

ALASKA LEGISLATURE COMMITTEE FILES

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in residential and single-line business SLCs to \$3.00 in June 1987 and \$4.00 in January 1988, or the amount with which a LEC will recover its full study area interstate NTS loop costs, whichever is less. The agreement also provides that LECs may voluntarily raise their SLCs above \$4.00, subject to considerations of universal service objectives and market conditions, and that interexchange carriers should pay an "appropriate portion" of interstate NTS costs. Furthermore, as part of their joint comments, the Unity 1-A sponsors propose to increase the subscriber line charge applied to embedded Centrex lines from the present \$3.00 amount to a \$4.00 cap in June 1987 and a \$5.00 cap in January 1988.²⁴

20. The LECs argue that the implementation of \$1.00 and \$2.00 SLCs has resulted in economic efficiency benefits, citing the significant reductions in CCL rates that have increased overall demand for interstate

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23 The four industry associations that submitted the Unity 1-A agreement are the National Rural Telephone Association (NRTA), the National Telephone Cooperative Association (NTCA), the Organization for the Advancement and Protection of Small Telephone Companies (OPASTCO), and the United States Telephone Association (USTA). This agreement is an outgrowth of the LEC 1984 Unity agreement, which was submitted for consideration during our previous examination of these access charge issues. The Unity 1-A agreement was filed in this proceeding on July 25, 1986, and was supplemented by comments and reply comments by the sponsors.

The sponsors state that they represent over 1300 local telephone companies owning over 99% of all exchange access lines in the country. They present as the major goals of their agreement: 1) the broadest connectivity reasonably attainable; 2) usage charges which will encourage efficient use of the network; and 3) reduction in the scope and complexity of regulation. The agreement presents a comprehensive approach to the issues raised in the Further Notice, by advocating not only increases in SLCs, but also revisions in high cost assistance (discussed infra paras. 75-77) and the present pooling system (discussed infra paras. 98-101).

Additionally, the Unity 1-A agreement reflects the third goal of its sponsors by supporting continued use of average schedules as a compensation mechanism and of an overall interstate rate of return in each jurisdiction as the most appropriate method to properly protect the rural, high cost, highly leveraged, REA-funded LECs and all other small telephone companies. It also seeks the reduction or elimination of FCC requirements the sponsors describe as unnecessary and burdensome, and separations reform. As these latter issues are beyond the scope of this proceeding, they are not discussed herein.

switched access services. They also claim that universal service has not been adversely affected by SLCs, contending that nationwide telephone penetration levels are at their highest point (over 92%) since divestiture²⁵ and that there has been no decrease in telephone penetration levels for low income, elderly or rural populations as a result of SLCs.²⁶ Many of the BOCs and independent LECs state in their comments that in their particular regions the telephone penetration rates have not decreased²⁷ and in many instances the number of switched access lines has increased.²⁸ In particular, Southwestern Bell sees no evidence that the present SLCs have had a negative impact on universal service. Its comments include a disconnect study conducted in Kansas City that it claims revealed that high toll bills were more influential on the decision to disconnect than the cost of basic local service. Similarly, a Washington state study submitted as an

24 See Joint Comments, Appendix 3 at 3.

25 See Bell Atlantic Comments at 4.

26 Bell Atlantic states that penetration rates for the elderly customers in its service area are in excess of 95%. Id. at 5. In addition, NYNEX noted a net gain in the number of subscriber lines since June 1, 1985, in its end offices which serve low income, elderly and rural areas. NYNEX Comments at 16-17.

27 For example, Bell Atlantic states that there has been no statistically significant decline in telephone penetration rates in any state it serves. See Bell Atlantic Comments at 5. See also Ameritech Comments at 4-5; Rochester Comments at 17; Cincinnati Bell Comments at 2-3; NYNEX Comments at 16-17; Pacific Bell and Nevada Bell Comments at 3; SNET at 2-3; US West Comments at 9.

28 BellSouth reports a 2.2% increase in the number of households it serves during the past two and one-half years, while Rochester reports an increase of 2.1% in the number of households it serves in just over two years. BellSouth Comments at 8; Rochester Comments at Exhibit A; see also Centel Comments at 2; Pacific Bell and Nevada Bell Comments at 3.

LECs also note their ability to maintain low basic rates. Bell Atlantic claims that the cost of basic local telephone service remains quite low and that, as a percentage of household income, the price of flat-rate residential service has actually decreased over the past ten years. It further notes that even with a \$4.00 subscriber line charge, the cost of flat-rate residential service would still represent less than .5% of the average household income. Bell Atlantic Comments at 5-6.

appendix to US West's comments found that, on average, customers whose service was disconnected had long distance charges equal to or in excess of their bill for local service.²⁹ Thus, these LECs conclude that to the extent that SLCs have caused and will continue to cause significant decreases in the interstate toll rates, many low income customers can benefit.

21. The LECs also argue that implementation of limited SLCs has provided greater incentive for large users to stay on the network and has thus averted or delayed decisions by these users to bypass the switched network. The LECs assert, however, that the uneconomic pricing disparities, if left unchanged, remain at levels sufficient to force large users to abandon the public switched network for economic reasons. Southwestern Bell states that the existing SLCs have diminished uneconomic bypass incentives, but submits several studies supporting its conclusion that significant bypass incentives remain.³⁰ A number of other BOCs also submitted studies or data to demonstrate present or future bypass risks, focusing on the perceived immediate threat of service bypass,³¹ as they urge further

The Unity 1-A sponsors note in their reply comments that several states have recently moved to implement limited subscriber line charges for intrastate recovery purposes as well. Joint Reply Comments at 13.

29 See infra note 60.

30 Southwestern Bell submitted with its comments the results of three different bypass studies to support its conclusion regarding bypass. First, using a Location Specific Bypass System (LSBS) model, it found that if all customers who had the economic incentive adopted the identified bypass technology after June 1, 1986, Southwestern Bell would have seen decreased revenues of \$296.7 million. Southwestern Bell Comments at 17-18 (App. 4). In its Bypass Adoption Rate Study (BARS), it estimated that about 24.8% of its total chargeable access minutes would be lost to bypass in 1990, in spite of a \$2.00 SLC and the changes in access charge rules adopted in the Commission's decision in CC Docket No. 86-1. It estimated that the bypass loss by 1995 would reach 39.7%. Id. at 19. In its third study, in which it employed a Bypass Analysis and Tracking System Data Base (BATS) and attempted to measure the extent that bypass is actually occurring in its certificated service areas, it found that 674 traffic locations met the threshold of a 40% decrease in toll minutes of use over the designated time period, a figure that Southwestern Bell claims indicates that a location has potentially bypassed Southwestern Bell's network. Southwestern Bell says that it is supplementing this study with on-site visits and other techniques to corroborate that the identified locations are in fact bypassing. It has verified 12 bypass systems in Kansas, which it maintains would, with full implementation, result in a minimum annual loss of \$3.5

action to reduce CCL rates by increasing SLCs. Ameritech asserts that, with the concentration of business in the Chicago loop area and new competitive fiber optic systems being introduced there, some 20% of Illinois Bell's total revenues are at risk from bypass. BellSouth maintains that under current rules, the potential loss from bypass in its region is \$397 million. NYNEX, Pacific Bell, and US West also identify serious bypass concerns for their areas.³² In addition to their own studies, many of these LECs cite

million in access and intraLATA toll revenues. Southwestern Bell maintains that bypass by one large user in St. Louis has already reduced its revenues by \$6 million annually. Id. at 19-21.

31 Service bypass involves the migration of customers from switched to special access services due to uneconomic loading of NTS loop costs on interstate toll rates. Southwestern Bell contends that service bypass remains an immediate problem, submitting that orders for high capacity facilities, which it assumes are being used to carry bypass traffic, increased 183% from June 1985 to May 1986. It estimates that changes from switched to special access facilities by two large Oklahoma companies alone resulted in an estimated annual revenue loss to the company of \$8 million. Id. at 21. Rochester asserts that despite reductions in toll rates and general economic growth, the switched access service usage of its top 10 customers declined by 27.6% during a three-month period in 1986 when compared with their usage during the same period in 1985, while at the same time, the use of special access facilities by these same customers increased by 47.6%. Rochester Comments at 21-23. MCI claims that Rochester's study does not consider CCL and toll rate reductions, and thus is not useful. MCI Reply Comments at 13-14.

32 NYNEX claims that evidence that its end offices predominately serving businesses have had a lower rate of growth than residential end offices, and that there is a lower percentage of growth in originating than terminating minutes, supports the argument that business users are bypassing services to avoid paying uneconomic switched access charges. NYNEX contends that usage carried over private lines has grown more rapidly than overall usage, and that if bypass is left unstemmed, the unrecovered cost per subscriber line per month will be an average of \$2.30 - 3.46 in New York and \$1.39 - 2.09 in New England. NYNEX Comments at 9-12.

Pacific Bell cites twenty-one specific examples of bypass of its network and maintains that bypass is a growing phenomenon due to vulnerability in regulated rate design, availability of advancing technologies, and vendor strategies that lock Pacific Bell out of marketing intraLATA services. Pacific Bell and Nevada Bell Comments at 4-5 and Attachment C. US West conducted two studies that it maintains demonstrate that the current level of end user charges must be increased to further reduce the incentives for uneconomic bypass. It states that one study,

a recent report issued by the United States General Accounting Office (GAO) which concluded that 16-29% of customers bypass and as many as 53% of the LECs' customers are considering plans to initiate or increase bypass activities.³³

22. CP National, the one LEC that does not support increasing SLCs at this time, asserts that the record does not support claims of uneconomic bypass, and proposes that the Commission maintain the current SLCs since the perceived benefits of SLCs "have not reached CP National's service areas."³⁴ Shenandoah, while expressing its support for the Unity 1-A agreement's proposal regarding SLCs, also maintains that the agreement's statement that interexchange carriers should continue paying an "appropriate portion" of common line costs supports its position that IXCs should pay a charge based either on relative use/interstate subscriber line usage (or SLU) or a roughly equivalent fixed percentage (9-10%) of NTS loop costs. Shenandoah suggests that this charge be assessed on a study area basis and maintain that for many customers such a charge would permit the capping of SLCs at less than \$4.00.³⁵

comparing the number of customer locations for each state in the US West service region where the customer has an economic incentive to shift traffic from switched to special access services, showed that the economic incentive for bypass would be eliminated with a full, cost-based SLC. A second study calculating the cross-over point between switched and special access services confirmed, in US West's view, that a reduction in bypass potential occurs as access prices continue to move in the direction of actual costs. US West Comments at 29-30.

MCI critiques the bypass studies presented by the BOCs. It claims that Ameritech's conclusion regarding the bypass problem in Chicago is irrelevant since it focuses only on facilities bypass and, in MCI's view, further implementation of SLCs will not influence this type of bypass. MCI claims that BellSouth fails to explain how it derived its estimate of \$397 million in revenue loss. MCI contends that NYNEX vastly overstates the bypass problem and that in reality the bypass threat is "miniscule" in terms of the impact on the end user. MCI faults Pacific Bell's analysis for misstating the assumed price for special access service, for failing to compare special access and WATS rates, and for overstating the amount of traffic each special access line can carry. MCI claims that Southwestern Bell's LSBS study erroneously assumes that switched access service is homogeneous with all forms of bypass, and that a customer will chose only one IXC, the one in closest proximity to it. MCI Reply Comments at 2-17.

33 See infra note 76.

34 CP National states that it serves local areas identified as rural, many of which have high local exchange rates. CP National states that

23. State public utility commissions (state commissions) participating in this proceeding express a range of views on the NTS cost recovery issues. At the outset, a number of state commissions, particularly those of California, the District of Columbia, Kansas, Missouri, and New York, raise concerns that this reexamination proceeding is premature since the subscriber line charge was only increased to \$2.00 in June 1986. They contend that SLCs have not been in effect for a sufficient time period to determine accurately the impact that an increase in SLCs would have on the universal service objective. In addition, some argue that there have been several changes in the jurisdictional separations rules, along with other Commission actions aimed at deterring bypass, and that the impact that these changes will have on local rates should be determined before any increases in SLCs are considered.³⁶

24. In addressing the substance of NTS cost recovery issues, many state commissions urge that the NTS costs allocated to the interstate jurisdiction should be recovered through charges to the IXCs as well as flat-rate charges on end users.³⁷ Michigan and Missouri suggest that the

although it has an overall annual growth rate of 2% in the number of subscribers it serves, it also serves particular areas with depressed penetration levels. CP National Comments at 2.

35 The Unity 1-A sponsors disagree with Shenandoah's interpretation that a SLU-based IXC charge for each study area is consistent with that agreement, contending that the use of SLU would not have the same "relatively consistent impact" among the LECs as the Unity 1-A proposal. Joint Reply Comments at 32.

36 On January 9, 1987, the Colorado Public Utilities Commission filed comments, in which it argued that any increase in SLCs should be delayed until further study of an allocation and pricing theory presented in a report, entitled "Cost-of-Service Methods for Intrastate Jurisdictional Telephone Services," issued by the National Regulatory Research Institute (NRRI), Report No. NRRI-84-13, in April 1985. Although these comments were submitted three months after the close of the pleading cycle and we do not want to encourage such lateness, we will consider them in order to fully explore all positions on the issues raised in the Further Notice.

37 On March 4, 1987, the National Association of Regulatory Utility Commissions filed a resolution in the record, stating that there should be no increase in the existing SLCs until one full year of experience and a study of the impact of the existing charge and any increased charge on subscribers, and that interexchange carriers should pay a portion of the interstate allocation of NTS loop costs based upon a measure of relative

IXCs should pay an interstate SLU-based charge, that is, a charge based on relative interstate toll subscriber line usage, with any additional NTS costs not recovered from IXCs available for recovery through SLCs.³⁸ Some other state commissions go further and argue that SLCs should be eliminated.³⁹ Arkansas also adopts the concept of charges based on relative interstate use to IXCs, but proposes more fundamental changes in jurisdictional separations and NTS cost recovery.⁴⁰ Like Arkansas,

use of subscriber lines. Letter from Paul Rodgers, General Counsel, National Association of Regulatory Utility Commissions, to William J. Tricarico, Secretary, Federal Communications Commission (March 2, 1987).

38 Michigan maintains that the present \$2.00 SLC brings some low cost LECs to a point where only a SLU-based residual remains to be recovered from the IXCs. Missouri agrees and further argues that the Joint Board recommendation of November 1984 supports the position that IXCs should pay, on a nationwide basis, a charge based on at least a SLU level of NTS costs. It recommends that before increasing SLCs, the Joint Board should examine how close the current policy brings the LECs to a SLU-based IXC charge.

AT&T opposes the concept of a SLU-based charge on IXCs, along with a cap on end user interstate NTS cost recovery, claiming that this proposal amounts to a reversal of the Commission's fundamental position on recovery of NTS costs through end user charges. AT&T asserts that, in any event, with a SLC of \$4.00 in 1988, the IXCs would still be paying charges which exceed a SLU-based portion of NTS loop costs. AT&T Reply Comments at Attachment B.

39 Specifically, Kansas, Texas and Arkansas call for eliminating SLCs.

40 In its comments in this proceeding, Arkansas Public Utilities Commission (Arkansas) proposes an "experimental unified tariff" for NTS cost recovery, applicable only to its state. In its reply comments, Arkansas modifies and expands on this proposal to apply it on a nationwide basis. In its revised proposal, Arkansas proposes first that all residential SLCs be eliminated and that the money currently recovered through these charges be allocated to the intrastate jurisdiction and recovered through local rates in "the most economic and equitable manner." Second, Arkansas proposes that the interstate allocator for NTS common line costs be gradually reduced from the 25% basic allocator to a SLU-based allocator on a study area basis. Under the plan, those NTS costs remaining in the interstate jurisdiction would be paid by IXCs. Arkansas also makes other specific proposals regarding the method of recovering these costs from the IXCs. Like Arkansas, Texas proposes eliminating the SLC and shifting the associated NTS costs to the intrastate jurisdiction, thereby allowing the state commissions to develop the most "equitable and economically efficient" means of allocating these costs.

California suggests a jurisdictional separations change to a SLU-based allocation for the interstate portion of NTS costs, and at the same time endorses Shenandoah's proposal.⁴¹

25. Focusing specifically on SLCs and their impact on universal service, the District of Columbia, Florida, Kansas and Texas contend that the Commission cannot rely on data from the U.S. Bureau of the Census (Census Bureau) to find that penetration rates have not decreased as a result of implementing SLCs, because other factors such as population growth rates or the lifeline program may have been effective in keeping overall penetration rates at the current levels. Furthermore, Arkansas, Missouri and New York also contend that subscriber line charges are similar to local service rates and, as such, increasing SLCs will increase the cost of access to the local network and thereby decrease the number of persons who could afford telephone service. In particular, New York argues that the Commission must consider an end user's total monthly bill in order to evaluate accurately the effect on the end user of increasing SLCs. California argues that the impact of subscriber line charges on universal service must be evaluated in conjunction with other changes causing upward pressure on local service rates such as the phase-out of CPE costs and the deregulation of billing and collection. Arkansas argues that, with a

Comments were received only on the initial Arkansas "experimental unified tariff" proposal. That experimental proposal would recover both interstate and intrastate costs pursuant to a unified tariff administered by the state, that would be characterized by flat-rate recovery from the IXCs. MCI opposes the Arkansas plan because it would shift the risks of NTS investment from LECs to IXCs. It further maintains that the plan imposes double-charges on IXCs that purchase special access by including special access minutes in the calculation of market share for the apportionment of switched access NTS cost recovery. MCI also faults the plan for failing to provide for some differential rate between premium and non-premium access service. Ad Hoc argues that Arkansas failed to explain its proposal in sufficient detail. Finally, the sponsors of the Unity 1-A agreement rebut the contention made by Arkansas that a SLU-based charge to IXCs is consistent with that agreement. They explain that the agreement clearly does not advocate the jurisdictional separations changes required by the Arkansas plan, and that the use of SLU would not have the same effect as the Unity 1-A proposal. See also supra note 35 and accompanying text.

