 Administrator's functions and responsibilities.**

(a) The Administrator, and the divisions therein, shall be responsible for administering the schools and libraries support mechanism, the rural health care support mechanism, the high cost support mechanism, ~~and~~ the low income support mechanism, **and the Interstate Access Universal Service Fund Support mechanism described in Subpart I of this Part.**

(b) The Administrator shall be responsible for billing contributors, collecting contributions to the universal service support mechanisms, and disbursing universal service support funds.

(c) The Administrator may not make policy, interpret unclear provisions of the statute or rules, or interpret the intent of Congress. Where the Act or the Commission's rules are unclear, or do not address a particular situation, the Administrator shall seek guidance from the Commission.

(d) The Administrator may advocate positions before the Commission and its staff only on administrative matters relating to the universal service support mechanisms.

(e) The Administrator shall maintain books of account separate from those of the National Exchange Carrier Association, of which the Administrator is an independent subsidiary. The Administrator's books of account shall be maintained in accordance with generally accepted accounting principles. The Administrator may borrow start up funds from the National Exchange Carrier Association. Such funds may not be drawn from the Telecommunications Relay Services (TRS) fund or TRS administrative expense accounts.

(f) Pursuant to its responsibility for billing and collecting contributions, the Administrator shall compare periodically information collected by the administrator of the TRS Fund from TRS Fund Worksheets with information submitted by contributors on Universal Service Worksheets to verify the accuracy of information submitted on Universal Service Worksheets. When performing a comparison of contributor information as provided by this paragraph, the Administrator must undertake company-by-company comparisons for all entities filing Universal Service and TRS Fund Worksheets.

(g) The Administrator shall create and maintain a website, as defined in Sec. 54.5, on which applications for services will be posted on behalf of schools, libraries and rural health care providers.

(h) The Administrator shall file with the Commission and Congress an annual report by March 31 of each year. The report shall detail the Administrator's operations, activities, and accomplishments for the prior year, including information about participation in each of the universal service support mechanisms and administrative action intended to prevent waste, fraud, and abuse. The report also shall include an assessment of subcontractors' performance, and an itemization of monthly administrative costs that shall include all expenses, receipts, and payments associated with the administration of the universal service support programs. The Administrator shall consult each year with Commission staff to determine the scope and content of the annual report.

(i) The Administrator shall report quarterly to the Commission on the disbursement of universal service support program funds. The Administrator shall keep separate accounts for the amounts of money collected and disbursed for eligible schools and libraries, rural health care providers, low-income consumers, **interstate access USF support**, and high cost and insular areas.

(j) Information based on the Administrator's reports will be made public by the Commission at least once a year as part of a Monitoring Report.

(k) The Administrator shall provide the Commission full access to the data collected pursuant to the administration of the universal service support programs.

(l) Pursuant to Sec. 64.903 of this chapter, the Administrator shall file with the Commission a cost allocation manual (CAM) that describes the accounts and procedures the Administrator will use to allocate the shared costs of administering the universal service support mechanisms and its other operations.

(m) The Administrator shall make available to whomever the Commission directs, free of charge, any and all intellectual property, including, but not limited to, all records and information generated by or resulting from its role in administering the support mechanisms, if its participation in administering the universal service support mechanisms ends.

(n) If its participation in administering the universal service support mechanisms ends, the Administrator shall be subject to close-out audits at the end of its term.

**Sec. 54.703 and Sec. 54.704 remain unchanged.**

### **Sec. 54.705 Committees of the Administrator's Board of Directors.**

(a) Schools and Libraries Committee.--

(1) Committee functions. The Schools and Libraries Committee shall oversee the administration of the schools and libraries support mechanism by the Schools and Libraries Division. The Schools and Libraries Committee shall have the authority to make decisions concerning:

- (i) How the Administrator projects demand for the schools and libraries support mechanism;
- (ii) Development of applications and associated instructions as needed for the schools and libraries support mechanism;
- (iii) Administration of the application process, including activities to ensure compliance with Federal Communications Commission rules and regulations;
- (iv) Performance of outreach and education functions;
- (v) Review of bills for services that are submitted by schools and libraries;
- (vi) Monitoring demand for the purpose of determining when the \$2 billion trigger has been reached;
- (vii) Implementation of the rules of priority in accordance with § 54.507(g) of this chapter;
- (viii) Review and certification of technology plans when a state agency has indicated that it will not be able to review such plans within a reasonable time;
- (ix) The classification of schools and libraries as urban or rural and the use of the discount matrix established in § 54.505(c) of this chapter to set the discount rate to be applied to services purchased by eligible schools and libraries;
- (x) Performance of audits of beneficiaries under the schools and libraries support mechanism; and
- (xi) Development and implementation of other functions unique to the schools and libraries support mechanism.

(2) Committee composition. The Schools and Libraries Committee shall consist of the following members of the Administrator's Board of Directors:

- (i) Three school representatives;
- (ii) One library representative;
- (iii) One service provider representative;
- (iv) One at-large representative elected by the Administrator's Board of Directors; and
- (v) The Administrator's Chief Executive Officer.



(b) Rural Health Care Committee.--

(1) Committee functions. The Rural Health Care Committee shall oversee the administration of the rural health care support mechanism by the Rural Health Care Division. The Rural Health Care Committee shall have authority to make decisions concerning:

- (i) How the Administrator projects demand for the rural health care support mechanism;
- (ii) Development of applications and associated instructions as needed for the rural health care support mechanism;
- (iii) Administration of the application process, including activities to ensure compliance with Federal Communications Commission rules and regulations;
- (iv) Calculation of support levels under § 54.609;
- (v) Performance of outreach and education functions;
- (vi) Review of bills for services that are submitted by rural health care providers;
- (vii) Monitoring demand for the purpose of determining when the \$400 million cap has been reached;
- (viii) Performance of audits of beneficiaries under the rural health care support mechanism; and
- (ix) Development and implementation of other functions unique to the rural health care support mechanism.

(2) Committee composition. The Rural Health Care Committee shall consist of the following members of the Administrator's Board of Directors:

- (i) Two rural health care representatives;
- (ii) One service provider representative;
- (iii) Two at-large representatives elected by the Administrator's Board of Directors;
- (iv) One State telecommunications regulator, one state consumer advocate; and
- (v) The Administrator's Chief Executive Officer.

(c) High Cost and Low Income Committee.--

(1) Committee functions. The High Cost and Low Income Committee shall oversee the administration of the high cost and low income support mechanisms, **including the Interstate Access Universal Service Fund Support mechanism described in Subpart I of this Part**, by the High Cost and Low Income Division. The High Cost and Low Income Committee shall have the authority to make decisions concerning:

(i) How the Administrator projects demand for the high cost and low income support mechanisms;

(ii) Development of applications and associated instructions as needed for the high cost and low income support mechanisms;

(iii) Administration of the application process, including activities to ensure compliance with Federal Communications Commission rules and regulations;

(iv) Performance of audits of beneficiaries under the high cost and low income support mechanisms; and

(v) Development and implementation of other functions unique to the high cost and low income support mechanisms.

(2) Committee composition. The High Cost and Low Income Committee shall consist of the following members of the Administrator's Board of Directors:

(i) One low income representative;

(ii) One state telecommunications regulator;

(iii) One state consumer advocate;

(iv) Two incumbent local exchange carrier representatives (one shall represent rural telephone companies, as that term is defined in 47 U.S.C. 153(37) and one shall represent non-rural telephone companies);

(v) One interexchange carrier representative;

(vi) One competing local exchange carrier representative;

(vii) One commercial mobile radio service representative; and

(viii) The Administrator's Chief Executive Officer.

(d) Binding Authority of Committees of the Board.

(1) Any action taken by the Committees of the Board established in paragraphs (a) through (c) of this section shall be binding on the Board of Directors of the Administrator, unless such action is presented for review to the Board by the Administrator's Chief Executive Officer and the Board disapproves of such action by a two-thirds vote of a quorum of directors, as defined in the Administrator's by-laws.

(2) The budgets prepared by each Committee shall be subject to Board review as part of the Administrator's combined budget. The Board shall not modify the budgets prepared by the Committees of the Board unless such modification is approved by a two-thirds vote of a quorum of the Board, as defined in the Administrator's by-laws.

**Secs. 54.706 – 54.714 remain unchanged.**

**Sec. 54.715 Administrative expenses of the Administrator.**

(a) The annual administrative expenses of the Administrator should be commensurate with the administrative expenses of programs of similar size, with the exception of the salary levels for officers and employees of the Administrator described in paragraph (b) of this section. The annual administrative expenses may include, but are not limited to, salaries of officers and operations personnel, the costs of borrowing funds, equipment costs, operating expenses, directors' expenses, and costs associated with auditing contributors of support recipients.

(b) All officers and employees of the Administrator may be compensated at an annual rate of pay, including any non-regular payments, bonuses, or other compensation, in an amount not to exceed the rate of basic pay in effect for Level I of the Executive Schedule under 5 U.S.C. 5312.

(c) The Administrator shall submit to the Commission projected quarterly budgets at least sixty (60) days prior to the start of every quarter. The Commission must approve the projected quarterly budgets before the Administrator disburses funds under the federal universal service support mechanisms. The administrative expenses incurred by the Administrator in connection with the schools and libraries support mechanism, the rural health care support mechanism, the high cost support mechanism, ~~and~~ the low income support mechanism, **and the Interstate Access Universal Service Fund Support mechanism** shall be deducted from the annual funding of each respective support mechanism. The expenses deducted from the annual funding for each support mechanism also shall include the Administrator's joint and common costs allocated to each support mechanism pursuant to the cost allocation manual filed by the Administrator under § 64.903 of this chapter.

**Sec. 54.717 remains unchanged.**

## Subpart I - Interstate Access Universal Service Fund Support [All New]

### § 54.800 Terms and Definitions

- (a) *Average Price Cap CMT Revenue Per Line Per Month<sub>Study Area</sub>* has the same meaning as that term is defined in § 61.3(d), including exogenous changes in effect prior to the effective date of a calculation pursuant to 54.808 and exogenous changes not yet effective related to the sale or acquisition of exchanges, but excluding any other exogenous changes not yet effective.
- (b) *Base Period Lines* –For purposes of calculations pursuant to this part, Base Period Lines are the number of lines for a given study area or zone as of the end of the quarter ending 6 months prior to the effective date of a calculation pursuant to 54.808.
- (c) *Interstate Access USF Support Benchmark* shall mean, for residential and single line business lines, \$7.00, and for multiline business lines, \$9.20.
- (d) *Minimum Adjustment Amount (MAA)* is defined in § 54.806(f).
- (e) *MAA Phase In Percentage* is:
  - 50% as of July 1, 2000,
  - 75% as of July 1, 2001
  - 100% as of July 1, 2002.
- (f) *Minimum Delta (MD)* is defined in § 54.806(d).
- (g) *Minimum Support Requirement (MSR)* is defined in § 54.806(g).
- (h) *Nationwide Total Above Benchmark Revenues* is defined in § 54.806(b).
- (i) *Preliminary Minimum Access USF<sub>study area</sub>* is the amount calculated pursuant to § 54.804.
- (j) *Preliminary Study Area Universal Service Support (PSAUSS)* is defined in § 54.806(c).
- (k) *Study Area Above Benchmark Revenues* is the sum of all Zone Above Benchmark Revenues for all zones in the study area.
- (l) *Study Area Access USF Support (SAAUS)* is defined in § 54.806(i) and (j).
- (m) *Total National Minimum Delta (TNMD)* is the nationwide sum of all study area Minimum Deltas.

(n) *Total National Minimum Support Requirement (TNMSR)* is the sum of the MSR for all price cap incumbent LEC study areas.

(o) *Zone Above Benchmark Revenues* is defined in § 54.805(a)(2).

(p) *Zone Average Revenue per Line*. The amount calculated as follows:

$$\text{Zone Average Revenue Per Line} = (25\% * (\text{Loop}_{\text{zone price}} + (\text{Port})_{\text{price}})) + U$$

where,

$$U(\text{Uniform revenue per line adjustment}) = \frac{[(\text{Average Price Cap CMT Revenue Per Line Per Month}_{\text{study area}} * \text{ILEC Base Period Lines}) - (25\% * \sum (\text{ILEC Base Period Lines}_{\text{UNE Zone X}} * ((\text{Loop}_{\text{zone price}} + \text{Port Price}) \text{ for all zones})))]}{\text{ILEC Base Period Lines}_{\text{Study Area(s)}}$$

### § 54.801 General

(a) The total amount of universal service support under this Subpart, excluding administrative expenses, for areas served by price cap incumbent LECs as of June 30, 2000, is targeted to be \$650 million per year, if all price cap incumbent LECs elect to participate and if no exchanges, other than those offered for sale prior to January 1, 2000, are sold to non-price-cap LECs or purchased from non-price cap LECs by price cap LECs. Support that would be provided to areas served by price cap LECs not electing to participate in this Subpart will not be distributed nor collected.

(b) In the event that all or a portion of a study area served by a participating price cap LEC is sold to an entity other than a participating price cap LEC, and the study area or portion thereof was not offered for sale prior to January 1, 2000, then the support that would otherwise be provided under this Subpart, had such study area or portion thereof not been sold, will not be distributed or collected until support is calculated pursuant to section 54.808. Subsequent calculations will use the last reported data for the study area or portion thereof that was sold to determine the amount that will not be distributed or collected.

(c) In the event that a participating price cap LEC acquires additional exchanges, from an entity other than a price cap LEC, that acquisition should be reported to the Administrator pursuant to Section 54.802 and included in the determination of study area support pursuant to Section 54.806 for the areas served by the acquiring price cap LEC, beginning with the next support recalculation pursuant to section 54.808.

(d) In the event that a participating price cap LEC acquires additional exchanges from an entity that is also a participating price cap LEC, the acquiring price cap LEC will receive support under this Subpart at the same level as the selling price cap LEC formerly received, and both carriers will adjust their line counts accordingly beginning with the next quarterly report to the Fund Administrator. At the subsequent report to the Fund Administrator for purposes of recalculating support as required by section 54.808,

the acquiring and selling price cap LECs will reflect the acquired and sold lines, and will adjust the average CMT Revenue per Line per Month for the affected study areas accordingly.

(e) The Fund Administrator for the fund created by this subpart shall be the Universal Service Administrative Corporation.

**§ 54.802 Obligations of LECs and the Fund Administrator.**

(a) Each Eligible Telecommunications Carrier that is providing service within an area served by a price cap LEC shall submit to the Fund Administrator, on a quarterly basis on the last business day of March, June, September, and December of each year line count data showing the number of lines it serves for the period ending three months prior to the reporting date, within each participating price cap LEC study area disaggregated by UNE Zone if UNE Zones have been established within that study area, showing residential/single line business and multiline business line counts separately. For purposes of this report, and for purposes of computing support under this Subpart, the aggregated residence/single line business class lines reported include single and non-primary residence lines, single line business lines, ISDN BRI and other related residence class lines. Similarly, the multiline business class lines reported include multiline business, centrex, ISDN PRI and other related business class lines. For purposes of this report and for purposes of computing support under this Subpart, lines served using resale of the price cap LEC's service pursuant to Section 251(c)(4) of the Communications Act of 1934, as amended, shall be considered lines served by the price cap LEC only and must be reported accordingly.

(b) In addition to the information submitted pursuant to paragraph (a), each price cap LEC must submit to the Fund Administrator, on April 17, 2000, October 15, 2000, and April 16, 2001 and annually thereafter or as determined by the Fund Administrator according to Section 54.808:

(1) Average Price Cap CMT Revenue Per Line Per Month<sub>Study Area</sub> for each of its study areas;

(2) The rates established for UNE Loops and UNE Line Ports, by zone in those study areas where UNE Zones have been established as of the date of filing; and;

(3) Make available information sufficient to determine the boundaries of each UNE Zone within each of its study areas where such zones have been established.

provided, however, that after the April 17, 2000 filing, if there have been no changes since its previous filing a company may submit a statement that there have been no changes in lieu of such information, and further provided that, for study areas in which UNE Zones have been newly established since the last filing pursuant to this paragraph, the price cap

LEC shall also report the information required by subparagraph (2) and (3) to the Fund Administrator on July 15, 2000, or January 15, 2001, as required.

(c) In order to participate in the support mechanism described in this Subpart for all its study areas, a price cap LEC must file a written statement of its intent to do so with the Commission by [**5 working days following release of the Report and Order adopting the CALLS Plan**] or, in the case of a transfer of control, within the first six months of the implementation of the plan, by January 1, 2001. A price cap LEC filing such a written statement of intent is a "participating price cap LEC." A price cap LEC electing to participate in this support mechanism must also elect to participate in the interstate access charge rules contained in the applicable Subparts of Parts 61 and 69 of these rules. Nothing in this subsection alters a carrier's obligation, or the obligations of providers of interstate telecommunications, to contribute to universal service support pursuant to Subpart H of this Part.

(d) An eligible telecommunications carrier shall be eligible for support pursuant to this Subpart only after it has filed all of the information required by paragraphs (a) through (c) of this section. An eligible telecommunications carrier shall receive payment of support pursuant to this Subpart only for such months the carrier is actually providing service to the end user. The Administrator shall ensure that there is periodic reconciliation of support payments.

(e) Upon receiving the information required to be filed in paragraphs (a) and (b) of this section, the Fund Administrator shall:

- (1) Perform the calculations described in sections 54.804 through 54.807 of this section;
- (2) Publish the results of these calculations showing Interstate Access USF Support per line available in each participating price cap LEC study area, by UNE Zone and customer class;
- (3) Collect the funds necessary to provide support pursuant to this Subpart in accordance with Subpart H; and
- (4) Distribute support calculated pursuant to the rules contained in this Subpart; and
- (5) Report quarterly to the Commission on the collection and distribution of funds under this Subpart as described in 54.701(g).

### **§ 54.803 Universal Service Zones**

- (a) The zones used for determining universal service shall be the same zones that would be used for EUCL deaveraging as described in §69.152(q)(2).

(b) In a price cap study area where the participating price cap LEC has not established state-approved prices for Unbundled Network Elements (UNEs) loops by zone, the fund administrator shall develop an estimate of the ILEC's Zone Above Benchmark Revenues for transitional purposes, in order to reserve a portion of the fund for that study area. This estimate will be included by the Administrator in the Nationwide Study Area Above Benchmark Revenues calculated pursuant to §54.806.