41 NYNEX cautions that the concept of a SLU or relative-use-based recovery of loop costs from the IXCs raises several concerns. First, NYNEX expresses concern that because SLU is a usage-sensitive allocator, NTS cost recovery from the IXCs on a SLU basis could exacerbate uneconomic bypass. Second, it notes that by merely shifting more of the revenue requirement to the intrastate side of the business, the SLU allocator does not necessarily

penetration rate of only 88% in its state, an increase in SLCs will frustrate universal service. Pennsylvania and Texas contend that the typical subscriber who makes few long distance calls does not benefit from the decreased interstate toll rates that have resulted from the introduction of SLCs.

26. In contrast to most other state commissions, Illinois argues that subscriber line charges should be increased, contending that the transfer of NTS cost recovery to end users will encourage efficiency, promote rational economic development, maintain universal service and lead to a decrease in unnecessary subsidization in the telecommunications industry. Illinois supports its argument by noting that subscriber penetration levels for Illinois have remained stable. It states that the maintenance of large customers on the public switched network will ensure that all subscribers enjoy the benefits derived through the use of common facilities.

27. Illinois also cites its concern with bypass problems in Chicago as justification for increasing SLCs.⁴² Other state commissions maintain that little evidence has been presented to establish the existence of uneconomic bypass or the effect that SLCs have had in combatting it; in their view, the evidence provided so far has been mostly anecdotal.⁴³ They maintain that the costs of imposing higher subscriber line charges outweigh

solve the uneconomic bypass problem; such action may create upward pressure on intrastate rates and incentives for more bypass.

42 In its reply comments, New Jersey Board of Public Utilities (New Jersey) also states its concerns with bypass problems present in its state, and includes several examples of existing bypass activities. It encloses a report downgrading New Jersey Bell's bond rating because of the financial community's concern respecting bypass of New Jersey Bell's network, caused by the mandatory pooling of carrier common line costs.

43 A number of state commissions specifically criticize the bypass studies and surveys submitted by the BOCs. California rebuts Pacific Bell's information on bypass (see supra note 32), claiming that it does not necessarily support a conclusion that SLCs should be increased. It maintains that the break-even point for bypass could be raised by increasing special access rates relative to switched access rates, just as effectively as raising SLCs. Kansas faults the bypass studies submitted by Southwestern Bell (see supra note 30). It argues that under the LSBS model, ratepayers would be paying more in SLCs than the amount saved in decreased bypass. Furthermore, Kansas submits that the BARS study fails to consider a number of factors besides rates that were cited by Southwestern Bell in its

the benefits of avoiding bypass revenue losses, that studies do not indicate that greater SLCs are necessary to combat bypass, and that increased SLCs will increase "local bypass" and further erode universal service. A number of state commissions argue that reduced interstate toll rates resulting from implementation of SLCs have not helped alleviate bypass, because factors other than the price of long distance services influence the decision to bypass.⁴⁴

28. Several consumer groups, along with the Communications Workers of America (CWA), oppose increasing SLCs.⁴⁵ The CWA and the CFA, like many of the state commissions, argue that it is premature to reexamine SLCs at this time. The Consumers' Councils and AARP contend that NTS costs should not be recovered through flat-rate charges on the end user at all, but that it is ultimately "fairer" for interstate toll users to continue to pay all the NTS costs.⁴⁶

29. Moreover, several of these commenters believe that in the long run SLCs are likely to have a negative effect on universal service. AARP contends that the decline in long distance rates will not offset the additional subscriber line charges for all users, since, according to its data, only 65% of all residential telephone users make long distance calls and, of those individuals, few make greater than \$10 in long distance calls per month. Other user groups argue that the Census data cannot be relied upon to support the proposition that SLCs have not had an adverse impact on telephone penetration rates. In particular, in their joint comments,

comments. Finally, Kansas maintains that the BATS study is not helpful in this proceeding, since much of the bypass found by survey-type bypass studies involves systems that have been in existence for many years.

44 These state commissions include those in Arkansas, California, Kansas, Michigan, and Missouri. They rely primarily on a December 1984 Bypass Report by the NRRI to support this position. Southwestern Bell argues that the NRRI Report inaccurately portrays the nature and extent of bypass because it was conducted in 1984, before AT&T instituted its Megacom and Software Defined Network services. It also faulted the report for excluding resellers, who may be the largest users of Megacom service.

45 These groups include the Consumers' Councils of Georgia, Washington, and Colorado (Consumers' Councils), filing joint comments, and Consumers' Councils of Ohio, New York, and the District of Columbia, filing independently; the United Church of Christ Office of Communications (UCCOC); the Association of American Retired Persons (AARP); the Consumer Federation of America (CFA); and the National Association of State Utility Consumer Advocates (NASUCA).

Consumers' Counsels contend that the effect of SLCs on penetration rates for telephone service has been obscured by other factors such as an overall increase in income and reductions in unemployment.

30. Some of these consumer groups also question whether there have been any actual economic efficiency gains from the implementation of SLCs.⁴⁷ NASUCA and CWA contend that only anecdotal evidence supports the notion that increased SLCs are necessary to fight bypass, and that other devices, such as tapered rates, flat-rate IXC charges and contract pricing would be more effective. Consumer groups generally maintain that there is no evidence that large users are leaving the switched network due to the present level of CCL charges, and also cite the high marketplace performance of telephone companies in support of their argument that bypass is a more distant problem than what they term the direct threat posed by increased SLCs.

31. Several other user groups⁴⁸ as well as the National Telecommunications and Information Administration (NTIA), and the U.S. Department of Justice (DoJ) argue that the existing SLCs have increased consumer welfare as demonstrated by the decrease in long distance toll rates and growth in the minutes of use for switched access services. These parties generally contend that evidence shows that telephone penetration rates have not decreased and therefore universal service has not been harmed by the implementation of SLCs. DoJ and NTIA, as well as API, support further increases in SLCs in order to deter bypass. They argue that the existing access charge system continues to engender uneconomic bypass, and while it is difficult to quantify bypass, it cannot be ignored as a threat.⁴⁹

46 The New York Consumer Protection Bureau concurs in this point. The Ohio Office of Consumer Counsel also recommends the phase-out of SLCs, and the adoption of a flat-rate charge for IXCs.

47 The Consumers' Counsels maintain that the Commission has not derived the marginal cost data concerning NTS loop costs, which it asserts is necessary to evaluate whether prices are moving closer to the marginal cost of the product and, without such data, the Commission cannot determine whether there in fact have been any economic efficiency gains with the implementation of SLCs.

48 These groups include the American Petroleum Institute (API), Concerned Citizens for Universal Service (CCUS), and the International Communications Association (ICA).

49 Ad Hoc supports increasing SLCs although not due to bypass concerns, claiming that the rhetoric about bypass far exceeds any evidence that it has

B. Discussion

32. In developing this recommended decision, we have carefully evaluated the record regarding the impact of the limited SLCs presently in effect. When we recommended that the Commission implement only the \$1.00 and \$2.00 SLCs, we stated our belief that this step would: substantially reduce the extent of pricing discrimination between switched and special access services; promote economically efficient use of the local telephone network; and permit significant reductions in the CCL charge, thereby substantially reducing the incentive for interexchange carriers and high volume toll users to bypass the public switched network as well as permitting major reductions in interstate toll rates.⁵⁰ Moreover, we stated that the gradual phase-in of SLCs, and in particular our recommendation for a \$2.00 cap on the subscriber line charge pending further study, would guard against any adverse impact on universal service.⁵¹ We stated that this study would be conducted in late 1986.⁵²

33. Evaluation of the record before us indicates that our earlier recommendations regarding NTS cost recovery have had the intended effects and advanced our four national goals for this proceeding. First, we find that the implementation of SLCs has had no adverse effect on universal telephone service. Data, gathered by the Census Bureau as part of the Commission's monitoring plan since November 1983, show that the overall nationwide telephone penetration rate has increased since the implementation of the SLCs. In the Census Bureau's most recent release of information, we note that the figures for November 1986 indicate that 92.4% of all households in the U.S. have a telephone in their home.⁵³ This figure for

harmed small users and carriers. Ad Hoc and NTIA argue that SLCs should be increased to \$3.00, and then \$4.00, on an annual basis, rather than pursuant to the schedule proposed in the Unity 1-A agreement.

50 Recommended Decision, supra note 9, at para. 26. To ensure this latter result we recommended that the Commission take all appropriate steps to ensure that the decreases in access costs for IXCs resulting from implementation of the increased SLCs be flowed through to interstate toll customers.

51 Id. at para. 27. In our initial recommendation we noted that our concern for universal service was prompted by a variety of upward pressures on local service rates as well as the fact that SLCs represented a major change in the method of NTS cost recovery.

52 Subscriber Line Charge Order, supra note 14, at para. 5.

telephone subscribership is the highest reported by the Census Bureau since it first began to collect such data as part of the Current Population Survey in November 1983, which at that time showed a penetration rate of 91.4%. In addition, the data show that in November 1986 the number of households with telephone service was 83.1 million as compared to 78.4 million in November 1983. At the same time, the number of households without telephone service declined from 7.4 million to 6.8 million. Subscribership levels among low income groups have remained stable.⁵⁴ Moreover, the telephone penetration rates for the elderly, *i.e.*, individuals 60 years old and above, have remained steady at approximately 95%, a level above the national average.

34. These nationwide figures for telephone penetration rates are also supported by studies submitted in response to the Commission's request. Many LECs reported in this proceeding an overall increase in their penetration levels or a net gain in the number of subscribership lines in their service areas.⁵⁵ In addition, all of the 12 LECs that filed data on this issue found that there was no overall decrease in the penetration levels in their service areas and that there was no significant subscriber drop-off in any particular section of their service areas.⁵⁶ These 12 LECs

53 Telephone Subscribership in the U.S., Industry Analysis Division, Federal Communications Commission (released January 12, 1987); FCC Public Notice, Mimeo No. 1472 (January 12, 1987).

54 The Census Bureau's data gathered according to income groups contradict NASUCA's contention that telephone penetration rates actually have decreased for all income levels except for those households in the \$50,000 -74,999 income category. See NASUCA Comments at 3-4. At the outset, the study cited by NASUCA neglected to consider the effect of inflation on the value of the dollar. To be more accurate, comparison of penetration rates from different years should account for inflation because it decreases the value of the dollar over time; accordingly, it is not accurate to compare the 1983 telephone penetration rates for the same dollar level of income based on the value of 1983 dollars, with the 1986 telephone penetration rates for the same dollar income level based on the value of 1986 dollars. In addition, if the most recent data for income levels in November 1986 is actually compared to the November 1983 data, the record shows that the penetration rates for all the Census Bureau's income categories have remained steady, with minor fluctuations that are not statistically significant.

55 See Comments filed by BellSouth, Centel, NYNEX, Rochester, and United. In particular, NYNEX noted a net gain in the number of subscriber lines since June 1, 1985 in its end offices that serve low-income, elderly and rural areas. See NYNEX Comments at 16-17.

serve more than 90% of the nation's total local access lines.

35. Several parties, however, contend that it is too early to fully evaluate the effects of SLCs on universal service. While we remain alert to any potential impact that SLCs may have on universal service, and outline below a comprehensive monitoring plan to track the effect of the recommended SLC increases, we find nothing in the record that indicates that subscriber line charges have undermined universal service. We believe that sufficient time has passed to permit an initial determination concerning the effects of the implementation of SLCs on universal service. The release of the latest Census Bureau figures, showing nationwide subscribership levels at an all-time high, confirms the positive trend we have seen in penetration levels during the implementation of SLCs.⁵⁷

36. With careful monitoring and with any interested parties being allowed to file information on monitoring needs, any future declines in subscribership levels that might occur will be readily apparent and can be met with quick regulatory action. Accordingly, we recommend that the Commission mandate an open docket and increased monitoring of the effects of these charges by the Joint Board.⁵⁸

37. With regard to our universal service analysis in this proceeding, studies provided in the record indicate that subscribers may not connect initially, or may fail to reconnect, to the telephone network because of the high cost of commencing service.⁵⁹ Similarly, the record contains recent subscriber disconnection studies indicating that a major reason subscribers are involuntarily disconnected from, or voluntarily disconnect from, the telephone network is high toll bills.⁶⁰ These studies do not attribute a subscriber's decision to connect or disconnect from the telephone network to the implementation of SLCs,⁶¹ but indicate instead

56 See Comments filed by Ameritech, Bell Atlantic, BellSouth, Centel, Cincinnati Bell, NYNEX, Pacific Bell and Nevada Bell, Rochester, SNET, Southwestern Bell, United, and US West.

57 Several commenters contended generally that this growth trend is somehow masking subscriber drop-off. We are unable to give credence to this argument because it is contrary to the Census Bureau's data and the commenters have failed to provide evidence of subscriber drop-off.

58 The broader monitoring efforts that we recommend are discussed infra paras. 136-138.

59 See supra para. 20.

that other factors such as high long distance bills and high connection, installation and security deposit charges are largely responsible for keeping subscribers off the network.⁶² The record before us indicates that the \$2.00 SLC has not caused the subscribership declines that some observers anticipated would occur when the limited SLCs were initially recommended. For the foregoing reasons, we conclude that the implementation of limited SLCs has not undermined the goal of universal service.⁶³

38. Second, we find that the implementation of limited SLCs, by moving to a more cost-based pricing structure for switched access services, has produced economic efficiency gains. Specifically, the move toward recovery of a portion of NTS loop costs through SLCs has reduced switched access and interstate toll rates, generating substantial increases in interstate toll calling.⁶⁴ This increased traffic imposes little or no additional costs on the telephone network and allows recovery of NTS costs to be spread over a greater number of minutes of use. Since the implementation of SLCs, CCL charges have decreased by 40%.⁶⁵ A significant

60 See US West Comments at Appendix B.3, the Washington State Utilities and Transportation Commission Study; and Southwestern Bell Comments at Appendix 2, the Kansas City Disconnect Study.

61 In fact, a survey conducted by US West of customers in Tucson, Arizona, and Salt Lake City, Utah, found that a majority of those individuals not connected to the network were using pay telephones for their calling, and over 20% of them were spending approximately \$5.00 or more per week for telephone service. In addition, this survey found that these individuals were generally willing to pay between \$15.00-20.00 on average for monthly service charges. See US West Reply Comments at Exhibit 7.

62 A recent survey by CFA, AARP, and AT&T supports this conclusion. See infra note 112. As discussed below, these studies have prompted us to recommend responsive action in the form of additional federal lifeline assistance to offset connection charges. See infra paras. 68-70.

63 As discussed supra para. 11, lifeline assistance measures are also a critical element in a balanced effort to achieve universal service. Moreover, the additional lifeline assistance measures recommended below are designed to bring the benefits of telephone service to even more individuals.

64 In the three years prior to the implementation of SLCs, the growth in switched access minutes averaged 7.6% per year. Since implementation of these charges in May 1984, the growth rate has averaged 10.9% per year.

portion of this decrease is directly attributable to subscriber line charges.⁶⁶ In addition, interstate toll rates for the average customer have decreased approximately 30%⁶⁷ in the last three years.⁶⁸ This decrease in interstate rates has brought a significant increase in demand for interexchange services.⁶⁹ The LECs have experienced a concomitant increase

65 Since May 1984 when multi-line business subscriber line charges were implemented, CCL rates have dropped from 5.24 cents per minute of use to a current level of 3.14 cents on a weighted basis. With the initial implementation of the residential and single-line business subscriber line charge in June 1985, the CCL rate was a uniform 4.33 cents/minute. With the bifurcation of the CCL rate, the terminating charge remains at 4.33 cents/minute, but the originating charge decreased to 3.04 cents/minute in June 1986, and dropped to 1.55 cents/minute on January 1, 1987. These reductions are the result of the implementation of SLCs as well as the transition from SPF to 25% basic allocator, the phase out of inside-wiring and CPE cost recovery, the change in rate of return regulation and the changes adopted in CC Docket No. 86-1, which bifurcated the originating and terminating CCL rates. These reductions have occurred despite certain other regulatory actions during this period that by themselves would have had the effect of increasing the CCL rate (such as the increase in nationwide NTS loop costs and the special access treatment of WATS closed-end lines in CC Docket No. 86-1.)

66 Absent the present residential and single-line business, multi-line business, and embedded Centrex subscriber line charges, the weighted average level of the present CCL charge would rise from 3.14 to 4.97 cents per minute of use, an increase of 58%.

67 In its comments, AT&T reports a decrease in interstate toll rates for an average customer of approximately 20%. AT&T Comments at 13. However, we note that the Commission recently directed AT&T to lower its MTS rates by an additional 11% and its WATS rates by an additional 5%. AT&T Communications, Mimeo No. 1287 (released December 30, 1986); and FCC News Release, Report No. CC-180 (released December 30, 1986). Although the Commission did not direct the other interexchange carriers, such as MCI or US Sprint, to decrease their rates, it anticipates that these companies will also reduce their rates in response to AT&T's action.

We recognize that these rate decreases, particularly the most recent one, are not solely attributable to the introduction of SLCs, because other separations and access charge changes have been implemented during this period, and the rate decreases have occurred in a relatively favorable economic environment. Nevertheless, it is clear that SLCs have had a major impact in bringing down the rates charged for interstate toll services.

68 Similar reductions are occurring in intrastate toll rates in order to

in the demand for their access services.⁷⁰ For example, Rochester states that it has experienced a steady increase in interstate switched usage throughout the 24-month period in which subscriber line charges took effect.⁷¹

39. These decreases in rates and increases in usage have substantially increased the economic efficiency of the nation's telecommunications network. Moreover, there are indications that the economic benefits extend beyond the telecommunications sector and benefit the overall national economy. In particular, the Wharton Study finds that the beneficial effects of the limited SLCs are not restricted to the telecommunications industry alone but are transmitted throughout the rest of the national economy. It concludes that the cumulative effects of the implementation of SLCs on the U.S. economy already include an increase in the real GNP of \$6.0 billion (in 1985 dollars); an increase of nearly 10,000 new jobs; a reduction in the federal deficit by \$1.9 billion; and a reduction in overall price levels of about .1%.⁷² While we recognize that

maintain parity with interstate rates. These concurring reductions are also benefiting the national economy.

69 Since the implementation of subscriber line charges, from 1984 to 1986, there has been a two year growth rate of 21.52 percent in the interstate MTS and WATS (including both open and closed-end WATS) minutes. See Annual 1985 Access Tariff Filing, CC Docket No. 186-125, Phase I, Mimeo No. 3643 (released April 14, 1986). In addition, AT&T reports an increase of over 9% in its number of interstate toll messages from 1985 to 1986, alone. AT&T Comments at 13. This increased demand for interstate toll calling also has had a positive effect on the growth of interexchange competition.

70 NECA's midyear 1986 filing reported a 10% increase in access minutes of use between 1984 and 1985. See supra notes 17, 64.

71 In addition, Rochester states that the average monthly interstate usage increased from 38.47 million minutes for the seven months in 1984 to 45.01 million in 1985, and to 50.28 million in the first six months in 1986. Rochester Comments at 26. Moreover, Southwestern Bell states that its average interstate usage per switched access line per month has increased from 132.8 minutes in 1984 to 141.8 minutes in 1986. Southwestern Bell Comments at 14.

72 See Wharton Study, supra note 19 and accompanying text. In addition to the Wharton Study, a study completed by the Commission also concludes that ultimately U.S. consumers benefit from reducing prices to businesses because lower telecommunication costs for businesses result in lower prices

it is very difficult to quantify the exact dollar benefits provided by the implementation of SLCs, the record indicates that the implementation of SLCs has introduced tangible economic benefits that further the goal of economic efficiency.

40. Third, we find that the implementation of SLCs has reduced the unjust discrimination between the prices for special access and switched access services. With the introduction of SLCs, local exchange carriers have been able to make substantial reductions in CCL charges assessed for their interstate switched access services. This decrease in switched access charges has decreased the uneconomic differential between the rates for switched and special access services, thereby providing more subscribers with the incentive to remain on the switched telephone network.⁷³

41. Fourth, with this reduction in discrimination between service prices, the implementation of SLCs has helped to reduce the threat of uneconomic bypass. We reach this conclusion because we believe that service pricing plays an important role in service selection by large telecommunications users, including interexchange carriers and resellers.⁷⁴ The economic incentives for bypass by high volume users are incontrovertable when switched access is priced above cost and special access or other bypass services are priced at cost. Thus, to the extent that switched access charges have been more closely aligned with the relevant costs, we believe

of the products these businesses provide. At the outset, however, it finds that the direct benefits of implementation of the SLCs include price reductions, an increase in total interstate conversation minutes and reduced bypass. The study finds that the first \$2.00 of SLCs produced an annual net benefit to telephone users of about \$600 million in 1986. These benefits are due to the value to consumers of the additional calls made by them as a result of the decrease in prices. The difference between the value consumers place on the stimulated calls and the additional costs generated by those calls is net gain to society. Office of Plans and Policy Staff Study, Federal Communications Commission, Economic Efficiency Benefits of the Current Subscriber Line Charge (released January 20, 1987).

73 Keeping subscribers on the switched network will ensure efficient use of the switched network and ease the recovery of NTS costs by increasing the number of minutes over which these costs can be spread. It will also continue the support and recovery of some of the NTS costs assigned to the interstate jurisdiction. This support is particularly important in high cost areas, where it helps maintain affordable local exchange rate levels.

74 Moreover, we are aware that a significant portion of the interstate allocation of NTS costs currently continues to be recovered through usage-based charges on IXCs using switched access services. Currently,

that large customers have been provided significant incentives to remain on the public switched network, and uneconomic bypass has been delayed or averted.

42. Numerous commenters have provided studies and comments which support the conclusion that the existing SLCs have had beneficial effects on the short-term bypass problem. For example, New Jersey and Illinois perceive bypass as a significant threat to the viability of their switched message network.⁷⁵ In addition, the GAO Bypass Study confirms that bypass is a problem in several areas and concludes that 16 to 29% of large telephone customers currently bypass the switched network.⁷⁶ We are aware of the difficulties in quantifying the actual threat of bypass and its impact on the public switched network. Nevertheless, recognizing the clear incentives which can steer large users away from the switched network, we believe that the numerous studies and surveys provided in the record generally support our conclusion that uneconomic bypass is and continues to be a threat to the switched network as long as the price of switched access service remains significantly above economic cost. In fact, a recent report finds that "[n]ationwide the installed capacity of non-LEC short-haul, medium-capacity, point-to-point, transmission alternatives now exceeds the in-use capacity of equivalent Regional Bell Operating Company (RBOC) services. The non-LEC alternatives are by and large, price-competitive with LEC services as currently tariffed."⁷⁷

43. For all the reasons listed above, we conclude that the limited SLCs we recommended in 1984 have advanced the primary goals of this proceeding. We here propose a permanent solution to the issue of the proper method for interstate MTS cost recovery. A key element of this solution provides an increase in the maximum limit on nationwide subscriber line charges by increments of \$.60, \$.60, and \$.30. The SLC cap will increase to

approximately 62% of the interstate common line revenue requirement is presently being recovered from IXC's. NECA Filing Application No. 71 (filed October 23, 1986).

75 Ameritech and Illinois agree that the bypass threat in the Chicago area warrants immediate action. NYNEX and New Jersey make similar arguments regarding the extent and nature of the bypass risks in their areas.

76 In addition, it reports that as many as 53% of large telecommunications customers plan to initiate or increase their bypass activities in the future. See United States General Accounting Office, Telephone Communications: Bypass of the Local Telephone Companies (August 1986)(included as Appendix 1 to Southwestern Bell's Comments). LECs also provided extensive data demonstrating bypass incentives and detailing numerous examples of bypass. See supra para. 21.

\$2.60 on June 1, 1987, to \$3.20 on September 1, 1988, and with a final increase to \$3.50 on April 1, 1989.⁷⁸ We also recommend that the Commission increase the maximum flat-rate charge on embedded Centrex lines, coincidentally with the increase in residential and single-line business SLCs, to a \$4.00 cap on June 1, 1987, a \$5.00 cap on September 1, 1988, and a \$6.00 cap on April 1, 1989, or the full multi-line business subscriber line charge, whichever is less.⁷⁹

77 P. Huber, *The Geodesic Network: 1987 Report on Competition in the Telephone Industry* at 2.23 (January 1987).

78 We do not recommend the Unity 1-A proposal, which would increase the SLC to \$3.00 in June 1987 and \$4.00 in January 1988, and which also provided for optional subscriber line charge recovery above \$4.00, under certain conditions, on a study-area basis. We believe that the benefits of our recommended revisions to the existing mandatory pooling mechanism, discussed infra paras. 117-135, can be achieved by increasing the maximum limit on SLCs whichever is less to \$3.50, and we perceive no need for further increases beyond this level. Additionally, the Unity 1-A proposal did not delineate the circumstances necessary under its plan for a LEC to qualify for the optional SLC increase above \$4.00; we note, however, that the experimental tariff procedures which we established in 1984 and 1985, would encompass such plans.

In addition, we want to take this opportunity to address two outstanding petitions relating to NTS cost recovery. See supra note 10. The Rochester petition, which proposed to implement an experimental plan that would allow it full recovery of its interstate NTS costs through a SLC of approximately \$3.54, was referred to this Joint Board for consideration. MTS and WATS Market Structure and Amendment of Part 67, Order Inviting Comments, CC Docket Nos. 78-72 and 80-286, Mimeo No. 2736 (released February 21, 1986). The ILECs' petitions request authority to implement an experimental plan that would increase the residential and single-line business SLC in Illinois to \$3.13, and has been referred to this Joint Board. MTS and WATS Market Structure and Amendment of Part 67, CC Docket Nos. 78-72 and 80-286, Mimeo No. 2235 (released March 9, 1987). However, Rochester in its comments and the ILECs in their petitions state that if we recommend increasing SLCs up to \$4.00, each will withdraw their petitions. Although we believe that our actions will meet the objectives of these petitions, we do not believe that we presently are in a position to dismiss them. Therefore, we request that Rochester and the ILECs file petitions to withdraw their requests to increase SLCs or to update their petitions in light of the recommendations herein. Furthermore, any other petitioners wishing to withdraw proposals considered in this proceeding may do so. See infra note 146.

44. In conjunction with our proposed increases in residential and single-line business SLCs, we propose that the Commission mandate development of a comprehensive monitoring plan to be specified in a Recommended Decision and Order to follow shortly.⁸⁰ With regard to the universal service impacts of the subscriber line charge increases we recommend expansion of the Commission's present monitoring of telephone penetration rates. In particular, we anticipate that this enhanced monitoring program will be better designed to track the impact of SLCs on particular population subgroups, such as low income households. Moreover, we recommend that prior to any SLC increases in 1988 and 1989, the members of the Joint Board and the Commission conduct a 90-day study and review of the impact of SLCs to date. The Commission should then report to Congress and state regulators on the results.

45. We are taking a balanced and cautious approach by recommending a gradual phase-in of more modest SLC increases in this Order. We are persuaded that the record shows that limited SLCs have not had an adverse impact on universal service⁸¹ and have had significant positive

79 The subscriber line charge assessed embedded Centrex lines was increased on June 1, 1986, from \$2.00 to \$3.00, or the full interstate NTS loop costs, whichever is less. Embedded Centrex lines are those lines that were in service or on order as of July 27, 1983. All other Centrex lines have paid the multi-line business subscriber line charge since 1984. The distinction between new and embedded Centrex lines was deemed necessary to avoid the possibility that customers would abandon Centrex service for Private Branch Exchange (PBX) service before the state commissions had an opportunity to adjust intrastate rate structures to allow Centrex service to compete effectively with PBXs. See MTS and WATS Market Structure and Amendment of Part 67 of the Commission's Rules, CC Docket Nos. 78-72 and 80-286, Mimeo No. 139 at paras. 2-17 (released October 8, 1985). We believe that sufficient time has elapsed to allow state regulators to adjust intrastate rates and therefore recommend that flat-rate Centrex charges be increased to the full multi-line business SLCs. Our recommendation regarding increased SLCs for embedded Centrex lines is similar to that suggested in the Unity 1-A proposal and since no objections were filed to the Unity 1-A proposal to increase the SLC for these lines, all concerns regarding embedded Centrex pricing appear to have been alleviated.

80 See infra paras. 136-138.

81 What the record does reveal is that high charges assessed for commencing telephone service is one key factor keeping subscribers off the

benefits with regard to the other three goals of this proceeding--bringing efficiency gains, decreasing service price discrimination and mitigating of bypass incentives. Moreover, we believe that the concerns that we focused on during our consideration of SLCs two years ago do not loom as large at this time. First, substantial pressures on local service rates have dropped dramatically in the past few years.⁸² Second, we now have some experience with subscriber line charges as a method of NTS cost recovery. Thus, we believe that limited further steps in subscriber line charge recovery can bring about the same positive effects with minimal effects on our universal service goal.

46. Nevertheless, we are very sensitive to the position taken by several parties that past experience with SLCs may not necessarily assure the same favorable results in the future.⁸³ It is for this reason that we are proposing a very gradual schedule for implementation of these increases in this charge--more gradual than the schedule developed for the original subscriber line charge levels. We believe that our proposal to increase the maximum charge by two \$.60 and one final \$.30 increment, rather than \$1.00 increments, as well as to spread out the total increase over a 25 month period, addresses the universal service concerns by lessening the potential for any possible harm to subscribers that might result from increased subscriber line charges.⁸⁴ Moreover, our recommended

network. To address this problem, we are recommending an additional lifeline assistance program to offset these charges. See infra paras. 68-70. Furthermore, we are recommending that the benefits under the subscriber line charge waiver measures of the existing federal lifeline program increase as SLCs increase.

82 At the end of 1983, state commissions were faced with \$6.9 billion in pending intrastate revenue requests. By the end of 1984, the total value of pending revenue requests had fallen to \$3.7 billion; by December 31, 1985, the value of pending state rate requests was down to \$1.4 billion; and by December 31, 1986, pending revenue requests were down to a record low of \$323 million. See News Release, FCC Releases Summary of State Telephone Rate Cases, Mimeo No. 1567 (released January 20, 1987).

83 We note that several parties express a concern that the second dollar of the SLC has only been in effect since June 1986, and sufficient time to fully study its effect may therefore not have elapsed. While we recognize this concern, when we recommended the present limited SLCs in 1984 we expressly called for a reexamination of SLCs in 1986.

84 In addition, we note that ratepayers may benefit from recent changes in the federal tax laws, specifically the reduction in the corporate tax rate, which should result in substantial decreases in the LECs' total

schedule for implementing this final phase-in of SLCs for residential and single-line business subscribers includes a 90-day study period in advance of the final two increases. This will ensure effective monitoring by this Joint Board pursuant to our proposed plan, and will permit timely regulatory action in the event of any negative impact on universal service resulting from our recommendations.

47. While we have specifically addressed the universal service concerns, we believe that our recommendation for a more gradual phase-in of SLC increases will not sacrifice future progress we should achieve toward reaching our other three goals. We view our proposed increase in subscriber line charges as the linchpin in the integrated approach we are presenting in this Order to resolve all of the issues raised in the Further Notice. In particular, the increased SLC will allow for our proposed restructuring of the existing mandatory common line pooling system, discussed in detail below, by substantially limiting the disparities between CCL rates. This enables LECs to leave the mandatory pool without creating undue pressures to deaverage interstate toll rates.⁸⁵

48. A number of commenters, particularly state commissions, believe that further movement in implementing subscriber line charges may result in subscribers paying an undue proportion of NTS costs, with the IXCs paying less than their "fair share" of the cost burden. The pricing theories of other commenters and the Commission's original access charge decision call for a subscriber line charge that would ultimately recover all the interstate allocation of NTS loop costs from the end user except for high cost assistance.⁸⁶

49. We believe that our recommendation regarding NTS cost recovery strikes a proper balance among all users of the switched network. With our proposal, end users will pay for connection to the network on a flat-rate basis, thereby achieving the economic benefits of flat-rate recovery. At the same time, by maintaining SLCs at a \$3.50 cap, we will

revenue requirements. State commissions are, of course, free to deal with the reductions in intrastate revenue requirements in whatever manner they believe best serves the public. As an option, they may take this opportunity to reduce the basic local service rates charged to customers, or simply create a credit on the customer's bill, and thereby offset to some degree any impact of the increases in the SLC.

85 See discussion infra, paras. 117-119. This Joint Board is concerned about the potential adverse effects of widespread deaveraging of interstate toll rates. Thus, we recommend that the Commission continue uniform nationally averaged MTS and WATS rates for the dominant interexchange carrier.

ensure continued recovery of a substantial portion of NTS loop costs from the IXC's on a nationwide basis. Even with full implementation of SLC's in 1989, IXC's will be paying approximately 50% of the total interstate revenue requirement for those costs that are incurred by the exchange carriers independent of IXC usage of the network.⁸⁷ As a result, IXC's will not only continue to pay fully for those costs they directly cause by using the network (i.e., traffic-sensitive or directly assignable costs), but they will also continue to pay a substantial part, approximately 50 percent of the interstate allocation, of the fixed costs presently recovered through the NECA common line pool.⁸⁸

50. Additionally, we recommend that the residential and single-line business SLC in a particular study area be capped at the same level as the multi-line business SLC in that same study area. Furthermore, we recommend that LEC's use the increased SLC revenues resulting from our recommendation to reduce their CCL rates according to the following principles. First, we recommend that the Commission require the LEC's to apply the first \$.60 increase to the originating CCL charge, and thus limit the bypass threat on the originating end of the call, which is more susceptible to bypass. Second, with the further increases in SLC's, we recommend that the LEC's consider the existing special access rates to determine the level of CCL charges necessary to limit bypass within their particular study areas.