(1) For the purpose of developing this transitional estimate, the loop and port costs estimated by the FCC cost model, or other substitute method if no model is available, shall be used.

(2) For the purpose of developing this transitional estimate, the administrator shall construct three zones. Wire centers within the study area will be grouped into these zones in such a way that each zone is assigned approximately one third of ILEC base period lines in the study area, with the lowest cost wire centers assigned to Zone 1, the highest cost wire centers assigned to Zone 3, and the remainder to Zone 2.

**§ 54.804 Preliminary Minimum Access USF<sub>Study Area</sub> Calculated by the Fund Administrator.**

(a) If Average Price Cap CMT Revenue Per Line Per Month<sub>Study Area</sub> is greater than \$9.20 then: Preliminary Minimum Access USF<sub>study area</sub> = (Average Price Cap CMT Revenue Per Line Per Month<sub>study area</sub> X ILEC Base Period Lines x 12) - ((\$7.00 X ILEC Base Period Residential & Single Line Business Lines<sub>study area</sub> X 12) + (\$9.20 X ILEC Base Period Multiline Business Lines<sub>study area</sub> X 12))

(b) If Average Price Cap CMT Revenue Per Line Per Month<sub>Study Area</sub> is greater than \$7.00 but less than \$9.20 then: Preliminary Minimum Access USF<sub>study area</sub> = (Average Price Cap CMT Revenue Per Line Per Month<sub>Study Area</sub> - \$7.00) X (ILEC Base Period Residential & Single Line Business Lines<sub>study area</sub> X 12)

(c) If Average Price Cap CMT Revenue Per Line Per Month<sub>Study Area</sub> is less than \$7.00 then the Preliminary Minimum Access USF<sub>study area</sub> is zero.

**§54.805 Zone and Study Area Above Benchmark Revenues Calculated by the Fund Administrator.**

(a) The following steps shall be performed by the Fund Administrator to determine Zone Above Benchmark Revenues for each price cap LEC, whether or not the price cap LEC is a participating price cap LEC.

(1) Calculate Zone Average Revenue Per Line.



(2) Calculate Zone Above Benchmark Revenues. Zone Above Benchmark Revenues is the sum of Zone Above Benchmark Revenues<sub>Residence&SingleLineBusiness</sub> and Zone Above Benchmark Revenues<sub>MultilineBusiness</sub>. Zone Above Benchmark Revenues<sub>Residence&SingleLineBusiness</sub> is, within each zone, the product of Zone Average Revenue Per Line minus \$7.00 multiplied by all eligible telecommunications carrier Base Period Line<sub>Residence and Single Line Business</sub> times 12. If negative, the Zone Above Benchmark Revenues<sub>Residence&SingleLineBusiness</sub> for the zone is zero. Zone Above Benchmark Revenues<sub>MultilineBusiness</sub> is, within each zone, the product of Zone Average Revenue Per Line minus \$9.20 multiplied by all eligible telecommunications carrier zone Base Period Lines times 12. If negative, the Zone Above Benchmark Revenues<sub>MultilineBusiness</sub> for the zone is zero.

(b) Study Area Above Benchmark Revenues is the sum of Zone Above Benchmark Revenues for all zones in the study area.

**§ 54.806 Calculation by the Fund Administrator of Interstate Access USF Support for Areas Served by Participating Price Cap LECs**

(a) The Fund Administrator, based on the calculations performed in sections 54.804 and 54.805, shall calculate the Interstate Access USF Support for areas served by participating Price Cap LECs according to the following methodology:

(b) Calculate Nationwide Total Above Benchmark Revenues. Nationwide Total Above Benchmark Revenues is the sum of all Study Area Above Benchmark Revenues for all study areas served by price cap ILECs, whether or not participating.

(c) Calculate Preliminary Study Area Universal Service Support (PSUAUSS).

(1) If the Nationwide Total Above Benchmark Revenues is greater than \$650 million, then the Preliminary Study Area Universal Service Support (PSUAUSS) equals the Study Area Above Benchmark Revenues multiplied by the ratio of \$650 million to Nationwide Total Above Benchmark Revenues (i.e. Preliminary Study Area Universal Service Support = Study Area Above Benchmark Revenues X (\$650 Million / Nationwide Total Above Benchmark Revenues).

(2) If the Nationwide Total Above Benchmark Revenues is not greater than \$650 million, PSUAUSS equals the Study Area Above Benchmark Revenues.

(d) Calculate the Minimum Delta (MD) by study area. Within each study area the Minimum Delta will be equal to the Preliminary Minimum Access USF<sub>Study Area</sub> less the PSUAUSS, if the difference is greater than zero. If the difference is less than or equal to zero, the MD is equal to zero.

(e) Calculate the Total National Minimum Delta (TNMD) by summing all study area Minimum Deltas nationwide.

(f) Calculate the Minimum Adjustment Amount.

(1) If the TNMD is greater than \$75 million, then the Minimum Adjustment Amount (MAA) equals the product of the MAA Phase In Percentage times the MD by study area times the ratio of \$75 million to TNMD Or:

Minimum Adjustment Amount = (MAA Phase In Percentage) X (Minimum Delta) X (\$75 million / Total National Minimum Delta).

(2) If the TNMD is less than \$75 million, then the MAA equals the product of the MAA Phase In Percentage and the MD by study area.

(g) Calculate the Minimum Support Requirement (MSR). The Minimum Support Requirement for a study area equals the PSAUSS plus the MAA.

(h) Calculate the Total National Minimum Support Requirement (TNMSR), which equals the sum of the MSR for all study areas in which the Preliminary Minimum Access USF is greater than or equal to the PSAUSS.

(i) Calculate Study Area Access USF Support (SAAUS) for a study area in which the participating price cap incumbent LEC has geographically deaveraged state-approved rates for UNE loops:

(1) For study areas in which the Preliminary Minimum Access USF is greater than PSAUSS, and within which the participating price cap incumbent LEC has established geographically deaveraged state-approved rates for UNE loops, the SAAUS for that study area is the MSR.

(2) For study areas in which the Preliminary Minimum Access USF is less than PSAUSS, and within which the participating price cap incumbent LEC has established geographically deaveraged state-approved rates for UNE loops, the SAAUS for that study area is equal to:

Preliminary Study Area Universal Service Support x (\$650 million – TNMSR) ÷ (the sum of PSAUSS of study areas where the Preliminary Minimum Access USF is less than PSAUSS).

(j) Calculate Study Area Access USF Support (SAAUS) for a participating price cap incumbent LEC that has not established geographically deaveraged state-approved rates for UNE loops. In such study areas, the SAAUS shall be the lesser of the study area support calculated in accordance with 54.806(i) or the Preliminary Minimum Access USF.

#### **§ 54.807 Interstate Access USF Support**

(a) Each Eligible Telecommunication Carrier (ETC) that provides supported service within the study area of a participating price cap LEC shall receive Interstate Access USF Support for each line that it serves within that study area.

(b) In any study area within which the incumbent LEC has not established state approved geographically deaveraged rates for UNE loops, the Fund Administrator shall calculate the Interstate Access USF Support Per Line by dividing Study Area Access USF Support by twelve times all eligible telecommunications carriers' base period lines in that study area adjusted for growth during the relevant support period based on the average nationwide annual growth in eligible lines during the three previous years.

(c) In any study area within which the incumbent LEC has established state approved geographically deaveraged rates for UNE loops, the Fund Administrator shall calculate the Interstate Access USF Support Per Line for each customer class and zone using all eligible telecommunications carriers' base period lines by customer class and zone adjusted for growth during the relevant support period based on the average nationwide annual growth in eligible lines during the three previous years. Support shall be allocated to lines in the highest cost UNE zone first, and will "cascade" to lines in lower cost UNE zones to the extent that sufficient funding is available. Beginning with the zone with the highest Zone Average Revenue Per Line, support will be applied in the following order of priority:

(1) To all lines in the highest zone, to eliminate the amount per line by which Zone Average Revenue Per Line exceeds the higher of \$9.20 or the Average Revenue Per Line in the next highest zone;

(2) If the Zone Average Revenue Per Line in the next highest zone is greater than \$9.20, then to all lines in both zones to eliminate the amount per line by which Zone Average Revenue per Line exceeds \$9.20;

(3) To all residential and single line business lines in the highest zone, to eliminate the amount per line that Zone Average Revenue Per Line for these lines exceeds the higher of \$7.00 or Average Revenue Per Line in the next highest zone;

(4) If the Zone Average Revenue per Line in the next highest zone is greater than \$7.00, then to all residential and single line business lines in both zones to eliminate the amount per line by which Zone Average Revenue Per Line exceeds \$7.00.

This "cascade" process will continue until all of the available funding has been assigned to lines by zone and by customer class; it may extend in similar fashion to additional zones, to the extent that their Zone Average Revenue per Line exceeds the \$9.20 and \$7.00, and available funding permits.

(d) The per-line support amount determined within each zone by applicable customer class under paragraph (b) or (c) above is portable among all eligible telecommunications carriers providing service within that zone.

#### **§ 54.808 Transition Provisions and Periodic Calculation.**

Study Area Access USF Support amounts for the area served by each participating price cap incumbent LEC will be calculated as of July 1, 2000, January 1, 2001, July 1, 2001 and thereafter as determined by the Administrator, but at least annually.

**BEFORE THE  
FEDERAL COMMUNICATIONS COMMISSION  
Washington, D.C.**

<i>In the Matter of</i>	)	
	)	
PRICE CAP PERFORMANCE REVIEW FOR LOCAL EXCHANGE CARRIERS	)	CC Docket No. 94-1
	)	
FEDERAL STATE JOINT BOARD ON UNIVERSAL SERVICE	)	CC Docket No. 96-45
	)	
LOW-VOLUME LONG DISTANCE USERS	)	CC Docket No. 99-249
	)	
ACCESS CHARGE REFORM	)	CC Docket No. 96-262

**Memorandum in Support of the Revised Plan of the  
Coalition for Affordable Local and Long Distance Service**

The Coalition for Affordable Local and Long Distance Services (“CALLS”) today submits its Modified Universal Service and Access Reform Proposal (Appendix A, attached), which reflects amendments<sup>1</sup> to its plan for interstate access charge and universal service reform.<sup>2</sup> CALLS also submits revised draft proposed rules (Appendices B-D) to aid the Commission and commenters.<sup>3</sup> Taken as a whole, the CALLS plan provides a comprehensive blueprint for reform in an area that has challenged the Commission for nearly two decades and has become increasingly urgent since the passage of the Telecommunications Act of 1996 (“1996 Act”) and the emergence of packet-based networks like the Internet.

The modifications described below build on the strengths of the original plan and provide even greater public interest benefits. In brief, the revised plan, together with additional unilateral long distance pricing commitments by AT&T and Sprint, incorporates:

<sup>1</sup> See, Letter from John T. Nakahata to Magalie Roman Salas, Outline of Modifications to CALLS Proposal (filed Feb. 28, 2000).

<sup>2</sup> See, Memorandum in Support of the Coalition for Affordable Local and Long Distance Service Plan (filed Aug. 20, 1999).

<sup>3</sup> Due to time constraints, these are preliminary draft rules. CALLS continues to review these drafts and will file updates as necessary with the Commission. These drafts and any updates will be posted to the CALLS website: [www.phonepolicy.com](http://www.phonepolicy.com).

- Lower caps on Subscriber Line Charges (“SLCs”) than under the original CALLS proposal, both initially and throughout the five year plan;
- An interim cost review to verify the caps for residential and single line business Subscriber Line Charges;
- A \$2.1 billion reduction in switched access usage rates on July 1, 2000, if all companies participate, and a nearly 50% reduction in switched access rates over five years, without shifting local switching costs to primary residence and single line business end user charges (as would have resulted from the original plan);
- Elimination of minimum usage charges for AT&T basic schedule long distance callers, and preservation of a no-minimum plan by Sprint, provided that there is a \$2.1 billion reduction in switched access usage rates as of July 1, 2000;
- Guaranteed rate reductions in special access services for the first four years of the plan;
- A commitment by CALLS to work with the FCC Consumer Information Bureau to develop a consumer education plan.

These changes preserve and enhance the substantial benefits of the CALLS plan. The modified CALLS plan yields strong, upfront consumer benefits, a stable, robust and explicit universal service support system for rural and low-income Americans, and regulatory stability that will promote competition and investment in all markets. The modified CALLS plan continues to promote investment by incumbents and entrants in all markets, especially rural and residential markets, while also reducing the combined local and long distance telephone bills by over \$4.60 per month for an AT&T customer who makes no long distance calls. The Commission now has the opportunity to adopt a plan that is a clear win for consumers, the country, and all companies investing to compete in telecommunications.

The modified plan is still comprised of three essential and interdependent parts. First, the plan establishes an explicit and portable universal service support mechanism of \$650 million, replacing support that currently is implicit in interstate access charges. Because the CALLS plan renders this support explicit and portable to competitive local exchange carriers, it will preserve and enhance universal service for rural and small town America and make it more likely that competition, new investment, and new services will come to those areas as well. In addition, low-income consumers continue to be protected through an increase in Lifeline support.

Second, the plan consolidates and simplifies the existing patchwork of loop charges. The residential and single line business pre-subscribed interexchange carrier charge ("PICC") is consolidated with the SLC and eliminated. As a result of reducing the primary residence/single line business SLC cap from the original CALLS plan and consolidating the residential/single line business SLC and PICC charges, most consumers will see their total combined SLC and PICC-"pass-through" line charges fall by \$0.65 on July 1, 2000, rather than increasing by approximately \$0.50 on that date, as would occur under current rules. This yields a combined benefit for consumers of \$1.15 per month. Although the nominal residential and single line business SLC cap thereafter is permitted to increase gradually in most areas, most primary residence and single line business SLCs will never reach the \$6.50 cap. In addition, the FCC should initiate a proceeding to review the primary residence/single line business SLC progression after July 2001 to verify that it reflects underlying costs in those areas where higher SLCs would apply, and the signatory LECs will submit cost information to assist in that review. The PICC for non-primary lines is eliminated immediately. Multiline business PICCs and the carrier common line charge ("CCLC") are eliminated in the vast majority of areas over the plan's five-year term.

Third, the modified plan provides for an immediate \$2.1 billion reduction in per minute switched access charges, as provided for in the original CALLS proposal, and in addition, guarantees reductions in special access rates. With the exception of X-factor reductions related to special access, X-factor reductions will be targeted to reduce switched access usage rates to \$0.0055 for the Bell Companies and GTE, and \$0.0065 for the other price cap incumbent LECs. Both AT&T and Sprint, in their separate letters related to long distance pricing, committed to flow these savings through to residential and business consumers over the life of the plan.<sup>4</sup> By reducing the component of long distance costs attributable to traffic-sensitive charges, the reductions will ease the tension between the switched network and the packet-based services that are typically billed on a flat-rated basis.

These modifications respond to issues raised by commenters and FCC staff over the course of this proceeding. The changes enhance the original plan and have a

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<sup>4</sup> See, Letter from Richard Juhnke to Magalie Roman Salas (filed Feb. 25, 2000); Letter from Joel Lubin to Magalie Roman Salas (filed Feb. 25, 2000).

common thrust: *they reduce consumer charges, especially for the low volume consumer.* AT&T basic schedule customers who make no long distance calls will see combined local and long distance bills cut almost in half, dropping by over \$4.60 per month on July 1, 2000.<sup>5</sup> AT&T light user customers with, for example, 10 minutes of long distance calling could see local and long distance bills fall by over \$2.50.<sup>6</sup> Even for those low volume residential consumers who would pay the highest possible SLCs at the end of the plan, monthly bills would still be lower at the end of this plan than they are today. In response to concern from both consumer representatives and state regulators, this modified plan now unambiguously delivers clear, demonstrable consumer benefits, both initially and throughout the plan.

These consumer benefits are, however, only possible if this plan is implemented coincident with the 2000 price cap LEC tariffs. Delay serves no public policy goal, and will deprive consumers of these immediate, tangible benefits.

More than ever, the CALLS plan provides a clear path toward access charge and universal service reform. The plan substantially reduces charges to consumers, preserves universal service in a manner that enhances competition and investment, and creates an interstate access charge rate structure that is more consistent with the development of the Internet and other packet-based services. The CALLS plan, taken as a whole, accomplishes all of these goals in a manner consistent with sound economic principles and the dictates of the 1996 Act. Swift adoption of the plan will pave the way for broad growth of competition and affordable universal service in all telecommunications markets.

#### **I. Pro-Consumer Modifications to Common Line/Universal Service Reform**

The original plan proposed several reforms to common line and universal service regulation. These reforms were designed to rationalize the Commission's complex rules in a way that would further the goals of the 1996 Act and benefit consumers, especially low-income consumers and those in rural and other high cost areas. Among other things, the plan's universal service and common line reforms enhance competition and otherwise benefit consumers by making universal service support portable to CLECs; simplify

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<sup>5</sup> See, Appendix E.

<sup>6</sup> *Id.*



consumer bills through the consolidation of common line charges into a single, flat-rated SLC; and allow for limited geographical deaveraging. In addition, the plan makes universal service support explicit, and therefore furthers a principal goal of the 1996 Act.

Two amendments to the plan enhance consumer benefits through common line and universal service reforms.

First, the progression of SLC caps both begins at a lower level initially and maintains lower levels throughout the five-year term of the plan. Second, after July 1, 2001, when the primary residential and single line business SLC cap reaches \$5.00, CALLS proposes that the Commission should initiate a proceeding for the purpose of verifying that the progression of change in the primary residence and single business SLC caps is appropriate in the UNE zone or zones where they would apply and that the progression reflects higher costs in these zones.

**A. SLC Caps Reduced from Original CALLS Plan.**

In the original plan, single line residence and single line business SLC caps were increased according to the following schedule:

January 1, 2000	\$5.50
July 1, 2001	\$6.25
July 1, 2002	\$6.75
July 1, 2003	\$7.00

The revised CALLS plan proposes that the SLC caps begin at a significantly lower level, increase more slowly, and maintain a lower level throughout the five-year period:

July 1, 2000	\$4.35
July 1, 2001	\$5.00
July 1, 2002	\$6.00
July 1, 2003	\$6.50

These measured changes in the progression of SLC caps, together with AT&T's and Sprint's unilateral long distance pricing commitments, remove any basis for concern that the CALLS plan will harm callers who make few long distance calls. These adjustments also allay any concerns regarding affordability for non-Lifeline "working poor" consumers, as low volume consumers will pay less in total charges under the modified CALLS plan than they pay today, even if they live in areas that will pay a SLC of \$6.50 after July 2003.