51. Third, we believe that LEC's have the responsibility to maintain some level of CCL charges on the terminating end of calls. Even with the proposed increase in SLC's, most LEC's will have a number of costs that are not eligible to be recovered through SLC revenues and must therefore be recovered through CCL rates. These costs should include the

86 See supra note 5.

87 These costs include not only NTS local loop costs, but also other costs assigned to interexchange carriers such as CPE phase-out, inside wire phase-out, NECA expenses, certain pay telephone costs, high cost assistance, and lifeline assistance funding.

88 We believe that the substantial costs the IXC's will be paying under our proposal adequately addresses stated concerns that IXC's pay a fair share of the interstate revenue requirement. Some commenters, in particular state commissions, suggest that IXC's continue to pay an amount based on a relative use factor, e.g. a "subscriber line usage" factor, while other commenters, specifically LEC's, suggest that IXC's pay an "appropriate" portion. We recognize the concerns that IXC's should continue to pay for use of the local

revenue requirements for: 1) inside wire, which is in the process of being phased-out, but still will be part of the revenue requirement paid by the IXCs until 1993; 2) a portion of CPE, which was not detariffed under the Commission's order on detariffing of CPE; 3) pay telephone, which currently amounts to over \$500 million in interstate revenue requirement and is expected to grow in the future; and 4) Long Term Support (LTS) and (any Transitional Support (TRS)) paid by those LECs that do not participate in the NECA common line pool.⁸⁹

52. Pursuant to the pooling changes we recommend herein, all LECs that opt out of the NECA common line pool will be responsible for LTS contributions, and some LECs will be responsible for TRS (with TRS contributions ending in 1994). We recommend that the Commission require LECs to recover their LTS and any TRS contributions through a CCL rate applied on terminating access minutes. This requirement is designed to ensure that IXCs will pay reasonable CCL rates on each terminating access minute.

53. In addition to these revenue requirements, most LECs will have a residual revenue requirement for their NTS loop costs in a majority of their study areas that will not be recovered through their SLC revenues.⁹⁰ We recommend that LECs with residual NTS loop costs, not recovered through SLCs, also recover these costs primarily through terminating CCL charges.

54. Finally, we decline to adopt the suggestions by some state commissions that jurisdictional separations changes be considered at this

loop, and we believe that approximately 50% of the interstate revenue requirement constitutes a significant level of payment and is responsive to those concerns.

89 See infra paras. 99-100, 124.

90 Based on current estimates, certain study areas will have all their NTS loop costs recovered through the SLC revenues with a \$3.50 SLC in 1989. If the total interstate revenue requirement for the NTS loop costs increases

time.⁹¹ We recently instituted the 25% interstate basic allocation factor presently in the second year of an eight-year phase-in. That allocator was adopted after careful consideration of a comprehensive record, and we believe that it remains the correct approach to jurisdictional cost allocation. Moreover, we do not believe that reducing the interstate cost allocation is an appropriate response to the question of the proper approach to NTS cost recovery. Reductions in the interstate allocator will merely result in increases in intrastate revenue requirements, which may necessitate a concomitant increase in intrastate rates. These increases could potentially inhibit further progress toward attaining our goals in this proceeding and could have particularly harsh effects on rural high cost areas and many small LECs. In addition, much of the efficiency gains and other benefits we have experienced so far might be lost with such action.

over time and SLCs are not increased beyond \$3.50, an even smaller number of LECs will be in a position to recover all their NTS loop costs through their SLC revenues.

⁹¹ These suggestions were presented as an alternative to further subscriber line charge recovery from end users.

V. Federal Lifeline Assistance Measures

A. Comment Summary

55. Among the IXCs, AT&T and US Sprint support the current federal lifeline assistance program⁹² and believe that assistance to low income households is an important complement to subscriber line charges. AT&T supports increasing the matching federal benefits if SLCs are increased.

56. The individual local exchange carriers had a variety of reactions to the federal lifeline program. CP National and United Telephone state that it is too early to evaluate the lifeline program. Both NYNEX and Southwestern Bell support the existing federal lifeline program, noting that the availability of low-cost local service options and other measures to assist low income subscribers also work to preserve universal service.⁹³ Alternatively, Ameritech, Rochester, and SNET maintain that low-cost service options in their areas obviate the need for any federal lifeline assistance. Ameritech states that federal lifeline assistance is unnecessary since it is in its interest to maintain high subscribership levels. On the other hand, Puerto Rico Telephone argues that the federal lifeline assistance program should be expanded and that the Commission's

92 As discussed supra para. 11, this program consists of a waiver of the subscriber line charge for qualifying low income households in states providing certified matching assistance.

93 New York Telephone Company provides additional assistance to its low income subscribers with respect to the installation and maintenance of telephone service. These provisions include: 1) elimination of the deposit requirement for most new customers including all subscribers receiving public assistance; 2) adjusted payment schedules for subscribers with fixed incomes that reflect the subscriber's periodic receipt of income; 3) a 10-month deferred payment plan for arrears of up to \$450; and 4) a 12-month interest-free deferred payment option for non-recurring service connection charges. Southwestern Bell, in addition to its "budget," "thrift," and regular measured service options, allows residential customers to spread the initial installation charge over a fixed number of months. Additionally, it does not require a security deposit based on interexchange carrier toll billing; customers who have paid a debt to an IXC for which Southwestern Bell provides billing and collection services will not be asked for a security deposit, even though they may have a history of delinquency, and customers who are temporarily suspended for non-payment are not asked to provide security deposits based on IXC billing as a condition for restoration of service.

universal service goal should be redefined as promoting subscribership levels, not merely preserving them.⁹⁴

57. The sponsors of the Unity 1-A agreement do not support the federal lifeline assistance program as it is presently established. The Unity 1-A agreement states that lifeline assistance should be established, where necessary, on a state-by-state basis, with qualification determined by appropriate state organizations. The Unity 1-A agreement also provides that funding for lifeline assistance should be derived from sources other than telephone services, although it does not propose any specific funding mechanism.

58. While a number of state commissions commenting in this proceeding generally support continuing the present federal lifeline assistance program,⁹⁵ a few state commissions recommend some modifications to the current plan. Michigan proposes that federal assistance, which matches the amount of state-provided benefits up to the full amount of the SLC, be increased with any additional increases in SLCs. Texas contends that there should be added flexibility in the federal program; the present federal program would require it to conduct administrative proceedings for each of the 72 LECs operating in Texas, in addition to obtaining legislative approval, before it could qualify for federal funds.⁹⁶ California maintains that the federal lifeline assistance program should not require verification of subscriber income or other eligibility criteria as a prerequisite for qualifying for the full federal assistance. It recommends that the federal program permit the state lifeline program to contain provisions for self-certification.⁹⁷

94 Puerto Rico Telephone maintains that because 75% of its population lives below the poverty level and only 50% of its population has telephone service, it is unable to take advantage of the matching federal lifeline program since it would essentially require subsidizing certain low income households by increasing the charges that other low income families pay.

95 These include commissions in Pennsylvania and Michigan.

96 Texas notes that it has approved a discount rate for Southwestern Bell customers, which is not subject to any means test as required by the federal lifeline assistance program. It argues that the federal program should be more flexible and allow for the development of programs, like this discount rate, that it believes may be better suited to achieving the goal of universal service in particular areas.

97 Pacific Bell supports California's request for elimination of the verification requirements for the federal lifeline assistance program. In contrast, US West contends that verification of eligibility must be a part

59. Furthermore, the District of Columbia argues that it is too soon to evaluate the federal lifeline assistance program since it was only established in early 1986.⁹⁸ In late-filed comments to the Further Notice, the Vermont Public Service Board (Vermont) presented a proposal that included a revised federal lifeline assistance fund.⁹⁹ In deriving its proposed lifeline fund, Vermont reviewed the Census Bureau's data regarding telephone penetration and poverty levels, and estimates \$75 million as a reasonable, conservative estimate of the lifeline funding that should be provided annually by mandatory pooling.¹⁰⁰ The proposal did not specify how

of any certified state lifeline assistance plan. It argues that, while states are allowed to devise whatever social policies their citizens may approve, they should not be allowed to pass the costs of those programs onto citizens of other states. Furthermore, US West claims that California has not offered facts to support its conclusion that there has been no abuse of the California lifeline program as a result of its provision for self-certification of income eligibility.

98 The District of Columbia notes that its lifeline program was only implemented in June 1986, and states that it is as yet unable to draw any conclusions about the effectiveness of its plan.

99 Even though Vermont submitted its comments on October 28, 1986, almost one month after the close of the pleading cycle for the Further Notice, we will consider the proposals raised in them, since no party will be prejudiced by such consideration and it will aid us in completing a full disposition of all relevant issues. In its comments, Vermont proposed that the mandatory common line pool be dissolved within two years and replaced with a mandatory contribution for a revised high cost fund, lifeline assistance and separations transitions. The high cost fund proposal is discussed infra para. 82. Regarding the separations transition element of its plan, Vermont maintains that several recent separations changes, which shift dollars to the intrastate jurisdiction, have been accompanied by transitions over reasonable time periods. Vermont contends that these transitions (e.g., the revenue needed to fund the transition to the nationwide 25% basic allocator was estimated at \$1.409 billion in 1985, declining to \$24 million in 1993) should continue to be funded through mandatory contributions. As the Vermont proposal was late-filed, no parties have had an opportunity to comment on it.

100 To arrive at this number, Vermont first estimated that under the present federal lifeline assistance program, the maximum "exposure" would be \$242.7 million per year in reduced CCL charge revenues (\$2 per month for those low income households with telephones (85% of 11.9 million low income households based on March 1985 census figures in 50 states). It then

these funds would be collected or distributed.

60. Several consumer groups contend that the federal lifeline assistance program is not effective.¹⁰¹ Specifically, they argue that the program does not reach a majority of those who need assistance. NASUCA thus concludes that the Commission should focus on maintaining reasonable local rates rather than on establishing a federal lifeline program. AARP, on the other hand, supports increasing the federal assistance measures and makes specific suggestions for additional benefits in such areas as connection and installation charges, and free local calling, as well as assistance with the basic local flat-rate service charge. UCCOC also suggests similar goals and changes to the lifeline assistance program.¹⁰² While the CFA argues that the Commission must implement a more comprehensive lifeline program, it does not offer a specific proposal. However, it does contend that none of the certified state lifeline assistance programs offer any reduction in the high costs of installation, connection or deposits, which it views as obvious barriers to low income subscribership.¹⁰³

61. The Ohio Office of Consumer Counsel recommends that lifeline assistance be available as a one-time waiver of \$24.00 (and not restricted to a monthly waiver) to counterbalance non-recurring service

assumed what it viewed as a more realistic figure for participation in the lifeline program (15 states including 40% of the U.S. poverty population, and with 1/3 of those states offering only a partial credit (40% of 85% of 11.9 million poverty households with an average credit of \$18 per year)) and arrived at an estimated \$72.8 million federal lifeline fund requirement.

101 These groups include AARP, Consumers' Counsels, the District of Columbia Office of the People's Counsel, the NASUCA and the UCCOC.

102 These include: 1) setting an eligibility level at 125% of the federal poverty level; 2) allowing for a minimum of 100 calls per month without added charges in areas with measured or message service; 3) waiving connection or reconnection fees or allowing deferred payment plans for these charges; 4) decreasing rates for pay telephones and allowing incoming calls on these phones; 5) providing for advertising of the availability of the assistance program; and 6) allowing for self-verification of eligibility.

103 Additionally, CFA asserts that two of the certified state programs offer lifeline assistance only to the elderly, although it also argues that the Commission should allow states to decide for themselves whether any eligibility requirements beyond self-certification are necessary or appropriate.

installation charges and customer deposit requirements. Furthermore, it suggests that the Commission should allow for SLC waiver applications by individual subscribers and not just limit them to states or LECs, and that these waivers should not be tied to any matching state assistance.

62. Among user groups and government agencies, Ad Hoc, ICA, and NTIA support the current federal lifeline assistance program. DOJ suggests that lifeline assistance should be funded from general tax revenues rather than through interstate toll charges. CWA, however, states that Congress has already rejected the idea of general public funding for the federal lifeline assistance program.

B. Discussion

63. In late 1985 we recommended, and the Commission subsequently adopted, the existing federal lifeline assistance program in order to preserve universal service and promote subscribership among low income households.¹⁰⁴ We recommended this program because subscribership levels among low income households, while stable, remained below the national average. Since January 1986, ten states and the District of Columbia have been certified for full assistance under the federal program,¹⁰⁵ and many more are moving toward adopting a state lifeline program and requesting federal certification.

64. In the Further Notice, the Commission requested an evaluation of this program and recommendations for further action. As many of the certified state plans are just beginning to take effect, it is not possible to draw any final conclusions about the effectiveness of the plans at this time. We do believe, however, that this program is a properly targeted response to our concerns regarding the general level of subscribership among low income groups as we proceed with the implementation of subscriber line charges. We are confident that the federal lifeline assistance program will continue to expand with more low income telephone subscribers receiving these lifeline benefits.

104 See supra note 11 and accompanying text.

105 Certified lifeline programs are in operation in Arizona, Arkansas, Colorado, the District of Columbia, Hawaii, Maryland, North Carolina, Oregon, Utah, Vermont, and West Virginia. Additionally, both California and New York have lifeline assistance programs pursuant to the initial federal subscriber line charge waiver proposed in the Recommended Decision and adopted in the Subscriber Line Charge Order.

65. In this Order we recommend that the current federal lifeline assistance benefits be increased to correspond with the proposed increases in subscriber line charges. The Lifeline Order states that the Commission will "provide matching assistance, up to the full amount of the subscriber line charge, for subscribers receiving benefits under a qualifying state and local telephone company assistance plan."¹⁰⁶ This language contemplates increasing the amount of the waiver should the amount of the SLC increase. For example, with a \$3.50 SLC and a matching state contribution, the present federal lifeline assistance program will generate benefits of \$7.00 per month for qualifying subscribers to offset interstate and local charges.¹⁰⁷

66. Several commenting parties sought further modification and expansion of the existing federal lifeline assistance program. We cannot endorse California's recommendation that the income verification requirement in the existing lifeline program be abandoned. This verification requirement serves two purposes: first, it ensures that those subscribers receiving the assistance are in fact eligible, thereby avoiding a situation where benefits are extracted by ineligible subscribers through fraudulent certifications; and second, annual recertification serves to update the eligibility rules to ensure that those subscribers receiving assistance have remained eligible.¹⁰⁸ We consider the verification requirement to be an integral part of the existing lifeline assistance program. For similar reasons, we do not accept Texas' request for increased flexibility in the eligibility requirements. Elimination of the means-test from the eligibility criteria for federal benefits, for example, would result in an assistance program that is no longer targeted to low income households, and susceptible to widespread abuse.

67. We also decline to adopt suggestions that the existing federal lifeline assistance program should not require any matching state assistance. We believe that requiring implementation of a state lifeline program as a prerequisite to being certified for federal benefits under the existing lifeline program ensures that qualifying subscribers receive

106 See Lifeline Order, supra note 11, at para. 1.

107 Benefits will be even greater if the monthly state contribution exceeds \$3.50 per month per qualifying subscriber.

108 Moreover, as US West points out, since federal lifeline assistance benefits are funded through interstate toll charges, any state program that is not properly targeted would be unfairly subsidized by ratepayers in other states. It is entirely reasonable for the states that will be funding this assistance to expect that measures will be taken to ensure that benefits are directed to the intended recipients.

assistance to offset both their local service costs and the federal subscriber line charge. This approach fairly distributes the responsibility for preserving telephone penetration levels to both the federal and state jurisdictions.¹⁰⁹ Finally, we recognize that DOJ's proposal that the funding for the lifeline program come from the general tax revenues is not presently feasible, although this approach is attractive in theory.¹¹⁰ At this time, we believe that federal lifeline assistance programs should be supported through increased charges for other telecommunications services.¹¹¹

68. As stated earlier, we do not believe that SLCs have had, or will have, a deleterious effect on universal service. However, a number of commenters in this proceeding have directed our attention to the effect of high non-recurring charges, such as those assessed for commencing telephone service, on universal service.¹¹² The existing federal lifeline assistance

109 The Ohio Consumer Counsel's suggestion that consumers or their representatives be allowed to file for certification was rejected on reconsideration of the Lifeline Order as infeasible to implement in light of the requirement for matching state assistance. See Lifeline Reconsideration Order, supra note 11, at para. 7.

110 The Unity 1-A agreement appears to include a similar proposal.

111 We recognize that there may be benefits from funding lifeline assistance through tax revenues and, of course, states are free to fund their share of lifeline benefits from any intrastate source, including general or special tax revenues. However, at the present time, the appropriation of federal tax revenues for lifeline purposes appears unlikely. Furthermore, as long as lifeline benefits are properly tailored, we believe that they can be funded through interstate toll rates without unduly affecting the efficiency gains that we should continue to obtain from more economic pricing.