Although the progression of the SLC caps has been slowed, the modified proposal maintains the same level of switched access rate reductions as was provided under the original CALLS plan. For example, in the original plan, switched access rates were

reduced in part by shifting 25% of incumbent LEC local switching revenues into common line charges to be collected through subscriber line charges, including primary residence and single line business subscriber line charges. Under the revised plan, this transfer does not occur, and the revenues are largely eliminated, subject to limited safeguards for smaller, rural carriers. Therefore, although switched access rates will fall dramatically (and therefore result in lower long distance bills for consumers), residential and single line business end users will pay a maximum SLC initially of only \$4.35, increasing at most to \$6.50 by 2003, and they will pay no PICC pass-through charges. Most residential and single line business consumers, of course, will pay a SLC significantly below the cap.

**B. Verification of Primary Residential and Single Line Business SLC Caps for Higher Cost UNE Zones.**

As an additional safeguard to respond to concerns of consumer groups and state commissions, after July 1, 2001, when the primary residential and single line business SLC cap would reach \$5.00, CALLS proposes that the Commission initiate a proceeding for the purpose of verifying that the progression of change in the primary residence and single business SLC caps beyond \$5.00 is appropriate in the UNE zone or zones where they would apply and that the progression reflects higher costs in these zones.

To facilitate this verification, the LEC members of the Coalition commit to providing the Commission with economic data, including data identifying the forward-looking costs associated with the provision of retail voice grade access to the public switched telephone network for those areas.<sup>7</sup> In the event that the Commission finds that the progression of caps beyond \$5.00 in a certain UNE zone or zones does not reflect higher costs in such UNE zone or zones, the Commission should at that time set an appropriate cap for such UNE zone or zones.<sup>8</sup>

**C. Effect on Universal Service Fund**

Although the SLC caps have been reduced, this change will not affect the size of the interstate access related universal service fund. The fund will remain at \$650 million

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<sup>7</sup> Nothing herein alters or waives the CALLS members' positions with respect to the legality, definition, application, or use of forward-looking costs.

<sup>8</sup> If the Commission acts to establish a SLC cap lower than the proposed SLC caps, it may result in a higher CCL rate than would otherwise occur. The Commission should adjust the multiline PICC to the extent necessary to mitigate the change in CCL rates.

annually, and support will be distributed in accordance with the original plan, with the previously proposed \$7 threshold for residential line support. Given the difficulty of determining the size of the fund and the level of SLC caps, the temporary adjustment in the SLC caps need not change the size of the fund. By establishing the \$650 million universal service support, the Commission will gain experience and develop an empirical basis during the five year term from which it can evaluate the plan's operation. This experience will assist the Commission in determining the levels of the fund and/or primary residence and single line business SLC caps to be effective after July 2005.

In addition, there is no reason to alter the originally proposed distribution conventions. The plan provides a methodology for distributing \$650 million in Interstate Access-related USF to the areas served by each of the participating price cap LECs. This methodology again is predictable and specific. It also ensures that virtually all areas receive enough support to eliminate the multiline business PICC and carrier common line charges, and that most areas also receive support to permit geographic deaveraging of SLCs.

The members of CALLS believe that this \$650 million "safety net," when combined with the common line and switched access reforms also proposed under the plan as an integrated whole, will ensure that interstate end user rates remain affordable and comparable between rural and urban areas, during this five-year transitional period. By establishing a set amount of \$650 million, the CALLS plan sets a "specific" and "predictable" amount of explicit support that will be fully portable among eligible telecommunications carriers, and be offset dollar for dollar by appropriate reductions in interstate access charges.

In this area, as in others, this plan reflects a balancing of public interests defined by the 1996 Act. Estimates of the amount of implicit support in interstate access charges have varied widely. Those estimates have ranged from \$250 million to \$3.9 billion.<sup>9</sup> As reflected by AT&T's calculations using the FCC's HCPM model, the outputs of that model

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<sup>9</sup> See, HAI Model Version 5.0a, CC Dkt. No. 96-45; Comments of United States Telephone Association on Further Notice of Proposed Rulemaking, CC Dkt. No. 96-45 and 96-262 (filed July 23, 1999).

also support creation of a universal service support mechanism of approximately \$650 million.<sup>10</sup>

The Commission can reasonably conclude that, given the public interest and pro-competitive benefits of immediately establishing a support mechanism that will allow competition to develop, the universal service mechanisms proposed by the CALLS plan, taken in its entirety including \$650 million in explicit support and proposed common line and switched access reform, meet the requirements and goals of Section 254. Moreover, the Commission has previously endorsed – and the courts have upheld – the validity of consensus industry proposals as an appropriate interim approach for reform.<sup>11</sup> Similarly, the state commissions have used social compacts as a basis for decision-making.<sup>12</sup>

## **II. Reductions in Switched and Special Access Rates**

Under existing rules, the Commission regulates interstate access charge levels through a price cap mechanism adjusted by inflation and an annual productivity offset. The productivity offset, or “X-factor,” has been the subject of extensive regulatory proceedings and litigation, and it has created significant uncertainty in the marketplace. The CALLS plan is designed to end this regulatory gridlock by adopting an X-factor of 6.5 % to reach target rates for local switching and switched transport.

This approach is reasonable, given that it is a settlement between buyers and sellers negotiating at arms-length.<sup>13</sup> As discussed above, the Commission has previously adopted the product of an industry-wide settlement negotiation in an effort to further the public interest, particularly when — as in this case — the settlement will apply for a limited

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<sup>10</sup> BellAtlantic, BellSouth, GTE, and SBC do not support use of a model to calculate universal service support, and together with Sprint do not join in the citation of AT&T’s model-based calculation.

<sup>11</sup> See, *MCI Telecommunication Corp. v. FCC*, 712 F.2d 517, 532-33 (D.C. Cir. 1983) (“ENFIA”); see also, *Advanced Television Systems and Their Impact Upon the Existing Television Broadcast Service*, *Fourth Report and Order*, 11 F.C.C. Rcd. 17771 (1996).

<sup>12</sup> See, for example, D.C. Public Service Commission Formal Case 814, Phase 4, Order 11545 (rel. Nov. 17, 1999) (approval of settlement agreement regarding infrastructure deployment); Indiana Utility Regulatory Commission, Cause No. 41324, Interim Order (rel. February 16, 2000) (approving OSS settlement agreement)

<sup>13</sup> The magnitude of usage sensitive switched access reductions is the same under the modified plan as under the original CALLS proposal. The target usage sensitive switched access rates are also the same in both the modified and the original proposal. In the comments and replies with respect to the original proposal, no party offered any evidence to support any claim that these reductions or target rates result in predatory prices.

period of time.<sup>14</sup> Since the Commission has already operated under a 6.5% X-factor, it is reasonable to use this adjustment factor to reach a predetermined and agreed upon price level. Hence, there is no reason for the X-factor battles to continue. As the D.C. Court of Appeals has admonished, “the best must not become the enemy of the good, as it does when the [Commission] delays making any determination while pursuing the perfect tariff.”<sup>15</sup>

In response to comments regarding the level and structure of the access rate reforms,<sup>16</sup> CALLS proposes several modifications to the plan. First, the revised plan no longer generally shifts local switching costs to common line, marketing or TIC elements. Shifting these costs to common line elements would have increased some primary residence and single line business SLCs, among other charges. Eliminating this shift, subject only to limited safeguards for smaller, rural carriers and for those carriers facing disproportionate initial reductions per line reduces total primary residence and single line business SLC charges under the plan.<sup>17</sup>

The second change involves the mechanism used for targeting reductions to switched access. The plan reduces switched access usage-based revenues by \$2.1 billion in its first year. This reduction is accomplished by reducing rates on average traffic sensitive rates and carrier common line charges excluding SLCs and PICCs. Under the original plan, the 6.5% initial reduction was to apply to all access rates, including special access. As discussed below, under the revised plan, special access rates are reduced in the first year by 3.0% rather than 6.5 %. In order to accomplish the same switched access usage-based \$2.1 billion reduction in the first year, further reductions must be taken from

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<sup>14</sup> See, *infra*, note 12.

<sup>15</sup> *MCI Telecoms Corp. v. FCC*, 627 F.2d 322, 341-342 (D.C. Cir. 1980).

<sup>16</sup> See, *for example*, Comments of Time Warner Telecom (filed Nov. 12, 1999); Comments of the People of the State of California and the California Public Utilities Commission, at 20-21 (filed Nov. 12, 1999).

<sup>17</sup> See, Appendix A, paragraphs 3.2.4.1 and 3.2.4.2 for a description of these exceptions.

the switched trunking and local switching baskets. Additional reductions to average traffic sensitive charge rates necessary to achieve a total of \$2.1 billion reduction in switched access rates on July 1, 2000, will be calculated as a percentage of the local switching element of all price cap LECs. Carriers, however, may take these reductions against any of the average traffic sensitive charge rate elements, provided that they still generate the same amount of reductions. At least a proportionate share of the additional reduction in average traffic sensitive charge rates will be taken from local switching rates. These additional reductions to average traffic sensitive charge rates – those necessary to achieve a \$2.1 billion reduction in switched access usage rates after implementing all other changes under the plan – may not be offset by increases in other rate elements, except for limited safeguards for mid-sized price cap carriers that serve rural areas.<sup>18</sup>

While the proposal provides for switched access reductions that are commensurate with those expected of the larger LECs, these LECs will be allowed to “pool” all or a portion of the reductions and target them for recovery from sources other than residential end users and per-minute charges, until the conclusion of the cost review proceeding. Building a safeguard for these companies into the plan is consistent with Commission precedent, and restricting the manner in which recovery takes place ensures that end user customers will enjoy the full benefits of the CALLS plan.

In other contexts, the Commission has recognized that the disparity between large and mid-size LECs goes far beyond differences in customer base. Due to their size, mid-sized LECs generally have different economies of scale than do the large LECs; they incur greater costs to provide service, do not receive the same volume discounts from vendors, and overall, shoulder a disproportionate burden, both in terms of time and expense, in meeting regulatory costs.<sup>19</sup> The recovery safeguard proposed in the CALLS plan

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<sup>18</sup> See, Appendix A, paragraph 3.2.4.1 for a description of the exception for smaller rural carriers.

<sup>19</sup> It was for these very reasons that the Commission recently determined that mid-sized price cap LECs should be permitted to use Class B Accounts and submit their cost allocation manuals based

recognizes these disparities, as does the existing differential in target rates for the non-carrier common line switched access charges.

Similarly, in implementing its plan for universal service, the Commission has carefully distinguished between rural and non-rural providers, understanding that caution must be employed when defining support levels for rural, high-cost areas. It is for all these same reasons that the CALLS plan provides for distinct, but balanced treatment for mid-sized, rural LECs with respect to switched access rate reductions.

It is important to recognize that this particular provision of the proposal affects only those rate reductions above and beyond the reductions that result from the operation of the existing price cap rules. Consequently, those mid-sized LECs qualifying for this provision will still make their normal price cap rate reductions. Moreover, these companies will also implement the additional switched access rate reductions called for by the modified CALLS plan.

The proposal further recognizes that, in some instances, reduction of those qualifying mid-sized LECs' total revenues beyond that required by existing price cap rules may not be appropriate. In particular, mid-sized LECs with significant rural holdings have raised the possibility that their common line revenues are below - and perhaps significantly below - their forward-looking economic costs.<sup>20</sup> Further examination of forward-looking costs for these companies may in fact show that common line recovery should increase rather than decrease. The safeguard for smaller, rural carriers will provide them with some revenue stability while allowing the Commission to review the level of common line recovery in more detail as part of the SLC cap proceeding beginning in 2001.

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on the Class B System of Accounts. See, 1998 Biennial Regulatory Review – Review of Accounting and Cost Allocation Requirements, *Report and Order*, 14 F.C.C. Rcd. 11396 (1999).

<sup>20</sup> This could be due, in part, to the application of a uniform productivity offset to all price cap baskets when gains in switching and transport technology may have reduced unit cost for these services more quickly than corresponding costs for loops.

The safeguard for carriers that face above average reductions per line in the first year is designed to spread those reductions more equitably over time. Carriers that elect this option can pool a portion of their initial year reductions and recover these pooled amounts as additional components of a non-primary residential SLC or multiline business SLC or PICC. These pooled amounts will be eliminated through application of an X-factor of 6.5% beyond the date on which the average non-CCL switched access rates reach the applicable target rates.

The third change to non-common line carrier access charge rates involves the targeting of special access reductions. Under the original plan, carriers were not required to target X-factor reductions to special access services after the first year of the plan. Because productivity results were targeted to switched access, they primarily benefited residential and small business users. In order to further extend the benefits of the CALLS plan to dedicated or high volume users, the modified plan targets special access as well. The revised plan requires price cap LECs to reduce special access rates using an X-factor equal to 3.0% in 2000 and 6.5% annually in 2001, 2002, and 2003. Thereafter, there will be a price cap freeze for special access (*i.e.*, X will equal inflation). Thus, special access customers continue to be guaranteed reductions in special access rates through the modified CALLS plan.

This schedule of guaranteed reductions for special access is an important component of the unified plan. The 3.0% productivity offset in the first year is necessary for two reasons. First, special access rates will fall in the first year because incumbent LEC universal service contributions will be removed from special access rates as of July 1, 2000. Second, price cap LECs will be taking greater reductions in switched access to reach the \$2.1 billion reduction than otherwise would be realized from ordinary targeted reductions. During the next 3 years, when these factors are not present, the X-factor will be 6.5%. By July 2004, the special access X-factor equals inflation so that the price cap



system will encourage additional investment in those areas remaining under price caps at that time.<sup>21</sup>

### III. Conclusion

The CALLS plan was conceived as a compromise among carriers with divergent interests. The proposed modifications to the plan respond to comments and suggestions by other parties, including state commissioners, consumers, public interest groups and Commission staff. The revised plan therefore amounts to a carefully balanced and intricate resolution of the thorny issues of universal service and access charge reform. It provides the Commission with the best opportunity it has ever had to move beyond contentious debate and adopt a solution.

For all the reasons described, the public interest will be served by the expeditious adoption of the plan. The public — and all segments of the telecommunications industry — should be given the opportunity to enjoy the immediate, tangible benefits of the plan.

Respectfully submitted,

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<sup>21</sup> The Commission's access charge pricing flexibility order requires that services granted Phase II pricing flexibility and contract tariffs entered into during Phase I pricing flexibility be removed from price caps. Access Charge Reform, Fifth Report and Order and Further Notice of Proposed Rulemaking, 14 F.C.C. Rcd. 14221, ¶¶ 24-25 (1999) ("Pricing Flexibility Order").

PART 61 A

**§ 61.3 Definitions.**

- (a) **Act.** The Communications Act of 1934 (48 Stat. 1004; 47 U.S.C. chapter 5), as amended.
- (b) **Actual Price Index (API).** An index of the level of aggregate rate element rates in a basket, which index is calculated pursuant to § 61.46.
- (c) **Association.** This term has the meaning given it in § 69.2(d).

(d) **Average Price Cap CMT Revenue per Line Month.** Price Cap CMT Revenue per Month as of July 1, 2000 (adjusted to remove Universal Service Contributions assessed to Local Exchange Carriers pursuant to 54.702) using 1999 base period demand, divided by the base period demand number of lines as of July 1, 2000. In filing entities with multiple study areas, if it becomes necessary to calculate the Price Cap CMT Revenue Per Line for a specific study area, then the Price Cap CMT Revenue Per Line for that study area is determined as follows, using base period demand revenues (adjusted to remove Universal Service Contributions assessed to Local Exchange Carriers pursuant to 54.702), Base Factor Portion (BFP) and 1999 base period lines as of July 1, 2000 :

$$\frac{\text{PriceCapCMTRevenuePerLine}_{\text{StudyArea}}}{\text{Lines}_{\text{StudyArea}}} = \frac{\text{PriceCapCMTRevenue}_{\text{FilingEntity}} \cdot (\text{BFP}_{\text{StudyArea}} - \text{BFP}_{\text{FilingEntity}})}{\text{Lines}_{\text{StudyArea}}}$$

Nothing in this definition precludes a price cap local exchange carrier from continuing to average rates across filing entities containing multiple study areas, where permitted under existing rules.

Average Price Cap CMT Revenues Per Line may be adjusted after July 1, 2000 to reflect exogenous costs pursuant to 61.45(d).

Average Price Cap CMT Revenues Per Line may also be adjusted pursuant to 61.45 (b)(1)(iii).

(e) **Average Traffic Sensitive Charge.** The Average Traffic Sensitive Charge is the sum of the following two components

1. The Local Switching component will be calculated by dividing the proposed Local Switching revenues (Local Switching, LS trunk ports, Information Surcharge, and STP Port) by the base period Local Switching MOUs.
2. The Transport component will be calculated by dividing the proposed Transport revenues (Switched Direct Trunk Transport, Signaling for Switched Direct Trunk Transport, Entrance Facilities for Switched Access traffic, Tandem Switched Transport, Signaling for Tandem Switching and TIC) by ILEC only base period Transport Minutes of Use (MOUs) (including meet-point billing arrangements for jointly-provided interstate access by an incumbent LEC and any other LEC).

For the purposes of determining whether the average traffic sensitive charge has reached the target rate, the calculations should include all the relevant revenues and minutes for services provided under generally available tariffs and services provided under contract tariffs. If in the future an access customer can use UNEs (defined

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as network elements required to be unbundled pursuant to Part 51) in lieu of switched access service for service other than to its local service end user, the revenues and demand for UNEs used to provide switched access services would be included in the calculation of the ATS rate. To the extent that UNEs are used to provide interstate access for CLEC end users for whom the CLEC is not also providing local service, the ILEC will measure such traffic or obtain from the CLEC a CLEC self-report of that demand and associated revenues.

(fd) **Band.** A zone of pricing flexibility for a service category, which zone is calculated pursuant to § 61.47.

(ge) **Base period.** For carriers subject to §§ 61.41-61.49, the 12-month period ending six months prior to the effective date of annual price cap tariffs. Base year or base period earnings shall exclude amounts associated with exogenous adjustments to the PCI for the lower formula adjustment mechanism permitted by § 61.45(d)(1)(vii).

(hf) **Basket.** Any class or category of tariffed service or charge:

- (1) Which is established by the Commission pursuant to price cap regulation;
- (2) The rates of which are reflected in an Actual Price Index; and
- (3) The related revenues of which are reflected in a Price Cap Index.

(ig) **Change in rate structure.** A restructuring or other alternation of the rate components for an existing service.

(hj) **Charges.** The price for service based on tariffed rates.

(ik) **Commercial contractor.** The commercial firm to whom the Commission annually awards a contract to make copies of Commission records for sale to the public.

(jl) **Commission.** The Federal Communications Commission.

(mk) **Concurring carrier.** A carrier (other than a connecting carrier) subject to the Act which concurs in and assents to schedules of rates and regulations filed on its behalf an issuing carrier or carriers.

(nl) **Connecting carrier.** A carrier engaged in interstate or foreign communication solely through physical connection with the facilities of another carrier not directly or indirectly controlling or controlled by, or under direct or indirect common control with, such carrier.

(om) **Contract-based tariff.** A tariff based on a service contract entered into between a non-dominant carrier and a customer, or between a customer and a price cap local exchange carrier which has obtained permission to offer contract-based tariff services pursuant to Part 69, Subpart H, of this chapter.

(pa) **Corrections.** The remedy of errors in typing, spelling, or punctuations.

(qe) **Dominant carrier.** A carrier found by the Commission to have market power (i.e., power to control prices).

(rp) **GDP Price Index (GDP-PI).** The estimate of the "Fixed Weight Price Index for Gross Domestic Product, 1987 Weights" published by the United States Department of Commerce, which the Commission designates by Order.

(sq) **GNP Price Index (GNP-PI).** The estimate of the "Fixed-Weighted Price Index for Gross

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National Product, 1982 Weights" published by the United States Department of Commerce, which the Commission designates by Order.

~~(rt)~~ **Issuing carrier.** A carrier subject to the Act that publishes and files a tariff or tariffs with the Commission.

~~(u)~~ **Line Month.** Line demand per month multiplied by twelve.

~~(sv)~~ **Local Exchange Carrier.** Any person that is engaged in the provision of telephone exchange service or exchange access as defined in section 3(26) of the Act.

~~(wt)~~ **New service offering.** A tariff filing that provides for a class or sub-class of service not previously offered by the carrier involved and that enlarges the range of service options available to ratepayers.

~~(xu)~~ **Non-dominant carrier.** A carrier not found to be dominant.

~~(yv)~~ **Other participating carrier.** A carrier subject to the Act that publishes a tariff containing rates and regulations applicable to the portion or through service it furnishes in conjunction with another subject carrier.

~~(z)~~ **Local Switching Pooled Revenue, for certain qualified companies, is the amount of additional Local Switching reductions in the July 2000 Annual filing allowed to be moved and recovered in the Common Line Basket as outlined in Section 61.48 (m).**

~~(aa)~~ **Price Cap CMT Revenue.** The maximum total revenue a filing entity would be permitted to receive from End User Common Line charges, Presubscribed Interexchange Carrier charges (PICCs), Carrier Common Line charges (including Marketing). Price Cap CMT Revenue also includes residual interconnection charge revenues collected through PICC charges, but it does not include the local exchange carrier universal service contributions as of July 1, 2000. The Price Cap CMT revenue does not include the Local Switching Pooled revenue outlined in 61.3 (z), above.

~~(bbw)~~ **Price Cap Index (PCI).** An index of prices applying to each basket of services of each carrier subject to price cap regulation, and calculated pursuant to § 61.45.

~~(ccx)~~ **Price cap regulation.** A method of regulation of dominant carriers provided in §§ 61.41 through 61.49.

~~(ddy)~~ **Price cap tariff filing.** Any tariff filing involving a service subject to price cap regulation, or that requires calculations pursuant to §§ 61.45, 61.46, or 61.47.

~~(eez)~~ **Productivity factor.** An adjustment factor used to make annual adjustments to the Price Cap Index to reflect the margin by which a carrier subject to price cap regulation is expected to improve its productivity relative to the economy as a whole.

~~(ffaa)~~ **Rate.** The tariffed price per unit of service.

~~(ggbb)~~ **Rate increase.** Any change in a tariff which results in an increased rate or charge to any of the filing carrier's customers.

~~(hhee)~~ **Rate level change.** A tariff change that only affects the actual rate associated with a rate element, and does not affect any tariff regulations or any other wording of tariff language.

~~(iide)~~ **Regulations.** The body of carrier prescribed rules in a tariff governing the offering of service

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in that tariff, including rules, practices, classifications, and definitions.

~~(jee)~~ **Restructured service.** An offering which represents the modification of a method of charging or provisioning a service; or the introduction of a new method of charging or provisioning that does not result in a net increase in options available to customers.

~~(kkf)~~ **Service Band Index (SBI).** An index of the level of aggregate rate element rates in a service category, which index is calculated pursuant to § 61.47.

~~(lge)~~ **Service category.** Any group of rate elements subject to price cap regulation, which group is subject to a band.

~~(mmh)~~ **Supplement.** A publication filed as part of a tariff for the purpose of suspending or cancelling that tariff, or tariff publication and numbered independently from the tariff page series.

~~(nn)~~ **Target Rate.** \$0.0055 for former Bell Operating Companies and GTE. \$0.0065 for other price cap local exchange carriers.

~~(ooi)~~ **Tariff.** Schedules of rates and regulations filed by common carriers.

~~(ppj)~~ **Tariff publication, or publication.** A tariff, supplement, revised page, additional page, concurrence, notice of revocation, adoption notice, or any other schedule of rates or regulations filed by common carriers.

~~(qqk)~~ **Tariff year.** The period from the day in a calendar year on which a carrier's annual access tariff filing is scheduled to become effective through the preceding day of the subsequent calendar year.

~~(rrh)~~ **Text change.** A change in the text of a tariff which does not result in a change in any rate or regulation.

~~(ssm)~~ **United States.** The several States and Territories, the District of Columbia, and the possessions of the United States.

~~(ttn)~~ **Corridor service.** "Corridor service" refers to interLATA services offered in the "limited corridors" established by the District Court in *United States v. Western Electric Co., Inc.*, 569 F. Supp. 1057, 1107 (D.D.C. 1983).

~~(uuø)~~ **Toll dialing parity.** "Toll dialing parity" exists when there is dialing parity, as defined in § 51.5 of this chapter, for toll services.

~~(vvp)~~ **Loop-based services.** Loop-based services are services that employ Subcategory 1.3 facilities, as defined in § 36.154 of this chapter.

~~(ww)~~ **Zone Average Revenue per Line.** The Price Cap CMT Revenue per Line allocated to a particular state-defined zone used for deaveraging of UNE loop prices. The Zone Average Revenue per Line is computed according to the following formula:

$$\text{Zone Average Revenue per Line} = (25\% * (\text{Loop}_{\text{Zone Price}} + \text{Port}_{\text{Price}})) + U$$

Where:

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U (Uniform Revenue per Line Adjustment) =

(Price Cap CMT Revenue per line<sub>Study Area</sub> x Base Period Lines<sub>study area</sub>) - (25% x ((sum of Lines<sub>UNE Zone</sub> x (Loop<sub>zone price</sub> + Port<sub>Price</sub>)<sub>UNE Zone</sub> x 12) for all zones)) ÷ Base Period Lines<sub>Study Area(s)</sub> ÷ 12 where:

(Loop<sub>zone price</sub>)<sub>UNE Zone</sub> = the UNE rates for unbundled loop

(Port<sub>Price</sub>)<sub>UNE Zone</sub> = price for switch ports in that UNE zone.

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**§ 61.41 Price cap requirements generally.**

(a) Sections 61.42 through 61.49 shall apply as follows:

(1) [Reserved]

(2) To such local exchange carriers as specified by Commission order, and to all local exchange carriers, other than average schedule companies, that are affiliated with such carriers; and

(3) On an elective basis, to local exchange carriers, other than those specified in paragraph (a)(2) of this section, that are neither participants in any Association tariff, nor affiliated with any such participants, except that affiliation with average schedule companies shall not bar a carrier from electing price cap regulation provided the carrier is otherwise eligible.

(b) If a telephone company, or any one of a group of affiliated telephone companies, files a price cap tariff in one study area, that telephone company and its affiliates, except its average schedule affiliates, must file price cap tariffs in all their study areas.

(c) The following rules apply to telephone companies subject to price cap regulation, as that term is defined in § 61.3(wcc), which are involved in mergers, acquisitions, or similar transactions.

(1) Any telephone company subject to price cap regulation that is a party to a merger, acquisition, or similar transaction shall continue to be subject to price cap regulation notwithstanding such transaction.

(2) Where a telephone company subject to price cap regulation acquires, is acquired by, merges with, or otherwise becomes affiliated with a telephone company that is not subject to price cap regulation, the latter telephone company shall become subject to price cap regulation no later than one year following the effective date of such merger, acquisition, or similar transaction and shall accordingly file price cap tariffs to be effective no later than that date in accordance with the applicable provisions of this part 61.

(3) Notwithstanding the provisions of § 61.41(c)(2) above, when a telephone company subject to price cap regulation acquires, is acquired by, merges with, or otherwise becomes affiliated with a telephone company that qualifies as an 'average schedule' company, the latter company may retain its 'average schedule' status or become subject to price cap regulation in accordance with § 69.3(i)(3) and the requirements referenced in that section.

(d) Local exchange carriers that become subject to price cap regulation as that term is defined in § 61.3(ccw) of this chapter shall not be eligible to withdraw from such regulation.

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**§ 61.42 Price cap baskets and service categories.**

(a)-(c) [Reserved]

(d) Each local exchange carrier subject to price cap regulation shall establish baskets of services as follows:

(1) A basket for the common line interstate access elements as described in §§ 69.115, 69.152, 69.154, and 69.157 of this chapter, and that portion of the interstate access element described in § 69.153 of this chapter that recovers common line interstate access revenues. For purposes of §§ 61.41 through 61.49 of this chapter, this basket shall be referred to as the "common line basket."

(2) A basket for traffic sensitive switched interstate access elements. For purposes of §§ 61.41 through 61.49 of this chapter, this basket shall be referred to as the "traffic-sensitive basket."

(3) A basket for trunking services as described in §§ 69.110, 69.111, 69.112, ~~69.114, 69.124,~~ 69.125(b), ~~69.128~~ and 69.155 of this chapter, and that portion of the interstate access element described in § 69.153 of this chapter that recovers residual interconnection charge revenues. For purposes of §§ 61.41 through 61.49 of this chapter, this basket shall be referred to as the "trunking basket."

(4)(i) To the extent that a local exchange carrier specified in § 61.41(a) (2) or (3) offers interstate interexchange services that are not classified as access services for the purpose of part 69 of this chapter, such exchange carrier shall establish a fourth basket for such services. For purposes of §§ 61.41 through 61.49 of this chapter, this basket shall be referred to as the "interexchange basket."

(ii) If a price cap carrier has implemented interLATA and intraLATA toll dialing parity everywhere it provides local exchange services at the holding company level, that price cap carrier may file a tariff revision to remove corridor and interstate intraLATA toll services from its interexchange basket.

~~(5) To the extent that a local exchange carrier specified in §§ 61.41(a) (2) or (3) offers interstate video dialtone services, a basket for basic video dialtone services as described in § 63.54 of this chapter. A basket for Special Access services as described in §§ 69.114, 69.126 of this chapter.~~

~~(6) A basket for the marketing expenses described in § 69.156 of this chapter, including those recovered through End User Common Line charges and Presubscribed Interexchange Carrier charges. For purposes of §§ 61.41 through 61.49 of this chapter, this basket shall be referred to as the "marketing expense basket."~~

(e)(1) The traffic sensitive switched interstate access basket shall contain such services as the Commission shall permit or require, including the following service categories:

(i) Local switching as described in § 69.106(f) of this chapter;

(ii) Information, as described in § 69.109 of this chapter;

(iii) Data base access services;

(iv) Billing name and address, as described in § 69.128 of this chapter;



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(v) Local switching trunk ports, as described in § 69.106(f)(1) of this chapter; and

(vi) Signalling transfer point port termination, as described in § 69.125(c) of this chapter.

(2) The trunking basket shall contain such Switched transport ~~and special access services~~ as the Commission shall permit or require, including the following service categories and subcategories:

(i) Voice grade entrance facilities, voice grade direct-trunked transport, voice grade dedicated signalling transport, ~~voice grade special access, WATS special access, metallic special access, and telegraph special access services;~~

~~(ii) Audio and video services;~~

(iii) High capacity flat-rated transport, ~~high capacity special access, and DDS services,~~ including the following service subcategories:

(A) DS1 entrance facilities, DS1 direct-trunked transport, DS1 dedicated signalling transport, and ~~DS1 special access services;~~ and

(B) DS3 entrance facilities, DS3 direct-trunked transport, DS3 dedicated signalling transport, ~~and DS3 special access services;~~

~~(iv) Wideband data and wideband analog services;~~

(v) Tandem-switched transport, as described in § 69.111 of this chapter; and

(vi) Interconnection charge, as recovered in §§ 69.153 and 69.155 of this chapter.

(vii) Signalling for tandem switching, as described in § 69.129 of this chapter.

(3) The Special Access basket shall contain special access services as the Commission shall permit or require, including the following service categories and subcategories:

(i) Voice grade special access, WATS special access, metallic special access, and telegraph special access services;

(ii) Audio and video services;

(iii) High capacity special access, and DDS services, including the following service subcategories:

(A) DS1 special access services; and

(B) DS3 special access services;

(iv) Wideband data and wideband analog services;

(f) Each local exchange carrier subject to price cap regulation shall exclude from its price cap baskets such services or portions of such services as the Commission has designated or may hereafter designate by order.

(g) New services, other than those within the scope of paragraph (f) of this section, must be included in the affected basket at the first annual price cap tariff filing following completion of the

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base period in which they are introduced. To the extent that such new services are permitted or required to be included in new or existing service categories within the assigned basket, they shall be so included at the first annual price cap tariff filing following completion of the base period in which they are introduced.

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**§ 61.45 Adjustments to the PCI for Local Exchange Carriers.**

(a) Local exchange carriers subject to price cap regulation shall file adjustments to the PCI for each basket as part of the annual price cap tariff filing, and shall maintain updated PCIs to reflect the effect of mid-year exogenous cost changes.

(b)(1)(i) Adjustments to local exchange carrier PCIs, in those carriers' annual access tariff filings, for the traffic-sensitive basket described in § 61.42(d)(2), the trunking basket described in § 61.42(d)(3), and the ~~marketing-Special Access~~expense basket described in § 61.42(d)(56), shall be made pursuant to the following formula:

$$PCI_t = PCI_{t-1} [1 + w[(GDP-PI - X) + Z/R]]$$

where the terms in the equation are described:

GDP-PI = For annual filings only, the percentage change in the GDP-PI between the quarter ending six months prior to the effective date of the new annual tariff and the corresponding quarter of the previous year. For all other filings, the value is zero.

X = For the Common Line, Traffic Sensitive, Trunking, for Annual Filings only, the factor set at the level of 6.5%. For the Interexchange Basket, for annual filings only, the factor is set at the level prescribed in subsection (b)(1)(v). For the Special Access Basket, the factor is set at the level prescribed in subsection (b)(1)(iv). For all other filings, the value is zero.

g = For annual filings only, the ratio of minutes of use per access line during the base period, to minutes of use per access line during the previous base period, all minus 1. For all other filings, the value is zero.

Z = the dollar effect of current regulatory changes when compared to the regulations in effect at the time the PCI was updated to  $PCI_{t-1}$ , measured at base period level of operations.

Targeted Reduction = the actual possible dollar value of the (GDP-PI - X) reductions that will be targeted to the Average Traffic Sensitive Charge (as defined in paragraph 61.45(i)(3) of this chapter). The Common Line Reductions will contain the "g" component to be applied to the MOU portion of the Common Line revenues.

Y = (new access rate - access rate at the time the PCI was updated to  $PCI_{t-1}$ ) x (base period demand), summed for all access rate elements.

R = base period quantities for each rate element "I", multiplied by the price for each rate element "I" at the time the PCI was updated to  $PCI_{t-1}$ .

w =  $R + Z$ , all divided by  $R$  (used for the common line, traffic sensitive, trunking, and ~~marketingspecial access~~ baskets).

w<sub>ix</sub> =  $R -$  (access rate in effect at the time the PCI was updated to  $PCI_{t-1}$  x base period demand) +  $Z$ , all divided by  $R$ .

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PCI<sub>t</sub> = the new PCI value.

PCI<sub>t-1</sub> = the immediately preceding PCI value.



(b)(1)(ii) Notwithstanding the value of X defined in § 61.45(b)(1)(i), the X value applicable to the baskets specified in § 61.42(d)(1),(2), and (3), shall be 6.5%, to the extent necessary to reduce a tariff entity's Average Traffic Sensitive Charge to the Target Rate for the first time. Once an ILEC tariff entity's Average Traffic Sensitive Charge is equal to the Target Rate for the first time (the former NYNEX telephone companies may be treated as a separate tariff entity), then, except as provided in paragraph (2), X is equal to GDP-PI and no further reductions will be mandated.(i.e. if applying the full X-factor reduction for a given year would reduce the Average Traffic Sensitive Charge below the Target Rate, the amount of X-factor reduction applied that year will be the amount necessary to reach the Target Rate).

For companies with separate tariff entities under a single Price cap, the following rules shall apply:

(A) Targeting amounts as defined in 61.45 (i)(1) shall be identified separately, using the revenue for each of the tariff entities under the cap.

(B) Each tariff entity shall only be required to use the amount of targeting necessary to get to the \$0.0055 or \$0.0065 Target Rate.



(b)(1)(iii) Once the Tariff Entity's Average Traffic Sensitive Charge is achieved the X-factor for the Common Line basket will equal GDP-PI as long as GDP-PI is less than or equal to 6.5% and greater than 0%. If GDP-PI is greater than 6.5%, the X-factor for the Common Line basket will equal 6.5%, and all End User Common Line charges, rates and nominal caps, will be increased by the difference between GDP-PI and the 6.5% X-factor. If GDP-PI is less than 0, the X-factor for the Common line basket will be 0.