112 A study prepared by the Michigan Divestiture Research Fund, sponsored in part by the Michigan Citizens Lobby, found that installation charges and security deposits were cited as the primary cause for the lack of telephone service. Similarly, in a survey of customers in Tucson, Arizona, and Salt Lake City, Utah, conducted by US West, installation and deposit costs were identified as "too high." AARP proposed a waiver of 50% of the connection and installation charges, UCCOC suggested a full waiver of the charges or deferred payment plans for these charges, and the CFA argued that high installation and connection charges, as well as high deposit requirements, are obvious barriers to subscribership by low income households.

Moreover, a recent survey conducted by CFA, AARP and AT&T indicates that almost three quarters of those without phone service perceive

program specifically provides that the state matching assistance may be provided through reduced connection charges or customer deposit requirements. Among certified programs, those in Maryland, Hawaii, Arizona, Utah, and the District of Columbia offer discounts or extensive benefits applicable to these non-recurring charges and deposit requirements. However, we believe that more can be done to directly address the problem of high non-recurring charges for low income households that are not presently on the network,¹¹³ thereby not only preserving, but also increasing, universal telephone service. Toward this end, we are adopting part of the proposals put forward by AARP and UCCOC and are recommending an additional lifeline assistance program to offset the charges assessed for commencing telephone service.

69. Specifically, we recommend a two-part program to link low income households to the network.¹¹⁴ Under the first part, the federal jurisdiction will provide assistance sufficient to pay one-half of the charges, up to a \$30.00 amount, assessed for commencing service for qualifying.¹¹⁵ Under the second part of our recommended program, where a

that they cannot afford the large front-end costs of obtaining phone service -- the installation charge and deposit. CFA, AARP, AT&T, Summary Statement, Joint Telecommunications Project (February 12, 1987).

113 Approximately 5 million low income households are presently without telephone service.

114 A lifeline assistance plan could include either or both parts of this new recommended program.

115 Under this program, federal funds could be used to offset state-tariffed charges incurred in connecting a subscriber to the network. In most cases, such charges cover the administrative costs of opening an account and the costs of turning the switch at the central office. We set the cap for federal assistance at \$30.00 based on our calculations that the national average for these charges is \$45.17 for rotary service and \$46.51 for touch tone service. Industry Analysis Division, Common Carrier Bureau, Federal Communications Commission, Trends in Telephone Service (February 2, 1987). Excluded from this assistance program are the costs of inside wiring, which have been detariffed, and security deposit requirements. We do not believe that it is feasible to structure a federal assistance program to offset security deposit requirements because the amount required for a deposit may depend on factors such as geography and an individual subscriber's credit history. As indicated above, we strongly encourage LECs to reduce or waive security deposit requirements for low income customers who do not have poor credit histories.

LEC offers a deferred payment plan for service commencement charges and it does not assess the subscriber any interest charge, federal assistance will be available to that LEC to cover the interest costs on an amount up to \$200.¹¹⁶

70. Connection assistance will be available for one telephone line per household, at a subscriber's principal place of residence. We further recommend that each state administer this service commencement assistance program within its jurisdiction in conjunction with the LECs. Before receiving federal assistance, a plan submitted by a state commission¹¹⁷ should be certified in the same manner as the existing lifeline program¹¹⁸ as meeting the following criteria to ensure that the assistance is properly targeted: 1) the customer requesting assistance has lived at an address or addresses where there has been no telephone service for at least three months immediately prior to the request for assistance; 2) assistance is available, at most, once every two years; 3) the customer cannot be a dependent (as defined by the federal income tax code) under the age of 60; and 4) the customer must meet state-determined income criteria. The first two criteria are to be verified and such verification should be easily done by using LEC records. The final two criteria may be self-certified.¹¹⁹ However, if a state determines that it is administratively or economically infeasible for a LEC to verify criteria #1 and #2, when the necessary information must be provided by a LEC or agency outside the state, or in other specified circumstances, then self-certification of these criteria will be allowed and criterion #4 must be verified by the state or LEC.

116 We assume that any deferred payment schedule will not be longer than 12 months. Also, we recommend that the interest rate used in this part of the program be determined based on the rate paid on ten-year Treasury Bills. See §67.731(a)(4)(ii) at Appendix B.

117 We recommend that plans be submitted only by the state commission or its delegatee, which could be a LEC, in order to avoid the possibility that numerous, conflicting plans for the same jurisdiction would be filed.

118 The Commission has delegated to the Common Carrier Bureau the authority to certify state lifeline plans.

119 We require the income criterion in order to properly target those in need of this assistance. In contrast to the subscriber line charge waiver measures of the existing federal lifeline programs we will allow self-certification here (except under the circumstances discussed above) because we believe that the other criteria for eligibility sufficiently reduce the potential for abuse of this program.

71. We are making one additional recommendation, dealing with the funding mechanism for this program as well as for the existing federal lifeline assistance program. This proposal is consistent with our recommendations to the Commission that it adopt, with some modifications, the proposals regarding pooling and high cost assistance set out in the Unity 1-A agreement.¹²⁰ The common line pooling modifications of the Unity 1-A agreement, which we adopt with some revisions, make no provision for continued funding of federal lifeline assistance. Therefore, in order to ensure that the federal lifeline program continues to be funded on a nationwide basis,¹²¹ we recommend that NECA bill the IXC's directly for the interstate lifeline revenue requirement, covering both the existing SLC waiver lifeline program and our recommended service commencement assistance program. IXC's that have at least 1) 1% of the "1+" or "presubscribed"¹²² common lines presubscribed to interexchange carriers in all study areas, or 2) 5% of the presubscribed lines in any study area and a minimum of 1000 presubscribed lines in that study area, will be responsible for paying lifeline assistance. A flat monthly charge assessed eligible IXC's to recover these funds will be calculated semi-annually based on all of the common lines presubscribed to eligible interexchange carriers.¹²³

72. Our proposed IXC billing allocation mechanism for lifeline funding is similar to the one proposed in Unity 1-A for the high cost fund,¹²⁴ and should be easy to administer. LEC's participating in the

120 See infra paras. 72 and 87.

121 Under present practice, LEC's in states with certified lifeline assistance plans estimate the number of lifeline subscribers, determine the resulting annual subscriber line charge revenue loss, and report that amount to the NECA common line pool as an addition to the CCL revenue requirement. Thus, absent the proposed modification for IXC billing under our recommended pooling revisions, carriers that file their own tariffs could be required to recover the cost of lifeline service within their own service areas.

122 We use the term "presubscribed" to indicate all "1+" access lines, including both Feature Group C and D services.

123 We find this funding mechanism most compatible with the balance of the recommendations we propose here. Thus, we decline to adopt Vermont's suggestion, submitted as part of its depooling proposal, that a fixed revenue amount be selected and established in a "pool" for lifeline assistance.

124 See infra paras. 75-77.

federal lifeline assistance programs should estimate and report annually to NECA the number of qualifying subscribers under all lifeline assistance programs, as well as the dollar amount of benefits per subscriber. NECA should in turn report these data to the Commission.¹²⁵

73. We believe that the additional lifeline assistance program recommended here is easily implementable¹²⁶ and should be quite effective in removing a major barrier to initiation of telephone service by low income households.¹²⁷ While we encourage states to match the direct offset of the charges assessed for commencing service, our recommended plan does not require the states to provide matching funds. Moreover, we strongly urge the states and local exchange carriers to develop deferred payment plans for service commencement charges, as well as provide reductions in, or waivers of, security deposit requirements for low income customers who do not have poor credit histories.

74. Furthermore, other measures, beyond federal and state financial assistance, are important complements to these universal service efforts. We believe that the availability of local service options, such as the various state low-cost or budget services, contribute to maintaining universal service.¹²⁸ Most of the LECs have alternative service options

125 Reports to the Commission and review by Commission staff should help ensure that these estimates and calculations are reasonable.

This new billing mechanism for lifeline, and for high cost assistance, will not become effective until April 1, 1989, when our recommended pooling changes will begin. See infra. In the meantime, funds for both the new and existing lifeline plans will be recovered through the nationally averaged CCL rate.

126 This new federal lifeline assistance program does require some separations changes to ensure that costs and revenues are properly aligned between the jurisdictions. Our proposed rule changes are contained in Appendix B.

127 We wish to stress that this additional assistance program is not intended to supplant the present subscriber line charge waiver measures of the existing lifeline program. We encourage states and LECs that have not yet implemented the existing program to develop qualifying lifeline assistance plans as soon as possible. Furthermore, we recommend that the Commission work closely with states that have already received federal certification for lifeline assistance plans to allow them to qualify quickly for receipt of additional federal funds to offset increases in subscriber line charges.

available to their customers and many of these carriers have an increasing number of customers subscribing to them. We strongly encourage all LECs to make alternative service options available and to assist in the development and administration of federal assistance measures in order to ensure that telephone service is universally available.

VI. High Cost Assistance

A. Comment Summary

75. Since many of the comments dealing with high cost assistance focused on the specific proposal set out in the Unity 1-A agreement, we will briefly describe it here. Under the Unity 1-A proposal the high cost assistance formula would be retargeted to give additional benefits to LECs with fewer than 200,000 access lines and to decrease assistance to LECs with greater than 200,000 access lines.¹²⁹ The sponsors of Unity 1-A claim, based on 1985 NECA figures, that their targeting of the high cost measures

128 According to a recent AT&T survey, all states and the District of Columbia offer such services. See AT&T, Local Exchange Rates (March 10, 1987) (a periodic survey conducted by AT&T on a state-by-state basis identifying the lowest local exchange tariff rates in effect).

129 "Small and medium-sized" LECs (those with 200,000 or fewer lines) would be divided into three categories: (i) those with loop costs equal to 0-115% of the national average loop cost would be allowed no additional allocation of costs to the interstate jurisdiction; (ii) those with loop costs equal to 115-150% of the national average would be allowed an additional interstate allocation of 65% of the costs in that band; and (iii) those with loop costs greater than 150% of the national average would be eligible for an additional interstate allocation of 75% of those costs. Large companies (those with more than 200,000 lines) would be divided into five categories: (i) those with loop costs equal to 0-115% of nationwide average loop costs would be allowed no additional interstate allocation; (ii) those with loop costs of 115-160% of the national average would be allowed an additional interstate allocation for 10% of the costs in that band; (iii) those with loop costs between 160-200% of the national average would be allowed an additional interstate allocation of 30% of the costs in that band; (iv) those with loop costs equal to 200-250% of the national average would be allowed an additional allocation of 60% of the costs in that band; and (v) those with loop costs greater than 250% of the national average would be eligible for an additional interstate allocation of 75% of the costs in that band.

will decrease the overall size of the high cost fund from \$448 million to \$390 million, an approximate reduction of \$58 million. They also maintain that the proposed changes will increase from 53% to 83% the proportionate share of high cost fund assistance paid to LECs with less than 200,000 lines.

76. The Unity 1-A proposal further provides that the high cost assistance formula be reviewed in the future if it appears that other factors, such as separations changes, would create unreasonably high rates for local service. In addition, because of the pooling revisions proposed in the Unity 1-A agreement,¹³⁰ the IXC's will be billed directly for high cost funds through a separate pool administered by NECA with the charges based on the proportion of each IXC's "1+" access lines.¹³¹

77. The Unity 1-A sponsors assert that their high cost assistance proposal: 1) simplifies the pooling and cash flow operations by separating high cost assistance from the CCL rate; 2) avoids calculating a high cost assistance charge for each LEC when several LECs may have diverse rate structures; 3) continues the practice of recovering high cost assistance funds from IXCs; 4) centralizes billing and collection for these funds; and 5) promotes and emphasizes the national interest in maintaining universal service.

78. IXCs did not have extensive comments addressed to the high cost assistance issues. AT&T supports Unity 1-A's retargeting of high cost assistance, claiming that the revision is fully consistent with the Commission's purpose of assuring that telephone rates remain reasonable even in high cost areas. US Sprint generally notes that the high cost assistance program should have narrowly drawn guidelines so that the level of assistance does not exceed the amount required to target subsidies to specific firms. Consequently, US Sprint argues that the level of the firm-specific subsidies should be dependent on the economic characteristics

130 See infra paras. 98-100.

131 The Unity 1-A proposal further provides that only those IXCs with over 1% of the "1+" access lines (i.e., those lines provided by premium access services, Feature Group C and D services) will be billed for the high cost fund. Each LEC would report to NECA the number of "1+" access lines associated with each IXC serving a study area. NECA would compute and assess the charge on an annual basis, and administer the fund, including the direct billing to the IXCs as well as the distribution of revenues to qualifying LECs.

as well as the NTS loop costs in each LEC's service area, recognizing distinctions between urban and rural, and large and small, LECs.

79. In general, the LECs express strong support for the high cost assistance proposal in the Unity 1-A agreement. While Ameritech maintains that the Unity 1-A proposal is presently sufficient to assist the high cost LECs, it argues that at some point the high cost fund should be modified to eliminate support for the high cost study areas of the large LECs. In this regard, Ameritech proposes that the eligibility requirements include criteria that would evaluate the current circumstances of the LEC before determining whether the LEC is eligible for high cost assistance. For example, Ameritech suggests criteria such as an evaluation of a LEC's pricing structure, the availability of lifeline assistance for its customers, and an evaluation of the company's local rate levels. Cincinnati Bell contends that only those companies remaining in the voluntary pool under the Unity 1-A proposal should receive high cost assistance. SNET continues to support high cost assistance but maintains that the measures should be subject to continual review to ensure limited and properly targeted support.

80. In its separate comments, OPASTCO, one of the Unity 1-A sponsors, proposes an additional mechanism that would provide further assistance to LECs with 50,000 or fewer access lines. The proposed formula is designed to assist small LECs in absorbing the cumulative effect of all cost shifts to the intrastate jurisdiction.¹³²

81. Among the state commissions, Arkansas expresses support for the Unity 1-A proposal for high cost assistance,¹³³ although it argues that

132 The OPASTCO plan would provide for an additional interstate cost allocation for a carrier if, after calculating a surrogate number for the cost of basic local service over a two year consecutive period: 1) the surrogate rate calculated for the second year exceeds the first year's calculation and equals or exceeds \$14.00; and 2) the increase in costs during the second year exceeds by 20% the number calculated for the first year. Then, any increase above the 20% could be recovered from the OPASTCO high cost fund. This proposal is supported by Waitsfield-Fayston Telephone Company, et al., and Lackavaxen Telephone Company, which maintain that the current high cost formula fails to protect smaller LECs from the cumulative effects of NTS cost shifts to the local jurisdiction resulting from recent federal decisions.

133 Arkansas recommends, however, that the high cost assistance formula proposed in the Unity 1-A agreement be changed to be consistent with Arkansas' proposal to move from the 25% basic interstate allocator to a SLU-based interstate allocation. See supra note 40.

the eligibility requirements should include some consideration of the differences among geographic areas. Consequently, it proposes that eligibility for this assistance should be evaluated based on current local service rate levels rather than on LEC size. NTCA argues that high cost assistance should not be tied to local rates. It maintains that including an evaluation of local exchange rates as a criterion for eligibility would necessarily have to include some determination concerning the size of the local calling area, the community of interest, and short-haul toll rates. NTCA contends that such a complex rule would be impossible both to construct and implement.

82. As part of the proposal it submitted in late-filed comments, Vermont presented a revised high cost assistance mechanism. To qualify for support under the Vermont plan, a LEC must have a composite index of at least 115% of a national average index. The index would be composed of three equally weighted factors — density,¹³⁴ cost,¹³⁵ and basic local rates.¹³⁶ The high cost fund proposed by Vermont would be of indefinite duration and additional support from a mandatory common line contribution would be available for LECs that have not yet modernized.¹³⁷ Other state

Michigan expressed general support for retargeting high cost assistance to smaller, high cost LECs but did not comment on the specific changes suggested in the Unity 1-A proposal.

134 The "density" factor is composed of two subfactors, the first reflecting necessary outside plant costs by dividing the number of subscribers by the number of route miles, and the second reflecting switching costs by dividing the number of subscribers by the number of central offices. These two subfactors are normalized to reflect the fact that line measure is often two orders of magnitude (100x) greater than office density, and the factors are then weighted according to the relative amounts of central office investment and local outside plant investment.

135 Vermont contends, without further explanation, that the cost factor can be measured by the current measurement of the level of NTS costs, claiming that the level of NTS costs appears to be directly correlated to rapid growth.

136 This is the lowest (or highest) flat rate for local service available to a residential customer in a study area (or a derived rate if no flat rate is available). Vermont argues that including basic local service rates in the index provides the most support for those LECs that already have high rates and requires those with low rates to bring their charges more in line with the national average before support is provided.

137 In a subsequent pleading, late-filed on December 15, 1986, Vermont

commissions were silent on proposed changes to the high cost assistance measures.

83. Among user groups, Ad Hoc contends that the assistance provided through the high cost fund is totally untargeted, since there never has been any demonstration that a customer's ability to afford telephone service is in any way correlated with whether the LEC serving them experiences high costs. Ad Hoc concurs in any efforts to direct the assistance more accurately to those customers in need of it, but is not convinced that the Unity 1-A proposal will accomplish that objective. Finally, both DoJ and NTIA support Unity 1-A's retargeting of high cost assistance, although NTIA believes that incentives should be built into the system to encourage LECs to operate efficiently. NTIA also suggests that supplemental support be provided to small LECs based on certain objective criteria related to local service rate levels.