(b)(1)(iv) For the Special Access basket specified in § 61.42 (d)(5), the value of X shall be 3.0% for the 2000 Annual Filing. The X shall be 6.5% for the 2001, 2002 and 2003 Annual Filings. Starting in the 2004 Annual filing the X shall be equal to GDP-PI for the Special Access Basket.


((b)(1)(v)) Adjustments to local exchange carrier PCIs for the interexchange basket described in § 61.42(d)(4), in those carriers' annual access tariff filings, shall be made pursuant to the following formula:

$$PCI_t = PCI_{t-1} [1 + w_{ij} [(GDP-PI - X) + Y/R + Z/R]]$$

where the terms in the equation are described section (b)(1)(i) above.

(b)(2) Adjustments to local exchange carrier PCIs, in tariff filings other than the annual access tariff filing, for the Common Line Basket described in § 61.42(d)(1), for the traffic-sensitive basket described in § 61.42(d)(2), the trunking basket described in § 61.42(d)(3), the interexchange basket described in § 61.42(d)(4), and the Special Access marketing expense basket described in § 61.42(d)(56), shall be made pursuant to the formulas set forth in paragraph (b)(1) of this section,

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 except that the "w(GDP-PI-X)" component of those PCI formulas shall not be employed.

(c) Starting July 1, 2000, the common line basket will now be controlled by the amount of CMT Revenue per line as of July 1, 2000, not a PCI formula. This CMT revenue per line amount shall be adjusted for exogenous treatment and hyper-inflation pursuant to Section 61.45(b)(1)(iii) and 61.45(d). The allowed revenues may change over time to reflect changes in the base period demand. ~~(c)(1) In the event that a local exchange carrier imposes a per-minute carrier common line charge pursuant to § 69.154 of this chapter, and subject to paragraphs (c)(2) and (c)(3) of this section, adjustments to local exchange carrier PCIs in the annual access tariff filing for the common line basket designated in § 61.42(d)(1) shall be made pursuant to the following formula:~~

[Display Image](#)

~~(2) Adjustments to local exchange carrier PCIs, in tariff filings other than the annual access tariff filing, for the common line basket described § 61.42(d)(1), shall be made pursuant to the formulas set forth in paragraph (b)(1) of this section, except that the "w[(GDP-PI-X-(g/2))/(1+(g/2))]" component of that PCI formula shall not be employed. In non-annual price cap filings, g will be equal to 0.~~

~~(3) The formula set forth in paragraph (c)(1) of this section shall be used by a local exchange carrier only if that carrier is imposing a carrier common line charge pursuant to § 69.154 of this chapter. Otherwise, adjustments to local exchange carrier PCIs for the common line basket designated in § 61.42(d)(1) shall be made pursuant to the formula set forth in § 61.45(b)(1)(i).~~

(d) The exogenous cost changes represented by the term "DZ" in the formula detailed in paragraphs (b) and (c) of this section shall be limited to those cost changes that the Commission shall permit or require by rule, rule waiver, or declaratory ruling.

(1) Subject to further order of the Commission, those exogenous changes shall include cost changes caused by:

(i) The completion of the amortization of depreciation reserve deficiencies;

(ii) Such changes in the Uniform System of Accounts, including changes in the Uniform System of Accounts requirements made pursuant to § 32.16 of this chapter, as the Commission shall permit or require be treated as exogenous by rule, rule waiver, or declaratory ruling.

(iii) Changes in the Separations Manual;

(iv) Changes to the level of obligation associated with the Universal Service Fund obligation described in Part 54 of this chapter;

(v) The reallocation of investment from regulated to nonregulated activities pursuant to § 64.901;

(vi) Such tax law changes and other extraordinary cost changes as the Commission shall permit or require be treated as exogenous by rule, rule waiver, or declaratory ruling.

(vii) Retargeting the PCI to the level specified by the Commission for carriers whose base year earnings are below the level of the lower adjustment mark, subject to the limitation in § 69.731 of this chapter is waived for the tariff filing of July, 2000, but not for subsequent years.-

(viii) Inside wire amortizations.

(ix) The completion of amortization of equal access expenses.

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(2)(i) Local exchange carriers specified in § 61.41 (a)(2) or (a)(3) shall also make such temporary exogenous cost changes as may be necessary to reduce PCIs to give full effect to any sharing of base period earnings required by the sharing mechanism set forth in the Commission's Second Report and Order in Common carrier Docket No. 87-313, FCC 90-314, adopted September 19, 1990. Such exogenous cost changes shall include interest, computed at the prescribed rate of return, from the day after the end of the period giving rise to the adjustment, to the midpoint of the period when the adjustment is in effect.

(ii) Local exchange carriers specified in § 61.41(a)(2) or (a)(3) shall not be subject to the sharing mechanism set forth in the Commission's Second Report and Order in Common Carrier Docket No. 87-313, FCC 90-314, adopted September 19, 1990, with respect to earnings accruing on or after July 1, 1997. This paragraph has no effect on any sharing obligation of any local exchange carrier relating to earnings accrued before July 1, 1997.

(3) Local exchange carriers specified in § 61.41(a)(2) or (a)(3) of this part shall, in their annual access tariff filing, recognize all exogenous cost changes attributable to modifications during the coming tariff year in the obligations specified in § 61.45(d)(1)(IV) as well as those changes attributable to alterations in their Subscriber Plant Factor and the Dial Equipment Minutes factor, and completions of inside wire amortizations and reserve deficiency amortizations.

(4) Exogenous cost changes shall be apportioned on a cost-causative basis between price cap services as a group, and excluded services as a group. Exogenous cost changes thus attributed to price cap services shall be further apportioned on a cost-causative basis among the price cap baskets.

(5) After July 1, 2000, exogenous adjustments will be recovered from services other than those used to calculate the Average Traffic Sensitive Charge.

~~(e) The " $w[(GDP-PI-X-(g/2))/(1+(g/2)])$ " component of the PCI formula contained in paragraph (c) of this section shall be employed only in the adjustment made in connection with the annual price cap filing.~~

(f) The exogenous costs caused by new services subject to price cap regulation must be included in the appropriate PCI calculations under paragraphs (b) and (c) of this section beginning at the first annual price cap tariff filing following completion of the base period in which such services are introduced.

(g) In the event that a price cap tariff becomes effective, which tariff results in an API value (calculated pursuant to § 61.46) that exceeds the currently applicable PCI value, the PCI value shall be adjusted upward to equal the API value.

(h) [Reserved.]

~~(i)(1)(i) Notwithstanding the provisions of paragraphs (b) and (c) of this section, and subject to the limitations of paragraph (j) of this section, including but not limited to the [DELTA] Z reductions discussed in paragraph (j)(2), any price cap local exchange carrier that is recovering interconnection charge revenues through per-minute rates pursuant to § 69.124 or § 69.155 of this chapter shall target, to the extent necessary to eliminate the recovery of any residual interconnection charge revenues through per-minute rates, any PCI reductions associated with the common line and traffic sensitive baskets, designated in §§ 61.42(d)(1) and (2), that result from the application of the formulas in paragraphs (b) and (c) of this section.~~

~~(ii) As specified in paragraph (j)(2) of this section, any price cap local exchange carrier that is targeting PCI reductions to the residual interconnection charge pursuant to paragraph (i)(1)(i) of this section shall exclude the [DELTA] Z/R component of the PCI for the trunking basket~~

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designated in § 61.42(d)(3) from those calculations.

~~(iii) Any local exchange carrier that is targeting PCI reductions to the residual interconnection charge pursuant to paragraph (i)(1)(i) of this section shall not make any adjustment to its PCIs for the common line and traffic sensitive baskets, designated in §§ 61.42(d)(1) and (2) respectively, as a result of the application of the formulas in paragraphs (b) and (c) of this section, other than the adjustments resulting from calculation of the "[DELTA] Z/R component of those formulas.~~

~~(iv) The reductions described in paragraph (i)(1)(i) are to be made after the adjustment is made to the PCI for the trunking basket designated in § 61.42(d)(3) resulting from the application of the formulas in paragraphs (b) and (c) of this section.~~

~~(2) Notwithstanding the provisions of paragraph (b) of this section, and subject to the limitations of paragraph (j) of this section, any price cap local exchange carrier that is recovering interconnection charge revenues through per-minute rates pursuant to § 69.155 of this chapter shall target, to the extent necessary to eliminate the recovery of any residual interconnection charge revenues through per-minute rates, any PCI reductions associated with the basket designated in § 61.42(d)(6) that result from the application of the formula in § 61.45(b), but excluding from the calculations the [DELTA] Z/R component, with no adjustment being made to the PCIs for the basket designated in § 61.42(d)(6). This adjustment, including any adjustment due to the [DELTA] Z/R component, will be made after any adjustment made pursuant to paragraph (i)(1) of this section.~~

~~(3) [Reserved]~~

~~(4) Effective January 1, 1998, the reduction in the PCI for the trunking basket designated in § 61.42(d)(3) that results from paragraphs (i)(1) and (i)(2) of this section shall be determined by multiplying the PCI for the trunking basket by one minus the ratio of the sum of the dollar effects of the PCI reductions otherwise applicable to the common line, traffic-sensitive, and marketing expense baskets, to the revenues applicable to the trunking basket.~~

~~(j) In determining the extent of the targeting that shall occur pursuant to paragraphs (i)(1) and (i)(2) of this section and § 61.47(i)(1) and (i)(2), local exchange carriers shall (1) compute their anticipated residual interconnection charge amount by excluding revenues that are expected to be reallocated to cost-causative facilities-based charges in the future. To determine interconnection charge amounts so excluded in connection with the July 1, 1997 tariff filings, the following local exchange carriers shall use as an estimate of the residual interconnection charge revenues the specified residual interconnection charge percentage: NYNEX, 77.63 percent; BellSouth, 56.93 percent; U S West, 59.14 percent; Bell Atlantic, 63.96 percent; Southwestern Bell Telephone, 69.11 percent; and Pacific Bell and Nevada Bell, 53.52 percent. Each remaining price cap local exchange carrier shall estimate a residual interconnection charge in an amount equal to 55 percent of its current interconnection charge revenues. For subsequent tariff filings in which the PCI reductions are to be targeted to the interconnection charge, these initial estimates shall be adjusted to reflect the actual amounts that have or will be reallocated. If the use of these estimates results in more PCI reductions being targeted to the interconnection charge than required to eliminate the per-minute interconnection charge, the local exchange carrier shall make the necessary exogenous adjustments to reverse the effects of the excess targeting.~~

~~(2) Exclude the amount of any exogenous adjustments permitted or required for the common line, traffic sensitive baskets, and marketing baskets, defined in §§ 61.42(d)(1), (d)(2), and (d)(6), from the retargeting adjustment to the PCI for the trunking basket defined in § 61.42(d)(3). Any such exogenous adjustments shall be reflected in the PCIs and SBIs in the same manner as they would have been reflected if there were no targeting.~~

(i) (1) Price cap local exchange carriers that are recovering revenues through rates pursuant to §§ 69.106, 69.108, 69.109, 69.110, 69.111, 69.112, 69.113, 69.118, 69.123,

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69.124, 69.125, 69.129 or § 69.155 of this chapter shall target, to the extent necessary to reduce the Average Traffic Sensitive Charge to the Target Rate for the first time, any PCI reductions associated with the dollar impact of the Common Line, Traffic Sensitive, and Trunking baskets' GDP-PI and productivity factor, as those items are described in paragraph (c)(6) of this section. In order to calculate the actual dollars to transfer to the Trunking and Traffic Sensitive baskets, carriers will first determine a "Targeted Revenue Differential" by basket, and then determine the "Targeted Revenue Differential" that will be transferred to the Trunking and Traffic Sensitive baskets to reduce the Average Traffic Sensitive Charge to \$0.0055 or \$0.0065, whichever is applicable. The Common Line, Traffic Sensitive, and Trunking GDPPI-X Targeted amounts will be applied to the Trunking and Traffic Sensitive Baskets. Those amounts shall not be used to reduce Common Line PCI, and only reduce the PCIs in the Traffic Sensitive and Trunking Baskets by the amount needed to reduce the ATS in those baskets. Before determining the portion of Targeted Revenue Differential that will be targeted to the reduction of the Average Traffic Sensitive Charge, from the Common Line, Traffic Sensitive, and Trunking baskets, price cap local exchange carriers shall first calculate the Targeted Revenue Differential associated with the Common Line, Traffic Sensitive, and Trunking baskets.

(i) the price cap local exchange carrier shall use the following formula:

Targeted Revenue Differential = R \* (GDP-PI - X) for the Marketing portion of the Common Line Basket, the Traffic Sensitive Basket and the Trunking Basket. The Common Line Targeted Revenue Differential =  $R_{(less\ MOU\ R)}$  \* (GDPPI - X), where R contains USAC receipts plus  $R_{(mou)}$  adjusted for "g" \* (GDPPI-X),

Where  $g = \frac{\text{For annual filings only, the ratio of minutes of use per access line during the base period, to minutes of use per access line during the previous base period, all minus 1.}}{\text{For annual filings only, the ratio of minutes of use per access line during the base period, to minutes of use per access line during the previous base period, all minus 1.}}$

(2) Any such exogenous adjustments shall be reflected in the various PCIs and SBIs in the same manner as they would if there were no targeting. However, after July 1, 2000, exogenous adjustments will be recovered from services other than those used to calculate the Average Traffic Sensitive Charge.

(3) Until a Tariff entity's Average Traffic Sensitive Charge equals the Target Rate for the first time, the aggregate reductions within a given tariff filing entity from application of the X-factor adjustment in the price cap formula across all of that entity's interstate price cap baskets outlined in Sections 61.42 (d)(1),(2) and (3) will be targeted to reduce the following rates for that tariff filing entity, in order of priority:

(i) To the residual per minute Transport Interconnection Charge, until that rate is \$0.00; then

(ii) To the Information Surcharge, until that rate is \$0.00; then

(iii) To the Local Switching charge and Switched Transport charges until the tariff entity's Average Traffic Sensitive Rate equals the Target Rate for the first time. In making these reductions, the reductions to Local Switching rates as a percentage of total X-factor reductions must be greater than or equal to the percentage proportion of Local Switching revenues to the total sum of revenues for Local Switching, Local Switching Trunk Ports, Signalling Transfer Point Port Termination, Switched Direct Trunked Transport, Signalling for Switched Direct Trunked Transport, Entrance Facilities for switched access traffic, Tandem Switched Transport, and Signalling for Tandem Switching (i.e., Local Switching gets at least its proportionate share of reductions).

(4) After an ILEC reaches the Target Rate level, the Average Traffic Sensitive Rate will be recalculated each Annual Filing following. This process will identify the new



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Average Traffic Sensitive Charge for the new base period level. Due to change in base period demand and inclusion of new services for that Annual Tariff filing, the absolute level of a tariff entity's Average Traffic Sensitive Charge may change. The resulting new Average Traffic Sensitive Charge level will be what that tariff entity will be measured against during that base period. For example, if a company was at \$0.0055 during the 2000 Annual Filing, that level may change to \$0.0058 in the 2001 Annual filing due to demand and new services. Therefore, it will be the \$0.0058 that the tariff entity will be measured against for all non-annual filings. Likewise, if a company was at \$0.0055 during the 2000 filing, that level may change to \$0.0053 in the 2001 Annual Filing due to demand and new services. In that case, it will be at the \$0.0053 level that the tariff entity will be measured.

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**§ 61.46 Adjustments to the API.**

(a) Except as provided in paragraphs (d) and (e) of this section, in connection with any price cap tariff filing proposing rate changes, the carrier must calculate an API for each affected basket pursuant to the following methodology:

$$API_t = API_{t-1} [ \sum v_i (p_t/p_{t-1})^i ]$$

where

API[t] = the proposed API value,

API[t-1] = the existing API value,

P[t] = the proposed price for rate element "i,"

P[t-1] = the existing price for rate element "i," and

v[i] = the current estimated revenue weight for rate element "i," calculated as the ratio of the base period demand for the rate element "i" priced at the existing rate, to the base period demand for the entire basket of services priced at existing rates.

(b) New services subject to price cap regulation must be included in the appropriate API calculations under paragraph (a) of this section beginning at the first annual price cap tariff filing following completion of the base period in which they are introduced. This index adjustment requires that the demand for the new service during the base period must be included in determining the weights used in calculating the API.

(c) Any price cap tariff filing proposing rate restructuring shall require an adjustment to the API pursuant to the general methodology described in paragraph (a) of this section. This adjustment requires the conversion of existing rates into rates of equivalent value under the proposed structure, and then the comparison of the existing rates that have been converted to reflect restructuring to the proposed restructured rates. This calculation may require use of carrier data and estimation techniques to assign customers of the preexisting service to those services (including the new restructured service) that will remain or become available after restructuring.

~~(d) (1) Subject to paragraph (d)(2) of this section, and in connection with any price cap tariff proposing changes to rates for services in the basket designated in § 61.42(d)(1), the maximum allowable carrier common line (CCL) charges shall be computed pursuant to the following methodology:~~

$$CCL[MOU] = CL[MOU] * (1 + \% \text{ change in CL PCI}) - (EUCL[MOU] + PICC[MOU]) * 1 / (1 + (g/2))$$

~~Where:~~

~~CCL[MOU]=the sum of each of the proposed Carrier Common Line rates multiplied by its corresponding base period Carrier Common Line minutes of use, divided by the sum of all types of base period Carrier Common Line minutes of use,~~

~~CL[MOU]=the sum of each of the existing maximum allowable Carrier Common Line rates multiplied by its corresponding base period Carrier Common Line minutes of use, plus each existing maximum allowable End User Common Line (EUCL) rate multiplied by its corresponding base period lines, plus the common line portion of each existing maximum allowable Presubscribed Interexchange Carrier Charge (PICC) multiplied by its corresponding base period lines, divided by the sum of all types of base period Carrier Common Line minutes of use,~~

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~~EUCL[MOU]=maximum allowable End User Common Line rates multiplied by base period lines, and divided by the sum of all types of base period Carrier Common Line minutes of use,~~

~~PICC[MOU]=the common line portion of maximum allowable Presubscribed Interexchange Carrier charge rates multiplied by base period lines, and divided by the sum of all types of base period Carrier Common Line minutes of use, and~~

~~g=the ratio of minutes of use per access line during the base period to minutes of use per access line during the previous base period, minus 1.~~

~~(2) The formula set forth in paragraph (d)(1) of this section shall be used by a local exchange carrier subject to price cap regulation only if that carrier is imposing a per-minute carrier common line charge pursuant to § 69.154 of this chapter. Otherwise, adjustments to local exchange carrier APIs for the basket designated in § 61.42(d)(1) shall be made pursuant to the formula set forth in paragraph (a) of this section.~~

~~The maximum allowable carrier common line (CCL) MOU charges shall be computed pursuant to the following methodology:~~

$$CCL_{\text{mou}} = CMT - EUCL - USAC - VR - PICC$$

where

CMT = Pricecap CMT Revenue as defined in § 61.3(aa).

EUCL = Maximum recoverable EUCL revenue based on charges established pursuant to § 69.152.

USAC = USAC support for which the carrier qualifies under § 54.802.

VR = Voluntary Reduction pursuant to § 69.152(q)(8).

PICC = Maximum recoverable PICC revenue based on charges established pursuant to § 69.153.

(e)(1) In addition, for the purposes of paragraph (d) of this section, "~~Existing~~ Carrier Common Line Rates" shall include existing originating premium, originating non-premium, terminating premium and terminating non-premium rates; and "~~End User Common Line Rate~~ used to calculate the CL[MOU] and the EUCL[MOU] factors shall include, but not be limited to, Residential and Single Line Business rates, Centrex rates, and the Special Access surcharge.

(2) For purposes of paragraph (d) of this section, "each existing Presubscribed Interexchange Carrier Charge" shall include all the charges specified in § 69.153 of this chapter.

~~(f) The "1/(1+(g/2))" component of the CCL[MOU] formula contained in paragraph (d) shall be employed only in the adjustment made in connection with the annual price cap filing.~~

(g) The calculation of the API for the basket designated in § 61.42(d)(3) shall include any residual interconnection charge revenues recovered pursuant to §§ 69.153 and 69.155 of this chapter.

~~(h) The calculation of the API for the basket designated in § 61.42(d)(6) shall include any marketing expense revenues recovered pursuant to §§ 69.153 and 69.156 of this chapter.~~

(i) In no case shall a price cap local exchange carrier include data associated with services offered

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pursuant to contract tariff in the calculations required by this section.

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**§ 61.47 Adjustments to the SBI; pricing bands.**

[PUBLISHER'S NOTE: 64 FR 46584, 46590, Aug. 26, 1999, effective Sept. 27, 1999, purported to remove and reserve paragraph (i)(1) in § 61.49. However, this instruction could not be implemented, because the text does not exist within the section. Upon calling the agency, it was determined that the amendment should instead be implemented in § 61.47. In accordance with the apparent intent of the agency, the amendment has been implemented. It is expected that the agency will issue a correction in the Federal Register.]

(a) In connection with any price cap tariff filing proposing changes in the rates of services in service categories, subcategories, or density zones, the carrier must calculate an SBI value for each affected service category, subcategory, or density zone pursuant to the following methodology:

$$SBI_t = SBI_{t-1} [S_i v_i (p_t/p_{t-1})^i]$$

where

SBI[t] = the proposed SBI value,

SBI[t-1] = the existing SBI value,

P[t] = the proposed price for rate element "i,"

P[t-1] = the existing price for rate element "i," and

v[i] = the current estimated revenue weight for rate element "i," calculated as the ratio of the base period demand for the rate element "i" priced at the existing rate, to the base period demand for the entire group of rate elements comprising the service category priced at existing rates.

(b) New services that are added to existing service categories or subcategories must be included in the appropriate SBI calculations under paragraph (a) of this section beginning at the first annual price cap tariff filing following completion of the base period in which they are introduced. This index adjustment requires that the demand for the new service during the base period must be included in determining the weights used in calculating the SBI.

(c) In the event that the introduction of a new service requires the creation of a new service category or subcategory, a new SBI must be established for that service category or subcategory beginning at the first annual price cap tariff filing following completion of the base period in which the new service is introduced. The new SBI should be initialized at a value of 100, corresponding to the service category or subcategory rates in effect the last day of the base period, and thereafter should be adjusted as provided in paragraph (a) of this section.

(d) Any price cap tariff filing proposing rate restructuring shall require an adjustment to the affected SBI pursuant to the general methodology described in paragraph (a) of this section. This adjustment requires the conversion of existing rates in the rate element group into rates of equivalent value under the proposed structure, and then the comparison of the existing rates that have been converted to reflect restructuring to the proposed restructured rates. This calculation may require use of carrier data and estimation techniques to assign customers of the preexisting service to those services (including the new restructured service) that will remain or become available after restructuring.

(e) Pricing bands shall be established each tariff year for each service category and subcategory within a basket. Each band shall limit the pricing flexibility of the service category, subcategory, as

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reflected in the SBI, to an annual increase of a specified percent listed in this paragraph, relative to the percentage change in the PCI for that basket, measured from the levels in effect on the last day of the preceding tariff year. For local exchange carriers subject to price cap regulation as that term is defined in § 61.3(\*cc), there shall be no lower pricing band for any service category or subcategory.

(1) Five percent:

- (i) Local switching (traffic sensitive basket)
- (ii) Information (traffic sensitive basket)
- (iii) Database Access services (traffic sensitive basket)
- (iv) 800 Database Vertical Services subservice (traffic sensitive basket)
- (v) Billing Name and Address (traffic sensitive basket)
- (vi) Local switching trunk ports (traffic sensitive basket)
- (vii) Signalling Transfer Point Port Termination (traffic sensitive basket)
- (viii) Voice grade (trunking and Special Access basket)
- (ix) Audio/Video (Special Accesstrunking basket)
- (x) Total High Capacity (trunking and Special Access baskets)
- (xi) DS1 subservice (trunking and Special Access baskets)
- (xii) DS3 subservice (trunking and Special Access baskets)
- (xiii) Wideband (Special Accesstrunking basket)

(2) Two percent:

- (i) Tandem-Switched Transport (Trunking basket)
- (ii) Signalling for Tandem Switching (Trunking basket)

(3) Zero percent: Interconnection charge (Trunking basket)

(f) A local exchange carrier subject to price cap regulation may establish density zones pursuant to the requirements set forth in § 69.123 of this chapter, for any service in the trunking and Special Access baskets, other than the interconnection charge set forth in § 69.124 of this chapter. The pricing flexibility of each zone shall be limited to an annual increase of 15 percent, relative to the percentage change in the PCI for that basket, measured from the levels in effect on the last day of the preceding tariff year. There shall be no lower pricing band for any density zone.

(g)-(i)(1) [Reserved]

(2) Effective January 1, 1998, notwithstanding the requirements of paragraph (a) of this section, and subject to the limitations of § 61.45(j) if a local exchange carrier is recovering interconnection charge revenues through per-minute rates pursuant to § 69.155 of this chapter, any reductions to the PCI for the basket designated in § 61.42(d)(3) resulting from the application of the provisions of § 61.45(b) and the formula in § 61.44(b) and from the application of the provisions of § 61.45(i)(1) and (i)(2) shall be directed to the SBI of the service category designated in § 61.42(e)(2)(vi).

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(3) Through December 31, 1997, the SBI reduction required by paragraph (i)(1) of this section shall be determined by dividing the sum of the dollar amount of any PCI reduction required by § 61.45(i)(1) by the dollar amount associated with the SBI for the service category designated in § 61.42(e)(2)(vi), and multiplying the SBI for the service category designated in § 61.42(e)(2)(vi) by one minus the resulting ratio.

(4) Effective January 1, 1998, the SBI reduction required by paragraph (i)(2) of this section shall be determined by dividing the sum of the dollar amount of any PCI reduction required by § 61.45 (i)(1) and (i)(2), by the dollar amount associated with the SBI for the service category designated in § 61.42(e)(2)(vi), and multiplying the SBI for the service category designated in § 61.42(e)(2)(vi) by one minus the resulting ratio.

(5) Effective July 1, 2000, notwithstanding the requirements of paragraph (a) of this chapter and subject to the limitations of § 61.45(i), if a local exchange carrier is recovering an Average Traffic Sensitive Charge greater than the respective Target Rates of \$0.0055 or \$0.0065, any reductions to the PCI for the Traffic Sensitive or Trunking baskets designated in §§ 61.42(d)(2) and (3) resulting from the application of the provisions of § 61.45(b), and the formula in § 61.45(b) and from the application of the provisions of §§ 61.45(i)(1), and (i)(2) shall be directed to the SBIs of the service categories designated in §§ 61.42(e)(1) and (2).

(j) The calculation of the SBI for the service category designated in § 61.42(e)(2)(vi) shall include any residual interconnection charge revenues recovered pursuant to §§ 69.153 and 69.155 of this chapter.

(k) In no case shall a price cap local exchange carrier include data associated with services offered pursuant to contract tariff in the calculations required by this section.

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**47 CFR 61.48**

§ 61.48 Transition rules for price cap formula calculations.

(a)-(h) [Reserved]

(i) Transport and Special Access Density Pricing Zone Transition Rules -- (1) Definitions. The following definitions apply for purposes of paragraph (i) of this section:

Earlier date is the earlier of the special access zone date and the transport zone date.

Earlier service is special access if the special access zone date precedes the transport zone date, and is transport if the transport zone date precedes the special access zone date.

Later date is the later of the special access zone date and the transport zone date.

Later service is transport if the special access zone date precedes the transport zone date, and is special access if the transport zone date precedes the special access zone date.

Revenue weight of a given group of services included in a zone category is the ratio of base period demand for the given service rate elements included in the category priced at existing rates, to the base period demand for the entire group of rate elements comprising the category priced at existing rates.

Special access zone date is the date on which a local exchange carrier tariff establishing divergent special access rates in different zones, as described in § 69.123(c) of this chapter, becomes effective.

Transport zone date is the date on which a local exchange carrier tariff establishing divergent switched transport rates in different zones, as described in § 69.123(d) of this chapter, becomes effective.

(2) Simultaneous Introduction of Special Access and Transport Zones. Local exchange carriers subject to price cap regulation that have established density pricing zones pursuant to § 69.123 of this chapter, and whose special access zone date and transport zone date occur on the same date, shall initially establish density pricing zone SBIs and bands pursuant to the methodology in § 61.47(h).

(3) Sequential Introduction of Zones in the Same Tariff Year. Notwithstanding § 61.47(h), local exchange carriers subject to price cap regulation that have established density pricing zones pursuant to § 69.123 of this chapter, and whose special access zone date and transport zone date occur on different dates during the same tariff year, shall, on the earlier date, establish density pricing zone SBIs and pricing bands using the methodology described in § 61.47(h), but applicable to the earlier service only. On the later date, such carriers shall recalculate the SBIs and pricing bands to limit the pricing flexibility of the services included in each density pricing zone category, as reflected in its SBI, as follows:

(i) The upper pricing band shall be a weighted average of the following:

(A) The upper pricing band that applied to the earlier services included in the zone category on the day preceding the later date, weighted by the revenue weight of the earlier services included in the zone category; and

(B) 1.05 times the SBI value for the services included in the zone category on the day preceding the later date, weighted by the revenue weight of the later services included in the zone category.

(ii) [Reserved]



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(iii) On the later date, the SBI value for the zone category shall be equal to the SBI value for the category on the day preceding the later date.

(4) Introduction of Zones in Different Tariff Years. Notwithstanding § 61.47(h), those local exchange carriers subject to price cap regulation that have established density pricing zones pursuant to § 69.123 of this chapter, and whose special access zone date and transport zone date do not occur within the same tariff year, shall, on the earlier date, establish density pricing zone SBIs and pricing bands using the methodology described in § 61.47(h), but applicable to the earlier service only.

(i) On the later date, such carriers shall use the methodology set forth in paragraphs (a) through (d) of § 61.47 to calculate separate SBIs in each zone for each of the following groups of services:

(A) DS1 special access services;

(B) DS3 special access services;

(C) DS1 entrance facilities, DS1 direct-trunked transport, and DS1 dedicated signalling transport;

(D) DS3 entrance facilities, DS3 direct-trunked transport, and DS3 dedicated signalling transport;

(E) Voice grade entrance facilities, voice grade direct-trunked transport, and voice grade dedicated signalling transport;

(F) Tandem-switched transport; and

(G) Such other special access services as the Commission may designate by order.

(ii) From the later date through the end of the following tariff year, the annual pricing flexibility for each of the subindexes specified in paragraph (i)(4)(i) of this section shall be limited to an annual increase of five percent or an annual decrease of fifteen percent, relative to the percentage change in the PCI for the trunking basket, measured from the levels in effect on the last day of the tariff year preceding the tariff year in which the later date occurs.

(iii) On the first day of the second tariff year following the tariff year during which the later date occurs, the local exchange carriers to which this paragraph applies shall establish the separate subindexes provided in § 61.47(h)(1), and shall set the initial SBIs for those density pricing zone categories that are combined (specified in paragraphs (i)(4)(i)(A) and (i)(4)(i)(C), (i)(4)(i)(B) and (i)(4)(i)(D), and (i)(4)(i)(E) and (i)(4)(i)(G) of this section) by computing the weighted averages of the SBIs that applied to the formerly separate zone categories, weighted by the revenue weights of the respective services included in the zone categories.

~~(j) Video Dialtone Services. For local exchange carriers subject to price cap regulation, the video dialtone services basket, as designated in § 61.42(d)(5), shall be established with an initial PCI and API level of 100 in the first annual price cap tariff filing following competition of the base period in which the initial video dialtone service was introduced. The initial value of 100 for the PCI and API for video dialtone service prior to adjustment of inflation and productivity shall correspond to the rates in effect just prior to the effective date of the annual filing in which rates for video dialtone service are initially included in the video dialtone basket.~~

~~(k) Marketing expenses. In the January 1, 1998 price cap tariff filing, local exchange carriers shall establish the marketing expense basket designated in § 61.42(d)(6) with an initial PCI and API level of 100. The initial value of 100 for the PCI and API for marketing expenses shall correspond to the marketing expenses described in § 69.156(a) of this chapter.~~

(l) Traffic Sensitive Revenues.

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(1) In the July 1, 2000 Annual Filing Price Cap companies will reduce the average Switched Access MOU rates in the industry by a total of \$2.1 billion measured using the 1999 base period demand. This \$2.1 billion level is based on the participation of all Price Cap LECs. If some Price Cap companies do not participate in the CALLS plan, estimates of the reductions that would have been made by those companies, had they participated in the CALLS Plan, will be included in the calculation of the \$2.1 billion amount. These estimates are subject to revision after companies that do not participate in CALLS have filed their rates. The \$2.1 billion reduction will be the sum of the following components:

--any change in CCL Revenue resulting from:

          --the removal from access of ILEC contributions to the Federal Universal Service Mechanisms

          --ILEC receipts of Interstate Access USF

          --SLC Cap increases

          --Elimination of Primary and Non-Primary PICC rates

Reductions in Traffic Sensitive Rates resulting from:

          -- The targeting application of GDPPI-X and any applicable "g" impacts

          --Additional Switched Access reductions defined in (2) below

(2) The remainder of the amount necessary to achieve the \$2.1 billion reduction will be calculated as a percentage of Local Switching Revenues. Carriers can take these additional reductions against any of the Average Traffic Sensitive Charge rate elements, however a proportional share must be taken to Local Switching rates.

Notwithstanding paragraph (1), if removing amounts of Local Switching minute of use revenues from the Traffic Sensitive would reduce the Average Traffic Sensitive Charge for that Tariff Entity below the Target Rate, then that Tariff Entity will remove only as much of the Local Switching MOU revenues from the Traffic Sensitive Basket as is necessary in order for the Average Traffic Sensitive Charge to equal the Target Rate. The additional reduction necessary to achieve the \$2.1 billion will not reduce a tariff entity below its target rate.

(m) Local Switching Pooled Revenues

(1) Priced cap companies are permitted to pool local switching revenues in their common line basket under one of the following conditions.

(i) Any price cap company with reductions per line at the holding company level greater than the industry average at the holding company level may elect temporarily to pool the amount of the additional reductions above 25% of the Local Switching element revenues necessary to yield that carrier's proportionate share of a total \$2.1 billion reduction in switched access usage rates on July, 1, 2000. The basis of the reduction calculation will be R at PCI<sub>(t-1)</sub> for the upcoming tariff year. The reductions per line amounts will be calculated as follows:

(Total ATS Reduction / Base Period EUCL Lines)

(A) Pooled local switching revenue for each filing entity within a qualifying holding company will continue for this condition until the Average Traffic Sensitive (ATS) rate for the filing entity reaches the applicable target rate. Pooled local switching revenue will be

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reduced each year by the GDPPI-X, as long as that company's ATS is greater than the ATS target. Pooled local switching revenue will be eliminated in the same tariff filing when the filing entity ATS reaches the applicable target rate.

(ii) Mid-sized price cap carriers (.0065) with at least 20% of total holding company lines serving statutory "rural" study areas may elect to pool up to the following amounts:

(A) for a carrier's predominantly non-rural filing entities, the amount of the additional reductions to Average Traffic Sensitive Charge rates necessary to yield those filing entities' proportionate share of a total \$2.1 billion reduction in switched access usage rates on July 1, 2000, to the extent such reductions exceed 25% of the Local Switching element revenues as of July 1, 2000 before application of price cap adjustments and other changes under the plan;

(B) for a carrier's predominantly rural filing entities, the amount of the additional reductions to Average Traffic Sensitive Charge rates necessary to yield those filing entities' proportionate share of a total \$2.1 billion reduction in switched access usage rates on July 1, 2000;

(2) This section details the establishment and Allocation of Pooled Local Switching Revenue to Common Line

(i)The pooled local switching revenue for each filing entity is shifted to the common line basket within price caps. The pooled amounts are to be kept separate from CMT per line contained in the basket. Pooled local switching revenue will not be included in calculations to determine the eligibility for interstate access universal service funding.

(ii) Pooled local switching revenue will be allowed to grow based on the total access lines in the filing entity.

(iii) Pooled local switching revenue should be included in the total revenue for the common line basket in calculating the productivity reduction targeted to the traffic sensitive rate elements.

(iv) Alternative 1: Common line rate elements for each filing entity shall first be set based on CMT revenue per line without regard to the presence of pooled local switching revenue for each filing entity. This includes, if the filing entity qualifies, the ability to de-average the EUCL rates by zone when the minute of use and PICC rates have been eliminated. Alternative 2: If the addition of the pooled amounts result in a MLB PICC rate then the filing entity would not be allowed to de-average the EUCL rates by zone.