B. Discussion

84. In 1983, this Joint Board first recommended certain jurisdictional separations changes to assist subscribers in areas of the country that have high NTS loop costs.¹³⁸ These high cost assistance measures, adopted by the Commission,¹³⁹ permit study areas with higher than average NTS loop costs to allocate certain additional costs to the interstate jurisdiction (above and beyond the basic interstate allocation). These costs are presently recovered through usage-based charges paid by the interexchange carriers. This assistance is designed to reduce the intrastate cost allocation and thereby keep local service rates lower than they otherwise would be in high cost areas.

submitted additional data on the economic effects of its high cost fund proposal. In that filing, it modified its original proposal by deleting the incentive for modernization and by providing a simpler method for measuring density.

138 Amendment of Part 67, Second Recommended Decision and Order, 48 Fed. Reg. 46,556 (1983). This recommendation was made in conjunction with our recommendation for a transition to a basic 25% interstate allocation factor for local NTS loop costs.

139 Amendment of Part 67, Decision and Order, 96 FCC 2d 781 (1984). The original high cost assistance measures were modified slightly in our previous examination of the issues being considered here. See Recommended Decision, supra note 9, at paras. 46-73.

85. In the Further Notice, the Commission requested comments on the effectiveness of the present high cost assistance program and recommendations for further action. Since the high cost fund is being phased-in over an eight-year period and 1986 was the first year of that phase-in, the record provides a limited amount of information regarding the effectiveness of the present program. Nevertheless, we believe that the rationale for our original proposal for high cost assistance remains valid, and we continue to support high cost assistance as a sound means of fostering universal service. As a rule, many of the factors that result in high loop costs, such as population density and geography, are beyond the control of high cost companies. The additional adjustment allowed pursuant to the high cost fund alleviates the need to recover some of those high loop costs through increased local service rates. We believe that measures, such as high cost assistance, designed to ensure that local service rates remain at reasonable levels throughout the country, represent an important aspect of our program to preserve universal telephone service.

86. A number of commenting parties proposed changes in certain aspects of the existing high cost fund. We support the proposal to retarget the current high cost fund as outlined in the Unity 1-A proposal and recommend that the Commission adopt that proposal with some minor modifications. In fact, this modified proposal is similar to a formula we previously considered during our examination of high cost assistance measures in 1984. We rejected this particular formula at that time because we believed that further study was necessary. Retargeting the high cost fund as now recommended will provide an additional interstate expense allocation for the small companies most in need of assistance and direct less assistance to the larger LECs, i.e., carriers with over 200,000 access lines, that have more flexibility in dealing with above-average costs.¹⁴⁰ In light of this retargeting of assistance toward smaller companies, we can reasonably conclude that this new formula, while perhaps not perfect, represents an improvement over the existing high cost assistance formula.¹⁴¹

87. We also adopt the basic approach for recovering high cost funds proposed in the Unity 1-A agreement, with some modifications. First, as with funding for the federal lifeline assistance programs,¹⁴² IXCs that have at least 1) 1% of the total common lines presubscribed to interexchange carriers in all study areas, or 2) 5% of the presubscribed lines in any

140 The proposal will also decrease the full amount of the high cost assistance funding by an estimated \$58 million.

141 This new formula will become effective on September 1, 1988.

142 See supra para. 71.

study area and a minimum of 1000 presubscribed lines in that study area will be responsible for paying high cost assistance. A flat monthly charge assessed eligible IXCs to recover high cost funds will be calculated semi-annually based on all of the common lines presubscribed to these interexchange carriers.¹⁴³ The Unity 1-A proposal limits responsibility for providing high cost funds to only a few of the largest IXCs. We believe that our modification more fairly distributes the responsibility for high cost assistance funding among a greater number of the IXCs, and takes into account the fact that while on a nationwide basis an IXC may not have a substantial presence, it could be a dominant carrier in a particular area. Second, we do recommend that the IXC payments be calculated every six months rather than on a yearly basis as proposed in Unity 1-A. We believe that calculating these payments on a semi-annual basis is preferable to reflect possible changes in the market share of the different interexchange carriers due to competition in the interexchange market.¹⁴⁴

88. We do not recommend, as some commenters suggest, a change in the current eligibility requirement for high cost assistance. We find that the current eligibility requirement, based on the average loop costs of the study area, is a reliable criterion for determining which LECs require high cost assistance. It also has proven to be administratively feasible to implement. Furthermore, we agree with NTCA that including additional evaluation criteria, such as local exchange rates, would require a subjective determination of the value of the local calling area size, the community of interest, short-haul toll rates and other similar factors. Eligibility criteria based on all of these factors would create a complex assistance mechanism that would be difficult to construct and implement.

89. Similarly, we conclude that requiring certification that a LEC has considered pricing options and other self-help alternatives before it could receive high cost assistance unnecessarily complicates the high cost assistance program. However, because we are concerned that these high cost measures do indeed remain properly targeted, we recommend that the Commission direct NECA to file annual reports that detail current NTS loop costs and high cost assistance for each study area, as well as trends in the growth of loop costs and the distribution of the high cost funds, to allow careful monitoring of the effects of the revised formula. As we

143 This funding mechanism for high cost assistance will become effective, along with our recommended pooling revisions, on April 1, 1989. Until that time, the high cost fund will continue to be recovered through the CCL rate.

144 Arkansas suggests that the assistance should be calculated on a quarterly basis. We do not perceive the need to require this administrative burden and believe that a semi-annual basis will be sufficient to make any necessary changes in the IXC's payments.

stated in the Recommended Decision, we strongly urge all of the state commissions to ensure that the benefits of the high cost assistance measures accrue to local ratepayers as intended (i.e., to keep local service rates lower than they otherwise would be).

90. Finally, we conclude that OPASTCO's proposal for additional high cost assistance for the small LECs, i.e., carriers with 50,000 or less access lines, should not be adopted. The OPASTCO proposal is designed to provide an additional allocation to the interstate jurisdiction to help small LECs recover increases in local revenue requirements due to recent changes in the separations procedures. We find that the Commission and the Joint Board have already considered the impact of the revenue requirement shifts resulting from these separations changes in recommending and adopting them. Therefore, we conclude that additional assistance does not appear to be appropriate at this time.¹⁴⁵

145 We note that in a separate action today, we recommend measures for the allocation of Category 6, Central Office Equipment, costs that ensure a lengthy transition for the reallocation of a portion of these costs to the intrastate jurisdiction and that provide an additional interstate allocation of costs for LECs serving fewer than 50,000 access lines. Recommended Decision, MTS and WATS Market Structure and Amendment of Part 67 of the Commission's Rules, CC Docket Nos. 78-72 and 80-286, FCC 87- (1987). Other separations changes, such as the movement to the 25% gross allocator and the removal of inside wire costs, which OPASTCO contends are shifting revenue requirements to the intrastate jurisdiction, are being phased-in over a transitional time period in order to avoid the rate effects that the OPASTCO plan apparently seeks to address.

VII. Common Line Tariff and Pooling

A. Pooling Proposals and Comments

91. The Further Notice requested comments and recommendations on possible modifications to the mandatory pooling of common line costs and revenues. It stated that these pooling issues should be considered in the context of possible modifications to SLCs and high cost assistance measures as part of an integrated proposal for further action. These general pooling issues had been raised in petitions filed by Bell Atlantic and New Jersey in late 1985.¹⁴⁶ The Further Notice directed us to consider these petitions as part of this broad proceeding because they raise issues relating to potential modification of the existing mandatory pooling mechanism.

1. Bell Atlantic and New Jersey Petitions

92. In its October 1985 petition, Bell Atlantic asserts that modifications to the current pooling arrangement are necessary. The Bell Atlantic plan would replace the current nationwide, uniform CCL charge developed through the CCL pooling process with three sets of charges. First, LECs would establish a "primary element," a charge set at a level sufficient to recover its own common line revenue requirement, but not to exceed the existing CCL rate.¹⁴⁷ Second, a transitional surcharge element would be developed based on the "excess costs" above the existing CCL "cap" that would be reported to NECA.¹⁴⁸ Third, a per minute high cost fund charge would be assessed. The primary element would be increased each year to the previous year's maximum rate (the primary element plus the transitional surcharge plus the high cost fund charge).

146 Bell Atlantic and New Jersey submitted separate petitions in October 1985 and November 1985, respectively, requesting changes in the Commission's Part 69 access charge rules to reduce the degree of, or eliminate, mandatory pooling of common line costs. These petitions and the comments filed in response thereto were referred to this Joint Board for consideration and development of recommendations. Petitions of Bell Atlantic and the New Jersey Board of Public Utilities, RM No. 5205, Mimeo No. 4622 (released May 21, 1986).

147 At the time the petition was filed, the CCL rate was a uniform 4.33 cents per minute.

148 At the time it filed its petition, Bell Atlantic estimated that a .5 cent per minute of use surcharge would be necessary with a \$2.00 SLC.

93. In its petition, New Jersey asserts that bypass is a major threat in its state and that depooling represents an effective tool to combat it. New Jersey endorsed three possible approaches to depooling: (1) the Bell Atlantic proposal; (2) total elimination of the NECA pool with a move toward cost-based pricing of services; or (3) a cap on the maximum contribution that any one state makes to the NECA pool, which would be phased down over time.

94. While most parties commenting in response to the Further Notice did not specifically address these two petitions, we will briefly summarize the comments submitted on them during the initial pleading cycle established in response to the petitions.¹⁴⁹ Among the BOCs, Ameritech, BellSouth, and US West supported the Bell Atlantic and New Jersey petitions, with US West proposing two transition plans for ending pooling, one involving increasing the SLC and the second involving a percentage phase-down in total pool contributions. Pacific Bell and Southwestern Bell opposed the petitions and instead supported the flat-rate IXC recovery of NTS costs, consistent with other petitions pending before the Commission at that time proposing alternative common line cost recovery rate structures.¹⁵⁰ NYNEX expressed concern that the Bell Atlantic plan would increase uneconomic bypass for those companies with near-average or greater-than-average costs. Bell Atlantic countered that these companies would only be paying slightly more under its plan than under the present system.

95. Among the independent telephone companies, the GTOCs proposed certain revisions to the Bell Atlantic plan. They suggested eliminating the

149 It appears that many of the views expressed in these comments have been superseded by subsequent comments submitted by the same parties in response to the Further Notice. In fact, Bell Atlantic itself subsequently filed comments in support of the pooling proposal contained in the Unity 1-A agreement. The District of Columbia, however, expressed continued support for the Bell Atlantic depooling plan, and Florida stated that careful consideration should be given to both petitions.

150 Pacific Bell submitted a waiver petition to implement such a plan at the same time that the Bell Atlantic and New Jersey petitions were filed. This petition subsequently was denied, as were similar petitions filed by a number of LECs. See Petitions for Waiver of Various Sections of Part 69 of the Commission's Rules, filed by Mountain States Telephone and Telegraph Company, et al. FCC 86-145 (released April 28, 1986) (Interim NTS Guidelines Order), on reconsideration, FCC 86-527 (released January 7, 1987) (Guidelines Order Reconsideration).

transitional surcharge and replacing it with a fixed charge upon IXCs. United also proposed some modifications to the Bell Atlantic plan, suggesting that the transitional surcharge level should decrease as SLCs are increased. Cincinnati Bell supported Bell Atlantic's petition, while SNET noted that a gradual reduction in pooling was necessary. Smaller LECs and independents maintained that further study of depooling was necessary, particularly concerning the impact of depooling on CCL rates and bypass. Among the LEC associations, NTCA strongly opposed the Bell Atlantic plan, while OPASTCO and USTA simply suggested referring the issue of depooling to the Joint Board.

96. Of the state commissions, Delaware, the District of Columbia, Maryland and Virginia all supported the Bell Atlantic and New Jersey depooling petitions. Other state commissions criticized the Bell Atlantic and New Jersey plans as being inadequately supported, and requested further review by the Joint Board. NTIA generally supported the depooling proposals, claiming that pooling is economically inefficient. Concerns that depooling will lead to interstate toll rate deaveraging are not well founded, NTIA argued, noting that access pricing variations have existed for a long time and rate deaveraging has not occurred.

2. Other Pooling Proposals

97. Two pooling proposals were filed in response to the Commission's Further Notice, one by the LEC industry associations and another by Vermont. The Vermont proposal was part of Vermont's comments in this proceeding.¹⁵¹ The LEC industry associations presented a detailed proposal for pooling modifications as part of the Unity 1-A agreement.

98. The pooling modifications proposed by the LEC industry associations call for the replacement of the present mandatory common line pooling system with arrangements that the agreement characterizes as a "voluntary" common line pool¹⁵² and a "mandatory" long term support (or LTS) fund¹⁵³ that will enable those remaining in the pool to charge IXCs

¹⁵¹ See supra note 99.

¹⁵² This voluntary pool concept would permit carriers to opt out of the nationwide NECA common line tariff and file their own CCL rates.

¹⁵³ NRTA, one of Unity 1-A's sponsors, added a number of clarifying footnotes to the Unity 1-A agreement that emphasized its view that the Unity 1-A common line pooling mechanism would not totally eliminate mandatory pooling. Rather, NRTA asserts, Unity 1-A would only streamline the present mechanism to provide for "minimum mandatory pooling."

the equivalent of what would have been the nationwide average CCL rate had the mandatory common line pool been maintained. In addition, Unity 1-A establishes a four-year transitional support (or TRS) fund, which would be used to provide transitional support payments to LECs that traditionally have been net receivers under the current system but are expected by Unity 1-A's sponsors to withdraw from the "voluntary" pool.

99. Under Unity 1-A, LECs are divided into three groups: large company contributors (LCCs) that traditionally have had net revenue flows into the common line pool and, therefore, would be likely to withdraw from the existing NECA pool and file their own CCL tariffs;¹⁵⁴ large company receivers (LCRs) that traditionally have had net receipts from the present pool but, according to Unity 1-A's sponsors, would be likely to withdraw from the pool and file their own CCL tariffs; and small company poolers (SCPs)¹⁵⁵ that would be likely to remain in the voluntary common line pool. All LECs would be allowed to elect in June 1987 to remove themselves from the pool.¹⁵⁶ According to the plan, those LECs that choose not to withdraw from the pool in 1987 may choose to withdraw from the pool in subsequent years, provided they notify NECA by June 30th of the year in which they choose to file their own common line tariffs. The agreement provides, however, that in order to be eligible for transitional support, LCRs must elect to withdraw from the NECA pool in 1987 and file their own common line tariffs with a January 1988 effective date. Furthermore, all LECs that withdraw from the pool must do so on a holding-company basis and remove all study areas from the pool.

154 As administrator of the mandatory common line pool, NECA presently files a single common line tariff in which all LECs are required to concur. The revenues received under that tariff are used: (1) to compensate NECA for its administrative expenses; (2) to allocate high cost assistance to qualifying study areas; (3) to compensate average schedule companies in relation to use of their facilities in originating and terminating interstate telecommunications services; (4) to reimburse LECs settling on the basis of cost studies for the expenses related to providing interstate common line services; and (5) to provide an identical earned rate of return on the interstate common line investment of each exchange carrier.

155 The same basic provisions that apply to the LCCs and LCRs would apply to any "small companies" wishing to leave the pool. However, the proposal assumes that these LECs would remain in the pool.

156 Under the plan, LECs withdrawing from the pool would file their individual common line tariffs on October 1, 1987, to be effective January 1, 1988.

100. The Unity 1-A LTS fund is designed to support LECs remaining in the NECA pool, enabling them to charge a CCL rate at a level approximately equal to the nationwide average charge that would have existed had all LECs been required to remain in the existing common line pool.¹⁵⁷ All LECs that elect to withdraw from the pool will pay LTS.¹⁵⁸ NECA will calculate the annual LTS payments for the nonpooling LECs and bill them on a monthly basis.¹⁵⁹ Transitional support payments from the LCCs will assist the LCRs that withdraw from the pool. Unity 1-A proposes a four-year transition period, with the amount of TRS payments decreasing 20% each year until they are eliminated.¹⁶⁰ As envisioned by Unity 1-A, the post-transition common line pool members would include only those small LECs

157 NECA would be responsible for calculating the hypothetical CCL rate. The hypothetical CCL rate would be computed by dividing the revenue requirement for the carrier common line element by the annual access minutes of use for all interstate or international services that use local exchange switching facilities. This calculation would be based on the prior year historical data submitted by the participating LECs in the NECA common line tariff and data submitted by LECs that file their own common line tariffs.

158 However, during the transition period (between 1988 and 1992), only the LCCs will pay LTS, in addition to paying TRS.

159 As proposed, the yearly LTS is based on the difference between the projected revenues for the poolers (based on the hypothetical CCL rate) and the revenue requirements of the poolers. During the transition period, LCC payments will be based on the percentage contribution of that LEC in relation to the other LCCs' in 1987. After the transition period, payments will be based on the ratio of a LEC's access lines to the total access lines for all those LECs not participating in the pool.