(v) If the rates generated without regard to the presence of pooled local switching revenue for multi-line business (MLB) PICC and/or MLB SLC are below the nominal caps of \$4.31 and \$9.20, respectively, pooled amounts can be added to these rate elements limited to the nominal caps.

(vi) Pooled local switching revenue are first added to the MLB SLC until the rate equals the nominal cap (\$9.20) or the pooled local switching revenue are fully allocated. If pooled local switching revenue remains after applying amounts to MLB SLC,

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add pooled local switching revenue to MLB PICC until the rate equals the nominal cap (\$4.31) or the pooled local switching revenue are fully allocated. Unallocated pooled local switching may still remain. For companies pooling pursuant to 61A.48(m)(1)(i), these unallocated amounts may not be recovered from common line elements in any other filing entity.

(vii) For companies pooling pursuant to 61A.48(m)(1)(ii), pooled local switching revenue that can not be allocated to the MLB PICC and MLB SLC rates within an individual filing entity may be allocated to other filing entities within the holding company, and collected by adding these amounts to multiline business PICC and SLC rates.

(x) If pooled local switching is added to the MLB SLC for a filing entity that qualified to de-average SLCs without regard to pooled local switching, the resulting SLC rates can no longer be de-averaged. Filing entity average SLCs must be charged

(xi) In subsequent filings, pooled local switching revenues that were allocated to another filing entity will be reallocated to the filing entity from where it originated. Allocation of pooled local switching revenue will be re-calculated with each filing.

### (n) Establishment of the Special Access Basket, effective 7/1/2000

- (1) On the effective date, the PCI value for the Special Access basket, as defined in 61.42(d)(5) shall be equal to the PCI for the Trunking basket on the day preceding the establishment of the Special Access basket.
- (2) On the effective date, the API value for the Special Access basket, as defined in 61.42(d)(5) shall be equal to the API for the Trunking basket on the day preceding the establishment of the Special Access basket.
- (3) Service Category, Subcategory, and Density Zone SBIs and Upper Limits
  - (i) Interconnection, Tandem Switched Transport, and Signalling

Interconnection will retain the SBIs and upper limits and remain in the Trunking basket.
  - (ii) Audio/Video and Wideband will retain the SBIs and upper limits and be moved into the Special Access basket.
  - (iii) For VoiceGrade, the SBIs and upper limits in both baskets will be equal to the SBIs and upper limits in the existing Trunking basket on the day preceding the establishment of the Special Access basket. VoiceGrade density zones in the Trunking basket will retain their indices and upper limits. VoiceGrade density zones will be initialized in the Special Access basket when services are first offered in them.
  - (iv) For High Cap/DDS, DS1, and DS3 category and subcategories, the SBIs and upper limits in both baskets will be equal to the SBIs and upper limits in the existing Trunking basket on the day preceding the establishment of the Special Access basket. SBIs and upper limits for services that are in both combined density zones and either DTT/EF or Special density zones will be calculated by using weighted averages of the indices in the affected zones.
    - (A) For each DTT/EF-related zone remaining in the Trunking basket, the values will be calculated by taking the sum of the products of the DTT/EF revenues times the DTT/EF index (or upper limit) and the DTT/EF-related revenues in the combined zone times the combined index (or upper limit), and dividing by the total DTT/EF-related revenues for that zone.
    - (B) For each Special-related zone remaining in the Trunking basket, the values will be calculated by taking the sum of the products of the Special revenues times the Special index (or upper limit) and the Special-related revenues in the combined zone times the combined index (or upper limit), and dividing by the total Special-related revenues for that zone.

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§ 69.152 End user common line for price cap local exchange carriers.

[PUBLISHER'S NOTE: Paragraph (h) was added at 64 FR 16353, 16358, Apr. 5, 1999, effective July 1, 1999.]

(a) A charge that is expressed in dollars and cents per line per month shall be assessed upon end users that subscribe to local exchange telephone service or Centrex service to the extent they do not pay carrier common line charges. A charge that is expressed in dollars and cents per line per month shall be assessed upon providers of public telephones. Such charge shall be assessed for each line between the premises of an end user, or public telephone location, and a Class 5 office that is or may be used for local exchange service transmissions.

~~(b) Except as provided in paragraphs (d) through (i) of this section, the maximum single line rate or charge shall be computed:~~

~~(1) By dividing one-twelfth of the projected annual revenue requirement for the End User Common Line element by the projected average number of local exchange service subscriber lines in use during such annual period, only so long as a per-minute carrier common line charge is assessed or the maximum PICC assessed on primary residential lines, plus the maximum end user common line charge for primary residential lines, does not recover the full amount of its per-line common line price cap revenues; (and/or)~~

~~(2) by dividing one-twelfth of the projected annual revenues permitted for the common line basket under the Commission's price cap rules, as set forth in Part 61 of this chapter, by the projected average number of local exchange service subscriber lines in use during such annual period, if no per-minute carrier common line charge is assessed and the maximum PICC assessed on primary residential lines, plus the maximum end user common line charge for primary residential lines, recovers the full amount of its per-line common line price cap revenues.~~

(c) The charge for each subscriber line associated with a public telephone shall be equal to the monthly charge computed in accordance with paragraph ~~(b)~~ of this section.

~~(d)(1) Through December 31, 1997, the monthly charge for each primary residential or single line business local exchange service subscriber line shall be the charge computed in accordance with paragraph (b) of this section, or \$ 3.50, whichever is lower.~~

~~(12)~~ Beginning ~~January~~ July 1, ~~1998~~2000, the maximum monthly charge for each primary residential or single line business local exchange service, in an entity that does not have deaveraged EUCLs, subscriber line shall be the ~~charge computed in accordance with paragraph (b) of this section, or \$ 3.50, whichever is lower.~~ lesser of (i) the Average Price Cap CMT Revenue Per Line as defined in § 61.3(d) or (ii)

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(A) On July 1, 2000, \$4.35.

(B) On July 1, 2001, \$5.00

(C) On July 1, 2002 \$6.00.

(D) On July 1, 2003, \$ 6.50

(2) In the event that GDP-PI exceeds 6.5% or is less than 0%, the maximum monthly charge in subsection (d)(1)(ii) and the cap will be adjusted pursuant to § 61.45(b)(1).

(e)(1) Through December 31, 1997, Beginning July 1, 2000 the monthly charge for each non-primary residential local exchange service subscriber line, in an entity that does not have deaveraged EUCLs, shall be the charge computed in accordance with paragraph (b) of this section, or \$ 3.50, whichever is lower, the lesser of:

(i) \$7.00 or

(ii) the greater of:

(A) The rate as of June 30, 2000 less reductions needed to ensure over recovery of CMT Revenues does not occur, or (B) Average Price Cap CMT Revenue Per Line.

(2) In the event that GDP-PI is greater than 6.5% or is less than 0%, the maximum monthly charge in subsection (e)(1)(i) and the cap will be adjusted pursuant to § 61.45 b(1).

~~(2) Beginning January 1, 1998, the maximum monthly charge for each non-primary residential local exchange service subscriber line shall be the lower of:~~

~~(i) The maximum charge computed in accordance with paragraph (b) of this section; or~~

~~(ii) \$ 5.00. On January 1, 1999, this amount shall be adjusted by the inflation factor computed under paragraph (k) of this section, and increased by \$ 1.00. On July 1, 2000, and in each subsequent year, this amount shall be adjusted by the inflation factor computed under paragraph (k) of this section, and increased by \$ 1.00.~~

(3) Where the local exchange carrier provides a residential line to another carrier so that the other carrier may resell that residential line to a residence that already receives a primary residential line, the local exchange carrier may collect the non-primary residential charge described in paragraph (e) of this section from the other carrier.

(f) Except as provided in paragraphs (n) and (o) of this section, the charge for each primary residential local exchange service subscriber line shall be the same as the charge for each single line business local exchange service

subscriber line.

(g) A line shall be deemed to be a residential subscriber line if the subscriber pays a rate for such line that is described as a residential rate in the local exchange service tariff.

(h) [Effective July 1, 1999.] Only one of the residential subscriber lines a price cap LEC provides to a location shall be deemed to be a primary residential line.

(1) [Effective July 1, 1999.] For purposes of § 69.152(h), "residential subscriber line" includes residential lines that a price cap LEC provides to a competitive LEC that resells the line and on which the price cap LEC may assess access charges.

(2) [Effective July 1, 1999.] If a customer subscribes to residential lines from a price cap LEC and at least one reseller of the price cap LEC's lines, the line sold by the price cap LEC shall be the primary line, except that if a resold price cap LEC line is already the primary line, the resold line will remain the primary line should a price cap LEC subsequently sell an additional line to that residence.

(i) A line shall be deemed to be a single line business subscriber line if the subscriber pays a rate that is not described as a residential rate in the local exchange service tariff and does not obtain more than one such line from a particular telephone company.

(j) No charge shall be assessed for any WATS access line.

(k)(1) Beginning on July 1, 2000, and in the absence of voluntary reductions, the maximum monthly End User Common Line Charge for multiline business lines in a given entity that has not deaveraged End User Common Line charges will be the lesser of:

(i) \$9.20 or

(ii) the greater of:

(A) the rate as of June 30, 2000, less reductions needed to ensure over recovery of CMT Revenues does not occur, or

(B) Average Price Cap CMT Per Line as defined in § 61.3(d).

Except when the incumbent LEC reduces the rate through voluntary reductions, the averaged multiline business End User Common Line charge initially will be frozen until the entity's multiline business PICC and CCL are eliminated.

(2) In the event that GDP-PI is greater than 6.5% or is less than 0%, the maximum monthly charge in subsection (k)(1)(i) and



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the cap will be adjusted pursuant to § 61.45 b(1).

~~On January 1, 1999:~~

~~(i) The ceiling for multi-line business subscriber lines under paragraph (b)(3) of this section will be adjusted to reflect inflation as measured by the change in GDP-PI for the 18 months ending September 30, 1998.~~

~~(ii) The ceiling for non-primary residential subscriber lines under paragraph (e)(2)(ii) of this section will be adjusted to reflect inflation as measured by the change in GDP-PI for the 12 months ending September 30, 1998.~~

~~(2) On July 1, 2000, the ceiling for multi-line business subscriber lines and non-primary residential subscriber lines will be adjusted to reflect inflation as measured by the change in GDP-PI for the 18 months ending on March 31, 2000.~~

~~(3) On July 1 of each subsequent year, the ceiling for multi-line business subscriber lines and non-primary residential subscriber lines will be adjusted to reflect inflation as measured by the change in GDP-PI for the 12 months ending on March 31 of the year the adjustment is made.~~

(l)(1) Beginning January 1, 1998, local exchange carriers shall assess no more than one end user common line charge as calculated under the applicable method under paragraph (e) of this section for Basic Rate Interface integrated services digital network (ISDN) service.

(2) Local exchange carriers shall assess no more than five end user common line charges as calculated under paragraph (b) of this section for Primary Rate Interface ISDN service.

(m) In the event the local exchange carrier charges less than the maximum end user common line charge for any subscriber lines, the local exchange carrier may not recover the difference between the amount collected and the maximum from carrier common line charges or PICCs.

(n) Through December 31, 1997, the End User Common Line charge for a residential subscriber shall be 50% of the charge specified in paragraphs (b) and (d) of this section if the residential local exchange service rate for such subscribers is reduced by an equivalent amount, provided that such local exchange service rate reduction is based upon a means test that is subject to verification.

(o) Paragraphs (o)(1) and (o)(2) of this section are effective through December 31, 1997.

(1) The End User Common Line charge for residential subscribers shall be reduced to the extent of the state assistance as calculated in paragraph (o)(2) of this section, or waived in full if the state assistance equals or exceeds the residential End User Common Line charge under the circumstances described in this paragraph. In order to qualify for this waiver, the subscriber must be eligible for and receive assistance or benefits provided pursuant to a narrowly targeted telephone company lifeline assistance program, requiring verification of eligibility, implemented by the state or local telephone company. A state or local telephone company wishing to implement this End User Common Line reduction or waiver for its subscribers shall file

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information with the Commission Secretary demonstrating that its plan meets the criteria set out in this section and showing the amount of state assistance per subscriber as described in paragraph (o)(2) of this section. The reduction or waiver of the End User Common Line charge shall be available as soon as the Commission certifies that the state or local telephone plan satisfies the criteria set out in this paragraph and the relevant tariff provisions become effective.

(2)(i) The state assistance per subscriber shall be equal to the difference between the charges to be paid by the participating subscribers and those to be paid by other subscribers for comparable monthly local exchange service, service connections and customer deposits, except that benefits or assistance for connection charges and deposit requirements may only be counted once annually. In order to be included in calculating the state assistance, such benefits must be a single telephone line to the household's principal residence.

(ii) The monthly state assistance per participating subscriber shall be calculated by adding the amounts calculated in paragraphs (o)(2)(ii)(A) and (o)(2)(ii)(B) of this section.

(A) The amount of the monthly state assistance per participating subscriber for local exchange service shall be calculated by dividing the annual difference between charges paid by all participating subscribers for residential local exchange service and the amount which would have been charged to non-qualifying subscribers for comparable service by twelve times the number of subscribers participating in the state assistance program. Estimates may be used when historic data are not available.

(B) The amount of the monthly state assistance for service connections and customer deposits per participating subscriber shall be calculated by determining the annual amount of the reductions in these charges for participating subscribers each year and dividing this amount by twelve times the number of participating subscribers. Estimates may be used when historic data are not available.

(p) Through December 31, 1997, in connection with the filing of access tariffs pursuant to § 69.3(a), telephone companies shall calculate for the association their projected revenue requirement attributable to the operation of § 69.104 (n) through (o). The projected amount will be adjusted by the association to reflect the actual lifeline assistance benefits paid in the previous period. If the actual benefits exceeded the projected amount for that period, the differential will be added to the projection for the ensuing period. If the actual benefits were less than the projected amount for that period, the differential will be subtracted from the projection for the ensuing period. Through December 31, 1997, the association shall so adjust amounts to the Lifeline Assistance revenue requirement, bill and collect such amounts from interexchange carriers pursuant to § 69.117 and distribute the funds to qualifying telephone companies pursuant to § 69.603(d).

(q) End User Common Line De-Averaging. Beginning on July 1, 2000, ILECs may geographically deaverage End User Common Line charges subject to the following conditions:

(1) In order for an ILEC to be allowed to de-average End User Common Line charges within a study area, the ILEC must have state Commission approved geographically deaveraged rates for UNE Loops

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within that study area. Except where an incumbent ILEC geographically deaverages through voluntary reductions, before an ILEC may geographically deaverage its End User Common Line rates, its Originating and Terminating CCL and Multiline Business PICC rates in that study area must equal \$0.00.

(2) All geographic deaveraging of End User Common Line charge by customer class within a study area must be according to the state commission-approved unbundled network element loop zone. Solely for the purposes of determining interstate subscriber line charges and the interstate access universal service funding described in 54.806 and 54.807, an ILEC may not have more than four geographic SLC/USF zones absent a review by the Commission. Where an ILEC has more than four state-created UNE zones and the Commission has not approved use of additional zones, the ILEC will determine, at its discretion, which state-created UNE zones to consolidate so that it has no more than four zones for the purpose of determining interstate subscriber line charges and interstate access universal service funding.

(3) Within a given zone, Multiline Business End User Common line rates cannot fall below Primary Residence, Single Line Business or Non-Primary charges. Non Primary End User Common Line charges cannot fall below Primary Residence, Single Line Business charges.

(4) For any given class of customer in any given zone, the Zone de-averaged End User Common Line Charge in that zone must be greater than or equal to the Zone de-averaged End User Common Line charge in the zone with the next lower Zone Average Revenue Per Line.

(5) The sum of all revenues per month that would be generated from all deaveraged End User Common Line charges in all zones within a study area plus Study Area Access USF Support (as defined in § 54.806) for that study area divided by the number of lines in that study area cannot exceed Average Price Cap CMT Revenue Per Line as defined in § 61.3(d) for that study area. In addition, the sum of revenues per month that would be generated from all deaveraged End User Common Line charges in all End User Common Line charge deaveraging zones within a filing entity plus revenues per month from all End User Common Line charge, multiline business PICC and CCL charges from study areas within that filing entity that have not geographically deaveraged End User Common Line charges plus the sum of all Study Area Access USF Support (as defined in § 54.806 and 54.807) in all study areas within the filing entity, divided by the number of lines cannot exceed Average Price Cap CMT Revenue Per Line as defined in § 61.3(d) for the filing entity.

(6) **Maximum Charge.** The maximum zone deaveraged End User Common Line Charge that may be charged in any zone is the lesser of the highest Zone Average Revenue Per Line within the study area or the applicable nominal cap specified in 69.152(d)(1)(ii), 69.152(e)(1)(i) or 69.152(k)(1)(i) or the Current Cap for that designated period pursuant to 69.152(d)(1)(ii). Zone Average Revenue Per Line is the Price Cap CMT

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Revenue per Line allocated to a particular state-defined zone used for deaveraging of UNE loop prices. The zone average revenue per line is computed pursuant to 61.3 (ww).

(7) Minimum Charge. Except where an incumbent LEC chooses to lower the deaveraged SLC through voluntary reductions, the minimum zone deaveraged Subscriber Line Charge in any zone in a study area is at least the lowest Minimum EUCL. Minimum EUCL is Zone Average Revenue Per Line to recover the difference between Study Area Universal Service Support and Study Area Above Benchmark Revenues, first from Zone 1 until the SLCs in Zone 1 equal to the SLCs in Zone 2, and then from lines in Zones 1 and 2 equally until the SLCs in those Zones reach Zone 3 (with all SLCs subject to the applicable residential and multiline business lines nominal caps).

(8) Voluntary Reductions. A "Voluntary Reduction" is one in which the ILEC reduces prices other than through offset of net increases in End User Common Line charge revenues or study area USF support received pursuant to §§ 54.806 and 54.807, or through increases in other zone deaveraged End User Common Line charges.

§ 69.153 Presubscribed interexchange carrier charge (PICC).