160 Under the Unity 1-A proposal, LCRs that choose in June 1987 to withdraw from the NECA common line tariff would be provided TRS as follows: (1) 1988 -- 80% of their net receipts from the NECA pool in 1987, adjusted to reflect the \$4.00 SLC proposed by the plan (1987 adjusted frozen amount); (2) 1989 -- 60% of the 1987 adjusted frozen amount; (3) 1990 -- 40% of the 1987 adjusted frozen amount; (4) 1991 -- 20% of the 1987 adjusted frozen amount. TRS would be funded by LCCs withdrawing from the NECA tariff. For LCCs withdrawing from that tariff in 1987, TRS payments would be based on their 1987 pool contributions, adjusted to reflect the proposed \$4.00 SLC and revised CCL revenues. A LCC withdrawing from the pool after the initial election opportunity in 1987 would pay TRS based on the ratio of its total access lines to the total access lines of other LCCs paying TRS. See Joint Comments at 20-22.

that need the protection of risk sharing and other benefits of a pool managed by NECA.

101. The sponsors of Unity 1-A cite as the benefits of their proposal: (1) "price flexibility" for those who opt out of the pool, allowing them to be more responsive to competition and the needs of their own customers and to combat bypass by setting access rates closer to cost; (2) elimination of the current transfer of funds, estimated by Unity 1-A's sponsors to be approximately \$600 million, among customers served by large LECs; and (3) cost, risk, and resource sharing for those remaining in the pool. Unity 1-A's sponsors also claim that their plan serves the universal service objective by maintaining an NTS cost pool and establishing an LTS mechanism to support those "small" LECs that need the benefits of the pool.

102. Commenting LECs generally support Unity 1-A's pooling proposal because, they assert, it would eliminate unnecessary support flows among large companies, provide incentives for efficient operation, and allow them to price switched access closer to the actual cost of service in their regions.¹⁶¹ Supporters of the Unity 1-A proposal also claim that the present pooling system is an anachronism and that the subsidy mechanism inherent in that system creates a significant bypass threat. Ameritech, which traditionally has been a net contributor to the mandatory common line pool, claims that the present system requires uneconomic charges to Ameritech customers of approximately \$256 million in 1986. Two other net contributors, Bell Atlantic and SNET, contend that their customers pay \$300 million and \$25 million, respectively, to support telephone service in other states. Smaller LECs also support the Unity 1-A pooling structure. They view the Unity 1-A package as consistent with small LEC's needs and state that it is "the best framework in which to ensure universal service."¹⁶²

161 While generally supporting Unity 1-A, Southwestern Bell expresses concern that the mandatory long term support obligations that attach to LECs withdrawing from the NECA pool may create an artificial incentive to remain in the NECA pool for LECs with common line cost recovery requirements that are higher than the national average -- so-called "net recipients." According to Southwestern Bell, these LECs, which under Unity 1-A must pay LTS after the transition period ends, should not be required to make such payments if to do so would require them to charge a CCL rate above the NECA pool CCL rate. BellSouth states similar concerns.

162 See Letter from USTA Small Telephone Company Committee to Mark S. Fowler, Chairman, Federal Communications Commission (December 17, 1986); see also OPASTCO Comments at 2; Waitsfield-Fayston, et al. Comments at 7.

103. Among the LECs, only ALLTEL and CP National oppose pooling changes at this time, maintaining that price flexibility should be explored further within the present mandatory pooling requirement. CP National expresses concern that depooling will lead to toll rate deaveraging. ALLTEL and CP National also raise particular concerns with certain other aspects of the Unity I-A pooling proposal, such as how the proposal will effect the membership, control, and expenses of NECA, and how the LTS fund will be administered. ALLTEL and CP National suggest that the Commission seek further comments on whether the Unity I-A pooling proposal will actually achieve the perceived benefits.

104. ALLTEL and CP National also argue that, if the Unity I-A proposal is adopted, withdrawal from the common line pool should be permitted on a study area basis, rather than required on a holding company basis.¹⁶³ NYNEX argues, in response, that if the decision to leave the pool is not made on a holding company basis, companies will leave their high cost, less-competitive study areas in the pool. As a result, NYNEX argues, the benefits of depooling would be lost because there would be only minimal reductions in intercompany funding transfers.

105. Responding to concerns that "deaveraging" CCL rates will result in interstate toll rate deaveraging,¹⁶⁴ a number of LECs submit

183. In an ex parte presentation, CONTEL also argued that withdrawal from the NECA tariff and pool should be permitted on a study area basis. See Letter from Lawrence P. Keller, Director, CONTEL Federal Regulatory Department, to William J. Tricarico, Secretary, Federal Communications Commission, filed December 29, 1986 (notice of ex parte presentation to members of Federal Joint Board staff).

164 At present, AT&T and many other IXC's charge geographically averaged (i.e., uniform nationwide) interstate toll rates. That is not to say, of course, that services provided between the same points by different IXC's, or pursuant to the various optional calling plans offered by an individual IXC, are charged at the same rate. Generally, however, MTS and MTS-like calls in the same mileage band are charged at the same rate throughout the country. Even though LEC traffic-sensitive switched access charges and IXC network operation costs may differ from area to area, these variances have not proven to be so great as to provide IXC's a sufficient economic rationale for deaveraging interstate rates.

The CCL rate, which LECs assess upon IXC's as one portion of the total charge for providing switched access service, does not currently differ among LECs because mandatory participation by all LECs in the NECA common line tariff and pool results in a uniform nationwide CCL rate. Due to varying common line cost recovery requirements among LECs, however, CCL rates would vary in the absence of pooling, particularly in rural and

that the threat of interstate toll rate deaveraging is insignificant under the Unity 1-A pooling proposal. NYNEX maintains that once the Unity 1-A plan is fully implemented, the LTS fund would allow smaller LECs in the pool to charge a CCL rate that would not exceed a non-pooler's effective CCL rate by more than \$.01 per minute of use, an amount that would minimize any rate disparities. Rochester argues that deaveraging pressures resulting from fairly small differences in CCL rates probably are overstated, noting that even though traffic-sensitive charges presently vary among LECs, AT&T has not deaveraged its interstate toll rates.

106. The IXCs submitted only minimal comments regarding proposed modifications to the present mandatory common line pool. AT&T did note that if the existing pooling mechanism is eliminated or substantially revised, and IXCs are charged CCL rates based upon the study-area-specific NTS costs of individual LECs, it may be forced to initiate tariff revisions reflecting geographically deaveraged interstate toll rates in response to rate deaveraging initiatives by its competitors in the interexchange market.

107. Some state commissions, including those in the District of Columbia, Illinois, Florida, and Pennsylvania, express support for the general concept of modifying the current mandatory pooling mechanism. Florida indicates that a mandatory pool may be necessary only to support a high cost fund. Pennsylvania suggests that all LECs should move toward billing and collecting their actual costs over a reasonable period of time. Other state commissions express concern that depooling would harm universal service and lead to interstate toll rate deaveraging, and question whether depooling would remove bypass incentives. Missouri requests further study of pooling alternatives, noting that it is not necessarily opposed to pooling changes but is concerned that uniform interstate toll rates continue.

108. As noted previously, Vermont advocates eliminating the current mandatory common line pooling system. Vermont asserts that this system is no longer related to any rational purpose and should be "dissolved with no more than a two year transition."¹⁶⁵ Vermont proposes to replace

certain other areas of the country, where LEC common line cost recovery requirements tend to be significantly higher than the national average. Several commenters expressed concern that in an environment in which LECs tariffed CCL rates reflect dramatically different common line costs, IXCs might deaverage their interstate toll rates, forcing subscribers in rural and other high cost areas to shoulder an inordinately high common line cost recovery burden.

165 Vermont Comments at 1-2.

the present arrangement with a restructured high cost fund that would be used to provide financial assistance to high cost LECs in rural areas and to encourage such LECs to modernize their facilities.¹⁶⁶ To qualify for support a LEC would have to have a composite index over 115% of a national average index comprised of three equally weighted factors: (1) density; (2) NTS costs; and (3) basic local service rates.¹⁶⁷ According to Vermont, its high cost fund would be "supported by [a] mandatory carrier common line pool contributed to by all carriers and distributed to qualifying companies."¹⁶⁸

109. Vermont claims that elimination of the existing pooling system would not necessarily result in interstate toll rate deaveraging. For such deaveraging to occur, Vermont states, two factors must exist. First, access charges must reflect higher than average costs. Second, "a decision must be made that costs assigned to or collected from access charges would not be removed and placed in basic rates to reduce access charges."¹⁶⁹ Vermont implies its restructured high cost fund would adequately address the results of the first factor. In addition, a fundamental assumption underlying the Vermont plan appears to be that LECs would be permitted to "choose" to shift to the intrastate jurisdiction costs currently recovered through interstate access charges, and to recover such costs through basic local exchange rates.¹⁷⁰

110. State consumer counsels, consumer groups, and user groups had no comments specifically directed to pooling issues. Among government agencies, both DOJ and NTIA support pooling modifications, with NTIA specifically endorsing the Unity 1-A pooling proposal. DOJ and NTIA assert that pooling eliminates incentives for efficient operations. NTIA also

166 Vermont did not propose a blueprint for the transition from the existing pool arrangement to Vermont's restructured high cost fund.

167 The proposal also calls for "mandatory" contributions to support various policies that have been recommended by this Joint Board and adopted by the Commission, such as the scheduled transition to a 25 percent basic interstate allocation factor for the jurisdictional separations of NTS costs.

168 Vermont Comments at 5.

169 Id. at 11.

170 See id. at 11-12. Vermont also argues that interstate toll rates already are deaveraged on a de facto basis for a variety of reasons, including the lack of equal access in certain areas. Id. at 13.

maintains that mandatory pooling is becoming increasingly difficult to reconcile with the development of competition in the industry.

B. Discussion

111. As explained more fully below, we conclude that continuation of the present mandatory nationwide pooling of common line costs and revenues is not necessary to attain the public interest benefits the Commission sought to achieve in prescribing that arrangement. We also conclude that increasing federal subscriber line charges, as we are recommending, will create an opportunity to replace the existing system with a less restrictive arrangement, one that will give LECs withdrawing from the pool increased incentives for efficiency while preserving the benefits that pooling provides to rural subscribers and others served by high cost LECs. Of the available alternatives, we find that the Unity 1-A pooling framework, as altered and clarified below, satisfies public interest requirements. Therefore, we recommend that the Commission adopt and implement our proposed pooling modifications.

1. Background

112. From the mid-1940's until the advent of access charges, most LECs recovered the bulk of their interstate revenue requirement through a "pooling" process administered by AT&T known as settlements and division of revenues. This process sometimes was referred to as a "partnership" because it permitted LECs to achieve a uniform rate of return on their investment.¹⁷¹ It also helped AT&T maintain a nationwide average toll rate

¹⁷¹ The process was the product of intra-corporate agreements within the Bell System and inter-carrier agreements between AT&T and independent LECs. The process entailed the operation of a formula that enabled each LEC to recover its expenses associated with the provision of AT&T's major interstate services, primarily MTS and WATS, plus a return based upon each LEC's percentage share of total investment associated with these services. Monies were transferred monthly to reflect the difference between the "partnership" charges collected by each LEC and its share of total LEC revenues. The transfer process among Bell System Companies was called "division of revenues." The transfer process between AT&T and independent LECs was called "settlements." We refer to these processes in the singular because they were designed to operate as a single system that produced the same result for all participating companies. See MTS and WATS Market Structure, Second Supplemental Notice of Inquiry and Proposed Rulemaking, 77 FCC 2d 224, 226-231 (1980)(Second Supplemental Notice).

1288 schedule.

113. In its proceeding examining the proper market structure for the offering of MTS and WATS services, the Commission determined that the "partnership" process, as it was then structured, was inappropriate for the competitive environment being fostered in interstate services. Accordingly, the Commission proposed to eliminate the settlements and division of revenues arrangement and replace it with the access charge plan, pursuant to which the interstate cost assignment for LEC plant used in the origination and termination of interstate calls would be recovered by tariffed charges.¹⁷²

114. When the Commission outlined its present access cost recovery framework -- in which switched access costs are recovered through SLCs paid by end users and a collection of other rate elements assessed upon IXCs, including a CCL element designed to recover MTS costs and traffic-sensitive elements designed to recover costs of such LEC services as end office switching and local transport -- the Commission determined that it was not appropriate to compel LEC participation in common tariff and pooling arrangements for each of these rate elements.¹⁷³ In reaching this decision, the Commission observed that such arrangements would be detrimental in certain respects because they would limit LEC flexibility to achieve many of the primary objectives of the access charge plan, namely, efficient use of local networks, preservation of universal service, and prevention of uneconomic bypass.¹⁷⁴ Moreover, the Commission noted, many LECs did not want to participate in such arrangements because they would result in cost/price distortions and would reduce cost containment incentives.¹⁷⁵

115. Despite these concerns, the Commission concluded that a common tariff and pooling arrangement covering the CCL rate element was necessary at that time because LEC-specific CCL rates might generate

172 See *id.* at 232-237. The adoption of a system of tariffed charges for the recovery of LEC interstate costs ultimately became a mandated component of the court-ordered divestiture by AT&T of its wholly-owned LECs, the Bell Operating Companies. See *United States v. AT&T*, 552 F.Supp. 131 (D.D.C. 1982) (Modification of Final Judgment, MFJ), *aff'd sub nom.* *Maryland v. United States*, 460 U.S. 1001 (1983).

173 See *Access Charge Order*, *supra* note 4, at 326-330.

174 *Id.* at 281.

175 *Id.*

significant pressures upon IXC's to deaverage interstate toll rates. The Commission identified a number of reasons why a common tariff and pooling arrangement would reduce deaveraging pressures. Foremost among them was the ability of such an arrangement to level out otherwise substantial CCL rate disparities that would result from the varying cost recovery needs of LECs with high and low Subscriber Plant Factors (or SPF),¹⁷⁶ high and low cost LECs, and LECs with different embedded inside wire and CPE costs.¹⁷⁷ The Commission also determined that a common tariff and pooling arrangement would reduce the administrative difficulty of calculating premium/non-premium access charge differentials that were intended to off-set the lack of equal access for all IXC's to LEC facilities.¹⁷⁸ The

176 The Subscriber Plant Factor is a basis for apportioning between state and interstate jurisdictions the cost of each LEC's subscriber loop plant used for switched services. 47 C.F.R. § 67.2(b)(3)(iv). The use of this factor for jurisdictional separations was recommended by the CC Docket No. 18866 Joint Board and adopted by the Commission in 1970. See Separations Procedures, 26 FCC 2d 248 (1970). Acting upon the recommendation of the CC Docket No. 80-286 Joint Board, the Commission in 1981 froze each LEC's SPF and subsequently established a transition schedule that ultimately will result in each LEC using 25 percent as a basic interstate allocation factor for purposes of the jurisdictional separation of NTS costs. See Amendment of Part 67 of the Commission's Rules and Establishment of a Joint Board, Recommended Decision and Order, CC Docket No. 80-286, FCC 81-565, released December 14, 1981, adopted by Commission 89 FCC 2d 1 (1982)(frozen SPF), aff'd sub nom. MCI Telecommunications Corp. v. FCC, 750 F.2d 135 (1984); Amendment of Part 67 of the Commission's Rules and Establishment of a Joint Board, Second Recommended Decision and Order, 48 Fed. Reg. 46,556 (1983), adopted by Commission, 96 FCC 2d 781 (1984)(transition to 25 percent interstate allocation factor).

177 The access charge plan provided that the CCL charge would be the vehicle for recovering LEC inside wire and embedded CPE costs, which were being removed from LEC rate bases according to transitional phase-down schedules. See Access Charge Order, supra note 4, at 283-284; see also infra note 181.

178 At the time the access charge plan was adopted, premium access charges were designed to reflect the "opportunity cost" of preferred access arrangements. Access Charge Order, 93 FCC 2d at 286-287. A compulsory common line tariff and pool, the Commission noted, made it possible to compute this "opportunity cost" on a nationwide, lump sum basis, rather than on the basis of study areas, where differences in the quality of interconnection varied widely from place-to-place and from month-to-month. Id. at 329.

Commission concluded that common tariff and pooling arrangements were unnecessary for traffic-sensitive switched access charges because the design of these rate elements and the separations methods for apportionment of traffic-sensitive costs were unlikely to result in LEC rates that varied so widely as to cause interstate toll rate deaveraging.

116. The establishment of a mandatory tariff and pooling arrangement necessitated that some entity be created to replace AT&T in the role of preparing the tariff and administering the pool on behalf of all participating LECs. Therefore, the Commission established NECA. The Commission also observed that the creation of NECA was necessary to make the access charge plan work because most LECs had never filed any kind of interstate tariff and many were not prepared to do so. Even if the more than 1400 LECs in this category could file interstate access tariffs, the Commission observed, it would be unable to review them in a meaningful fashion.¹⁷⁹

2. Analysis & Recommendations

117. The initial decision to compel all LECs to participate in a common tariff and pooling arrangement regarding the CCL rate element was driven in large part by concerns that LEC-specific CCL charges might result in deaveraged interstate toll rates. Although the Commission prescribed mandatory pooling as a means of resolving these concerns, it recognized that the effects of pooling are not entirely beneficial. As noted in the access charge proceeding, for example, pooling limits LEC cost recovery flexibility, establishes economically inefficient cost/price distortions, and reduces LEC incentives to contain costs. Moreover, as noted by commenters in this proceeding, pooling may exacerbate uneconomic bypass incentives in low cost areas. In evaluating the pooling proposals presented to this Joint Board, therefore, we must determine whether the benefits obtained through the current system still outweigh the costs imposed by that system.