(a) A charge expressed in dollars and cents per line may be assessed upon the Multi-Line business subscriber's presubscribed interexchange carrier to recover revenues totaling Averaged Price Cap CMT Revenues Per Line times the number of base period lines less revenues the common line revenues permitted under the price cap rules in part 61 of this chapter that cannot be recovered through the end user common line charge established under § 69.152, up to a maximum of \$4.31 per line per month, residual interconnection charge revenues, and certain marketing expenses described in § 69.156(a). In the event the ceilings on the PICC prevent the PICC from recovering all the residual common line, and residual interconnection charge revenues, and marketing expenses, the PICC shall recover all residual common line revenues before it recovers residual interconnection charge revenues, and all residual interconnection charge revenues before it recovers marketing expenses.

(b) If an end-user customer does not have a presubscribed interexchange carrier, the local exchange carrier may collect the PICC directly from the end user.

~~(c) The maximum monthly PICC for primary residential subscriber lines and single-line business subscriber lines shall be the lower of:~~

~~(1) One twelfth of the sum of annual common line revenues and residual interconnection charge revenues permitted under our price cap rules divided by the historical base period local exchange service subscriber lines in use during such annual period, minus the maximum subscriber line charge calculated pursuant to § 69.152(d)(2); or~~

~~(2) \$ 0.53. On July 1, 1999, this amount shall be adjusted by the inflation factor computed under paragraph (c) of this section, and increased by \$ 0.50. On July 1,~~

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~~2000, and in each subsequent year, this amount shall be adjusted by the inflation factor computed under paragraph (e) of this section, and increased by \$ 0.50.~~

~~(d) To the extent that a local exchange carrier cannot recover its full common line revenues, residual interconnection charge revenues, and those marketing expense revenues described in § 69.156(a) permitted under price cap regulation through the recovery mechanisms established in §§ 69.152, 69.153(c), and 69.156 (b) and (c), the local exchange carrier may assess a PICC on multi-line business subscriber lines and non-primary residential subscriber lines.~~

~~(1) The maximum monthly PICC for non-primary residential subscriber lines shall be the lower of:~~

~~(i) One twelfth of the annual common line, residual interconnection charge, and § 69.156(a) marketing expense revenues permitted under our price cap rules, less the maximum amounts permitted to be recovered through the recovery mechanisms under §§ 69.152, 69.153(c), and 69.156(b) and (c), divided by the total number of historical base period non-primary residential and multi-line business subscriber lines in use during such annual period; or~~

~~(ii) \$ 1.50. On July 1, 1999, this amount shall be adjusted by the inflation factor computed under paragraph (e) of this section, and increased by \$ 1.00. On July 1, 2000, and in each subsequent year, this amount shall be adjusted by the inflation factor computed under paragraph (e) of this section, and increased by \$ 1.00.~~

~~(2) If the maximum monthly PICC for non-primary residential subscriber lines is determined using paragraph (d)(1)(i) of this section, the maximum monthly PICC for multi-line business subscriber lines shall equal the maximum monthly PICC of non-primary residential subscriber lines. Otherwise, the maximum monthly PICC for multi-line business lines shall be the lower of:~~

~~(i) One twelfth of the annual common line, residual interconnection charge, and § 69.156(a) marketing expense revenues permitted under parts 61 and 69 of our rules, less the maximum amounts permitted to be recovered through the recovery mechanisms under §§ 69.152, 69.153(c) and (d)(1), and 69.156(b) and (c), divided by the total number of historical base period multi-line business subscriber lines in use during such annual period; or~~

~~(ii) \$ 2.75. On July 1, 1999, this amount shall be adjusted by the inflation factor computed under paragraph (e) of this section, and increased by \$ 1.50. On July 1, 2000, and in each subsequent year, this amount shall be adjusted by the inflation factor computed under paragraph (e) of this section, and increased by \$ 1.50.~~

~~(e) For the PICC ceiling for primary residential subscriber lines and single-line business subscriber lines under paragraph (c)(2) of this section, non-primary residential subscriber lines under paragraph (d)(1)(ii) of this section, and multi-line business subscriber lines under paragraph (d)(2)(ii) of this section:~~

~~(1) On July 1, 1999, the ceiling will be adjusted to reflect inflation as measured by the change in GDP-PI for the 18 months ending March 31, 1999.~~

~~(2) On July 1 of each subsequent year, the ceiling will be adjusted to reflect inflation as measured by the change in GDP-PI for the 12 months ending on March 31 of the~~

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~~year the adjustment is made.~~

~~(3) On July 1 of each subsequent year, the ceiling will be adjusted to reflect inflation as measured by the change in GDP-PI for the 12 months ending on March 31 of the year the adjustment is made.~~

~~(f)(1) Local exchange carriers shall assess no more than one PICC as calculated under the applicable method under paragraph (d)(1) of this section for Basic Rate Interface integrated services digital network (ISDN) service.~~

~~(d2)~~ Local exchange carriers shall assess no more than five PICCs as calculated under paragraph ~~(ae)~~(2) of this section for Primary Rate Interface ISDN service.

~~(ge)~~~~(1)~~ The maximum monthly PICC for Centrex lines shall be one-ninth of the maximum charge determined under paragraph ~~(ae)~~(2) of this section, except that if a Centrex customer has fewer than nine lines, the maximum monthly PICC for those lines shall be the maximum charge determined under paragraph ~~(ae)~~(2) of this section divided by the customer's number of Centrex lines.

~~.(2) In the event the monthly loop costs for a multi-line business line, as defined in § 69.152(b)(1), exceed the maximum permitted End User Common Line charge, as set in § 69.152(b)(3), the maximum monthly PICC for a Centrex line determined under paragraph (g)(1) of this section shall be increased by the difference between the monthly loop costs defined in § 69.152(b)(1) and the maximum permitted End User Common Line charge set in § 69.152(b)(3). In no event, however, shall the PICC for a Centrex line exceed the maximum established under paragraph (d)(2) of this section.~~

~~(h) If a local exchange carrier receives low income universal service support on behalf of a customer under § 54.403(d) of this chapter, then the local exchange carrier shall not recover a residential presubscribed interexchange carrier charge from that end-user customer or its presubscribed interexchange carrier. Any amounts recovered under § 54.403(d) of this chapter by the local exchange carrier shall be treated as if they were recovered through the presubscribed interexchange carrier charge.~~

§ 69.154 Per-minute carrier common line charge. [Effective Jan. 1, 1998.]

[PUBLISHER'S NOTE: This section was added at 62 FR 31868, 31937, June 11, 1997, effective Jan. 1, 1998.]

(a) Local exchange carriers may recover a per-minute carrier common line charge from interexchange carriers, collected on originating access minutes and calculated using the weighting method set forth in paragraph (c) of this section. The maximum such charge shall be the lower of:

(1) The per-minute rate that would recover annual common line revenues permitted less the maximum amounts allowed to be recovered under §§ 69.152 and 69.153; or

(2) The sum of the local switching, carrier common line and interconnection charge charges assessed on originating minutes on December 31, 1997, minus the local

switching charges assessed on originating minutes.

(b) To the extent that paragraph (a) of this section does not recover from interexchange carriers all permitted carrier common line revenue, the excess may be collected through a per-minute charge on terminating access calculated using the weighting method set forth in paragraph (c) of this section.

(c) For each Carrier Common Line access element tariff, the premium originating Carrier Common Line charge shall be set at a level that recovers revenues allowed under paragraphs (a) and (b) of this section. The non-premium charges shall be equal to .45 multiplied by the premium charges.

§ 69.155 Per-minute residual interconnection charge. [Effective Jan. 1, 1998.]

[PUBLISHER'S NOTE: This section was added at 62 FR 31868, 31938, June 11, 1997, effective Jan. 1, 1998. 62 FR 56121, 56133, Oct. 29, 1997, revised paragraph (c), effective Jan. 1, 1998.]

(a) Local exchange carriers may recover a per-minute residual interconnection charge on originating access. The maximum such charge shall be the lower of:

(1) The per-minute rate that would recover the total annual residual interconnection charge revenues permitted less the portion of the residual interconnection charge allowed to be recovered under § 69.153; or

(2) The sum of the local switching, carrier common line and residual interconnection charges assessed on originating minutes on December 31, 1997, minus the local switching charges assessed on originating minutes, less the maximum amount allowed to be recovered under § 69.154(a).

(b) To the extent that paragraph (a) of this section prohibits a local exchange carrier from recovering all of the residual interconnection charge revenues permitted, the residual may be collected through a per-minute charge on terminating access.

(c)(1) No portion of the charge assessed pursuant to paragraphs (a) or (b) of this section that recovers revenues that the local exchange carrier anticipates will be reassigned to other, facilities-based rate elements, including the tandem-switching rate element described in § 69.111(g), the three-part tandem switched transport rate structure described in § 69.111(a)(2), and port and multiplexer charges described in § 69.111(l), shall be assessed upon minutes utilizing the local exchange carrier's local switching facilities, but not the local exchange carrier's transport service.

(2) If a local exchange carrier cannot recover its full residual interconnection charge revenues through the PICC mechanism established in § 69.153, and will consequently recover a portion of its residual interconnection charge revenues through per-minute charges assessed pursuant to paragraphs (a) and (b) of this section, then the local exchange carrier must allocate its residual interconnection charge revenues subject to the exemption established in paragraph (c)(1) of this section between the PICC and the per-minute residual interconnection charge in the

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same proportion as other residual interconnection charge revenues are allocated between these two recovery mechanisms.

§ 69.156 Marketing expenses. [Effective Jan. 1, 1998.]

[PUBLISHER'S NOTE: This section was added at 62 FR 31868, 31937, June 11, 1997, effective Jan. 1, 1998.]

(a) Effective July 1, 2000 the Marketing Revenues formerly contained in this section will be recovered in the Common Line Basket and recovered through the elements outlined in 69.152, 69.153 and 69.154. ~~(a) Local exchange carriers shall recover marketing expenses that are allocated to the common line and traffic sensitive baskets, and the switched services within the trunking basket pursuant to §§ 32.6610 of this chapter and 69.403.~~

~~(b) The expenses described in paragraph (a) of this section may be recovered from non-primary residential subscriber lines, by increasing the end user common line charge described in § 69.152(e). The amount of marketing expenses permitted to be recovered in this manner shall be the total marketing expenses described in paragraph (a) of this section divided by the sum of non-primary residential lines and multi-line business lines. In no event shall the end user common line charge for these lines exceed the lower of the ceilings established in § 69.152 (b)(3) and (e)(2)(ii).~~

~~(c) The expenses described in paragraph (a) of this section may be recovered from multi-line business subscriber lines, by increasing the end user common line charge described in § 69.152(b). The amount permitted to be recovered in this manner shall be the total marketing expenses described in paragraph (a) of this section divided by the sum of non-primary residential lines and multi-line business lines. In no event shall the end user common line charge for these lines exceed the ceiling established in § 69.152(b)(3).~~

~~(d) In the event that the ceilings set forth in paragraphs (b) and (c) of this section, and § 69.153(d) prevent a local exchange carrier from recovering fully the marketing expenses described in paragraph (a) of this section, the local exchange carrier may recover the remainder through a per-minute assessment on originating access minutes, so long as the charge for originating access does not exceed the amount defined in § 69.155(a)(2) less the maximum permitted to be recovered under § 69.155(a).~~

~~(e) In the event that the ceilings set forth in paragraphs (b), (c) and (d) of this section, and § 69.153(d) prevent a local exchange carrier from recovering fully the marketing expenses described in paragraph (a) of this section, the local exchange carrier may recover the remainder through a per-minute assessment on terminating access minutes.~~

~~(f) The amount of marketing expenses that may be recovered each year shall be adjusted in accordance with the price cap rules set forth in part 61 of this chapter.~~



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§ 69.157 Line port costs in excess of basic, analog service. [Effective Jan. 1, 1998.]

[PUBLISHER'S NOTE: This section was added at 62 FR 31868, 31938, June 11, 1997, effective Jan. 1, 1998.]

To the extent that the costs of ISDN line ports, and line ports associated with other services, exceed the costs of a line port used for basic, analog service, local exchange carriers may recover the difference through a separate monthly end user charge. As of June 30, 2000, these rates will be frozen until June 30, 2005.

**§ 69.158 Universal Service End User Charges**

To the extent the company makes contribution to the Universal Service Support Mechanisms pursuant to § 54.706 and § 54.709 the ILEC may recover those contributions through a charge to end users. These contributions are not a part of any price cap baskets, and the charge to recover these contributions is not part of any other element established pursuant to Part 69. Such a charge may be assessed on a per line basis or as a percentage of interstate retail revenues, and at the option of the ILEC it may be combined for billing purposes with other end user retail rate elements. An ILEC opting to assess the USF end user rate element on a per line basis may apply that charge using the "equivalency" relationships established for the multiline business PICC for Primary Rate ISDN service, as per § 69.153(d), and for Centrex lines, per § 69.153(e).

**§§ 69.201-69.205 [Removed]**

**§ 69.206 [Deleted]**

**§ 69.207 [Deleted]**

**§ 69.208 [Deleted]**

**§ 69.209 [Deleted]**

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EX PARTE OR LATE FILED



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February 25, 2000

RECEIVED

FEB 25 2000

FEDERAL COMMUNICATIONS COMMISSION  
OFFICE OF THE SECRETARY

Ms. Magalie Roman Salas, Secretary  
Federal Communications Commission  
445 12<sup>th</sup> St., SW, Room TWB-204  
Washington, DC 20554

Re: CC Docket 94-1 Price Cap Performance Review  
CC Docket 96-45 Universal Service  
CC Docket 99-249 Low-Volume Long Distance Users  
CC Docket 96-262 Access Charge Reform

Dear Ms. Salas:

Today, the Coalition for Affordable Local and Long Distance Services ("CALLS") submitted an *ex parte* filing that outlines modifications to its earlier July 29, 1999 proposal. In this letter, I outline the course of action that AT&T will take if appropriate reforms are implemented.

On the condition and understanding that the Commission will provide at least \$2.1 billion in usage-sensitive interstate access charge reductions (as calculated in the analyses underlying the plan proposed by CALLS and submitted to the Commission) and elimination of the residential and single-line business presubscribed interexchange carrier charge ("PICC") no later than July 1, 2000, and provided further that interexchange carriers obtain the other benefits specified in the CALLS plan, as modified by CALLS' February 25, 2000 *ex parte* submission, AT&T will take the following steps to ensure that consumers benefit from these critical changes.

*First*, no later than July 1, 2000, AT&T will eliminate the minimum usage requirement on its residential interstate Basic Schedule for 5 years, although AT&T reserves the right to work with the Commission to revise or eliminate this commitment after 3 years if market circumstances warrant, and this commitment will no longer apply if one or more carriers with a combined market share of at least 10 percent of total

interstate interexchange revenues is or are permitted to maintain a minimum usage or other flat fee charge on a similar basic schedule or schedules.

*Second*, no later than July 1, 2000, AT&T will modify its residential domestic interstate Basic Schedule usage rates in conjunction with elimination of the minimum usage requirement, and once it establishes those rates, will not increase those rates for 1 year. In addition, AT&T will notify every residential interstate Basic Schedule customer that these changes are taking place and advise those customers of other AT&T calling plans, including but not limited to the AT&T One Rate Basic plan, that may better serve an individual customer's needs.

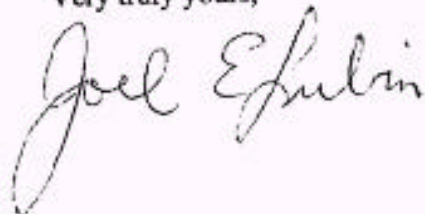
*Third*, AT&T will maintain the AT&T One Rate Basic plan rate of 19¢ per minute at all times for domestic interstate calls from home, with no monthly recurring charge and no minimum usage requirement, for 1 year from the date it establishes revised Basic Schedule rates.

*Fourth*, when the residential and single-line business PICCs are eliminated as charges assessed to interexchange carriers, AT&T will eliminate the Carrier Line Charge, which is its PICC recovery mechanism, for these long distance customers.

*Fifth*, to the extent that AT&T realizes reductions in its access costs as a result of the reforms described above, it will, over the life of the plan, flow those savings through to residential and business customers.

Eight copies of this Notice are being submitted in accordance with Section 1.1206 of the Commission's rules.

Very truly yours,

A handwritten signature in cursive script that reads "Joel Eshlin". The signature is written in dark ink and is positioned below the typed name "Joel Eshlin".





**Richard Juhnke**  
General Attorney

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## EX PARTE PRESENTATION

February 25, 2000

Ms. Magalie Roman Salas  
Secretary  
Federal Communications Commission  
445 12<sup>th</sup> Street, SW  
Washington, DC 20554

**Re: CC Docket Nos. 96-262, 94-1, 96-45, 99-249**

Dear Ms. Salas:

In the event the Commission adopts the access reform plan previously submitted by the Coalition for Affordable Local and Long Distance Service ("CALLS"), together with the modifications submitted by CALLS today, without any further changes, Sprint Communications Co. L.P. ("Sprint") commits to the following:

- (1) At such time as the incumbent local exchange carriers eliminate the presubscribed interexchange carrier charge on lines for residential and single-line business customers, Sprint will eliminate its Presubscribed Line Charge for residential and single-line business customers.
- (2) Sprint will not impose a minimum usage charge ("MUC") on at least one basic rate plan for the duration of the CALLS plan,<sup>1</sup> provided that if any other interexchange carrier that is now or hereafter a party to the CALLS plan reserves the right to impose a MUC on its basic rate plan prior to the termination of the CALLS plan, Sprint reserves the right to do so as well under similar terms and circumstances.
- (3) Sprint will not increase the per-minute usage rates on domestic interstate 1+ calls on its Sprint Standard Weekend plan from July 1, 2000 through July 1, 2001.

<sup>1</sup> For at least the period July 1, 2000 through July 1, 2001, the Sprint Standard Weekend plan will be its basic plan for purposes of this commitment.

Ms. Magalie Roman Salas  
February 25, 2000  
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- (4) Sprint will send a communication to all its residential customers who not presently on the Sprint Standard Weekend Plan by July 1, 2000 or as soon as practicable thereafter, informing them, at a minimum, of the Sprint Standard Weekend plan and instructing them how to select that plan (or any other plan also described in the communication).
- (5) To the extent Sprint realizes a reduction in access costs from the CALLS plan, Sprint will flow through those savings over the life of the plan to both residential and business customers.

This letter is being filed electronically.

Sincerely,

A handwritten signature in black ink, appearing to read "Richard J. ...". The signature is written in a cursive style and is located to the right of the word "Sincerely,".

cc: Lawrence Strickling (via fax)