118. It is clear that the specific pressures that prompted concerns that LEC-specific CCL rates might result in sharply deaveraged interstate toll rates will be significantly diminished in the near future for a number of reasons. First, cost recovery disparities between LECs with high and low SPFs are being reduced by the Commission's decision to adopt our recommendation to move toward a 25% basic interstate allocation factor for purposes of the jurisdictional separations of NTS costs.¹⁸⁰ Second,

179 Id. at 332-333.

180 See Amendment of Part 67 of the Commission's Rules and Establishment of a Joint Board, CC Docket No. 80-286, Second Recommended Decision and

the transition schedule for the removal of embedded CPE from LEC rate bases is largely completed, and the scheduled removal of inside wire is well underway.¹⁸¹ Third, in light of subsequent changes in the method of calculating the premium/non-premium access charge differential, the concerns expressed about the difficulties of calculating the "opportunity cost" of premium access arrangements never materialized.¹⁸²

Order, 48 Fed. Reg. 46,556 (1983), adopted by Commission, 96 FCC 2d 781 (1984).

181 In accordance with the Commission's rules and orders, LECs have been phasing out their embedded CPE investment (Accounts 134 and 231) and related expenses, frozen as of December 31, 1982, by 1/60 each month until such investment and expenses are reduced to zero. See Amendment of Part 67 of the Commission's Rules and Establishment of a Joint Board, CC Docket No. 80-286, Decision and Order, 89 FCC 2d 1, modified, 90 FCC 2d 52 (1982). This schedule will be completed at the end of 1987. See 1986 Annual Access Tariff Order, Mimeo No. 1251, released December 24, 1986, at para. 25 (1986 Annual Access Tariff Order); 47 C.F.R. § 67.153. The amortization of embedded inside wire was ordered by the Commission in 1981. See Amendment of Part 31, 85 FCC 2d 818, 828-829 (1981). A staff analysis of 1985 data submitted to the Commission by all LECs with annual operating revenues in excess of \$1 million shows that, as of the end of 1986, scheduled amortization is approximately 60 percent completed. See Annual Reports Form M, filed December 31, 1985, at Schedule 14A (depreciation reserves). Based upon an analysis of similar LEC data submitted to the Commission in 1986, we estimate that the amortization of embedded inside wire will be more than 90 percent completed by the end of 1989.

182 As noted previously, supra note 178, the Commission concluded in the Access Charge Order that AT&T should be assessed a charge reflecting the "opportunity cost" of the premium access it received from LECs. Upon reconsideration of the Access Charge Order, the Commission concluded that a more reasonable and accurate measure of the "opportunity cost" or value of premium access would be achieved by providing IXCs receiving non-premium access a discount of 55 percent applied to the CCL rate. See MTS and WATS Market Structure, on reconsideration, 97 FCC 2d 682, 723-735 (1983). Finally, after determining that an opportunity cost analysis was sound in concept but imprecise in operation, the Commission established a total differential for all relevant access elements based on the total differential produced by the Exchange Network Facilities for Interstate Access (ENFIA) tariffs then in effect. See MTS and WATS Market Structure, on further reconsideration, 97 FCC 2d 834, 852-863 (1984), aff'd in principal part and remanded in part on other grounds, Nat'l Ass'n of Regulatory Comm'rs v. F.C.C., 737 F.2d 1095 (D.C. Cir. 1984), cert. denied, 105 S. Ct. 1224, 1225 (1985).

119. A fourth, and very important, factor that should diminish pressures to deaverage interstate toll rates is that the total amount of common line NTS costs to be recovered through usage-based CCL rates will be reduced if the Commission adopts our recommendation to increase the ceiling on interstate subscriber line charges.¹⁸³ This reduction is important because the aggregate CCL revenue requirement, as manifest in the industry-wide CCL rate, reflects the degree of potential CCL rate disparities that could occur in the absence of pooling. In 1984, for example, the year in which the CCL rate first became effective, the industry-wide rate was quite high -- \$.0524 per minute of use.¹⁸⁴ Upon implementation of the \$3.50 subscriber line charge in 1989, however, the average CCL rate (originating and terminating) is likely to be significantly lower than the 1984 rate -- approximately \$.02 per minute of use.¹⁸⁵ Therefore, although approximately 50 percent of the total interstate allocation of local exchange fixed costs will continue to be recovered from IXCs even after our recommendations are implemented, the effects of CCL revenue requirement reductions, combined with the effects of the actions discussed in the preceding paragraph that are steadily mitigating cost-recovery disparities among LECs, make it appear unlikely that LEC-specific CCL rates would generate, on an industry basis, significant pressures to deaverage interstate toll rates.

120. Against this background, we find that the Commission prescription supporting the present common line tariff and pooling arrangement is broader than is required to achieve the public interest benefits the Commission intended to secure by that prescription. Moreover,

183 Recovering the costs of lifeline and high cost assistance programs through flat-rate charges assessed on IXCs, as we recommend supra, also will slightly reduce the CCL revenue requirement.

184 See NECA Tariff F.C.C. No. 1, effective May 24, 1984; see also Investigation of Access and Divestiture Related Tariffs, CC Docket No. 78-72, Phase I, CC Docket No. 83-1145, Phase I, FCC 84-201, released May 15, 1984, at para. 79.

185 See NECA Pooling Data Request, Attachment C III, Column C, filed September 2, 1986 (1989 industry-wide CCL rate estimated to be \$.0167 per minute of use). We are using an estimate of \$.02 for the 1989 CCL rate, as opposed to the NECA estimate of \$.0167, because NECA's estimate is based on a \$4.00 subscriber line charge and has not been adjusted to account for, inter alia, growth or the stimulative effects of overall revenue requirement reductions.

we conclude that it is not in the public interest to continue that arrangement as currently structured, and that to do so would present an unnecessary impediment to the attainment of certain fundamental principles of the access charge plan, particularly the promotion of incentives to contain costs and the elimination of economically inefficient cost/price distortions.

121. Our conclusion that the existing arrangement is more comprehensive than necessary does not mean that it is unnecessary to continue some form of common tariff and pooling arrangement in the future. To the contrary, depooling, particularly precipitous depooling, could adversely affect the telecommunications marketplace and cause hardship in many areas of the country for ratepayers and LECs alike. For example, even with the actions taken by this Joint Board and the Commission in recent years to reduce cost-recovery differentials among LECs, NTS loop costs will continue to vary, often significantly, from study-area-to-study-area and from state-to-state.¹⁸⁶ Absent some form of pooling and a long term support arrangement among all LECs, these variations might impose inordinately high NTS cost recovery burdens on rural and other high cost subscribers. Unlimited depooling might also present a barrier to entry into the interstate toll market by curtailing the incentives and the ability of new entrants to establish ubiquitous, nationwide networks. Depooling certainly would eliminate the many significant benefits small LECs enjoy under the current system, including substantially reduced risks and a steady interstate return on investment.¹⁸⁷ Finally, immediate depooling would create significant administrative difficulties for the hundreds of LECs that have never before filed interstate tariffs, and for the Commission, which would have to review them. Therefore, we do not recommend that the existing, compulsory common tariff and pooling arrangement be rescinded in toto. We recommend instead that the current arrangement be replaced with one of a more flexible nature that preserves the public interest benefits of the current arrangement and limits the Commission prescription to the achievement of those benefits.

186 See NECA Submission of Current View of 1984 Universal Service Fund Data, State Summary of Unseparated Revenue Requirement Per Loop, CC Docket No. 80-286, filed September 2, 1986, at Tab 3. According to this data, for example, average unseparated revenue requirement per loop in Massachusetts is \$139.62, while in Arkansas the average unseparated revenue requirement is \$303.65.

187 See Regulation of Small Telephone Companies, Notice of Proposed Rulemaking, CC Docket No. 86-467, FCC 86-537 (released December 12, 1986) (Small Carrier Regulation Order).

122. None of the various proposals submitted for our consideration is completely in harmony with our recommendation. We cannot support the Bell Atlantic and New Jersey proposals because they contemplate, essentially, an end to all pooling in the near future. Although the supporters of these proposals are correct that an end to pooling would reduce uneconomic bypass incentives in certain areas of the country and increase economic efficiency, the elimination of pooling could have adverse consequences for ratepayers in rural and other high cost areas.

123. For several reasons, we also decline to recommend adoption of the pooling modifications proposed by Vermont. First, although Vermont proposes to replace the current pooling arrangement with a restructured high cost fund, Vermont has not provided sufficient detail about the nature or operation of the restructured high cost fund to permit us to conclude that it would be a reasonable replacement for the current arrangement. Second, and more importantly, it appears that a primary component of the plan's method of preserving what we have identified as a major benefit of the current pooling arrangement -- avoiding a situation in which inordinately high interstate NTS cost recovery burdens are placed on rural and other high cost subscribers -- is to grant LECs the flexibility to shift costs between interstate and intrastate jurisdictions, with accompanying adjustments to interstate access and basic local service rates.¹⁸⁸ The provision of such flexibility would require fundamental change in the current jurisdictional separations process, a change that we do not believe is warranted and that clearly is beyond the scope of the instant proceeding.

124. The Unity 1-A proposal also suffers from several infirmities, but these relate more to the details of the proposal than to its design. The fundamental framework of the proposal -- the phase-out of regional fund transfers among LECs due to pooling, the establishment of LTS funding for LECs remaining in the NECA CCL pool, and the opportunity to provide LECs with NTS cost recovery flexibility -- is sound.

125. A major benefit of the limited pooling arrangement proposed in Unity 1-A is the establishment of increased incentives for LECs withdrawing from the NECA tariff to reduce costs and improve the efficiency of their operations. Under the current pooling arrangement, the benefits of a single LEC's efforts to reduce costs or increase efficiency are shared with all other LECs in the pool. Reducing the degree of mandatory pooling participation, on the other hand, creates incentives to introduce efficiencies and cost-cutting measures because non-pooling LECs taking such actions will be able to benefit from them directly, through corresponding reductions in their CCL charges. Limited pooling will also eliminate

188 See Vermont Comments at 11-12.

compulsory risk sharing among the LECs that withdraw from the NECA tariff, as well as the the approximately \$600 million support transfer among the the largest LECs due to pooling. Most of the LECs that Unity 1-A represents will withdraw from the NECA tariff and pool in 1988 have more than 300,000 access lines and \$150 million in annual operating revenues.¹⁸⁹ No evidence has been presented in this proceeding, nor are we aware of any, that would provide a basis for concluding that LECs of this size face risks sufficiently large that the public interest requires them to participate in risk sharing (i.e., pooling) arrangements. Moreover, as noted previously, the combination of actions already taken by the Commission at our request, and those recommended herein, substantially reduce the need to continue pooling support transfers among these LECs.

126. By establishing an intra-industry support mechanism enabling LECs remaining in the CCL pool to charge a CCL rate no higher than the rate that would prevail if mandatory pooling of all CCL costs were maintained, the proposed Unity 1-A framework also addresses concerns about the potentially adverse impacts of pooling modifications on rural and other subscribers served by high cost LECs. The adoption of this aspect of Unity 1-A is important because it will ensure that the benefits attained by permitting certain LECs to withdraw from the existing pooling arrangement will not be outweighed by the potentially negative affects of such withdrawals on ratepayers throughout the country, and particularly those ratepayers served by LECs that continue to participate in the NECA CCL tariff.¹⁹⁰

127. In addition to ensuring that rural and other high cost subscribers are shielded from inordinately high NTS cost recovery burdens, the Unity 1-A long term support mechanism should prove to be an effective bulwark against pressures to deaverage interstate toll rates. We note, for example, that the estimated 1993 CCL charge of LECs remaining in the common line pool could be approximately \$.01 per minute of use and, therefore, could not exceed the lowest possible non-pooled LEC CCL charge by more than that amount.¹⁹¹ This potential 1993 rate disparity is less than existing disparities among the LECs' traffic-sensitive charges, which have not produced interstate toll rate deaveraging.¹⁹² Moreover, it is unlikely

189 See infra note 197.

190 See supra para. 121.

191 NECA Pooling Data Request, Attachment C III, Comparative Data Analysis, Company Specific State by State Results, Year 1993, filed September 2, 1986, at Column C.

192 For example, in October of 1986, the combined traffic-sensitive

that significant pressure to deaverage interstate toll rates will result from potential differences between the pooled NECA CCL rate and non-pooled CCL rates higher than the NECA rate. This is so for several reasons. First, smaller LECs with cost recovery requirements sufficient to produce very high CCL rates have little incentive, for that very reason, to withdraw from the the NECA common line tariff and pooling arrangement. Second, a non-pooling holding company with a mixture of high and low cost study areas would be able to lower extreme CCL rate "peaks" among these areas by tariffing a single, averaged CCL rate covering some or all these areas, as permitted by the Commission's Rules.¹⁹³

128. Although the framework of the Unity 1-A pooling proposal is sound, we believe, as noted above, that it should be modified in certain respects. Before discussing our own recommendations in this regard, we first discuss several modifications suggested by parties commenting on the proposal.

129. The first suggestion raised by commenters is that upon completion of the transitional support payment schedule, LECs that have been receiving transitional support be excused from long term support obligations if payment of long term support requires them to charge a CCL rate higher than the NECA CCL rate. In our view, adopting this proposal would establish an incentive for non-pooling LECs, particularly those with CCL rates near the NECA rate, to increase their costs in an effort to qualify for relief from LTR payments. We have been provided no sound reason to establish such an incentive, which runs counter to our goal of increasing LECs' cost containment incentives through pooling modifications. Therefore, we reject this suggestion.

130. The second suggestion raised by commenters is that LECs be permitted to evaluate on a study-area-by-study-area basis whether to participate in the modified NECA pooling arrangement we are proposing. We reject this suggestion because it quite likely would cause LECs to withdraw only their low cost study areas from the pool. This would result in mere

switched charges assessed upon IXCs per minute of use by Pacific Bell totaled \$.0353, while those of New Jersey Bell totaled \$.0191. These are traffic-sensitive premium switched access rates, excluding the CCL charge, calculated per minute of use on the basis of a ten mile transport. See Pacific Bell Tariff Review Plan, Switched Access Rate Analysis, Vol. 1, Section 5, filed October 3, 1986, at p.2, line 120; Bell Atlantic Tariff Review Plan, Switched Access Rate Analysis, Vol. 2, Section 5, filed October 3, 1986, at line 120 (New Jersey Bell).

193 See 47 C.F.R. § 69.3(e)(7).

administrative changes in the current pooling arrangement, rather than the fundamental reforms that we hope to achieve through our proposed structural modifications, because the long term support obligations of non-pooling low cost LECs would likely equal the contributions they would make if they remained in the pool. Permitting withdrawal from the pool on a study area basis also might establish improper incentives relating to the allocation of common costs between study areas remaining in the pool and those that are withdrawn. Therefore, we recommend that the Commission adopt a requirement that withdrawal from the pool be on an "all or nothing" basis. Specifically, a LEC withdrawing one of its study areas must withdraw all of them, and a regional holding company withdrawing one of its LECs must withdraw them all.¹⁹⁴

131. We turn now to our further recommendations for improving the Unity 1-A pooling proposal. Our primary concern relates to the proposed Unity 1-A schedule for LEC withdrawal from the existing NECA tariff and pooling arrangement. As noted previously, this proposed schedule would require LECs to announce on June 1, 1987, their intention to file their own CCL tariffs on October 1, 1987, as part of the Commission's annual access tariff revision process. These tariffs would have a scheduled effective date of January 1, 1988, the date on which Unity 1-A contemplates that the ceiling on federal subscriber line charge cap would be raised to \$4.00. Although LECs would be permitted to withdraw each year thereafter, the Unity 1-A proposal makes TRS payments available only to LECs withdrawing the first year.

194 Following the close of the comment period, representatives of NRTA and USTA (hereafter industry representatives) presented to members of the Federal Joint Board Staff a proposed amendment to Unity 1-A concerning the impact of mergers and acquisitions on the pooling status of individual LECs. See Notice of Ex Parte Meeting between federal Joint Board staff and Counsel to NTRA and USTA, MTS and WATS Market Structure, Amendment of Part 67 of the Commission's Rules and Establishment of a Joint Board, CC Docket Nos. 78-72 and 80-286, filed January 14, 1987. Essentially, the proposed amendment would permit a non-pooling LEC that acquires a LEC remaining in the pool to determine whether the acquired LEC would continue to participate in the NECA CCL tariff and pool. According to the industry representatives, the primary purpose of the proposal is to maintain the marketability of small LECs. Although we are recommending that the Commission take several steps to ensure that the impact of our proposed pooling modifications does not adversely affect small LECs, the record in this proceeding is not sufficiently detailed to permit us to recommend the adoption of this proposal, which no party has had an opportunity to comment on. Rather, we recommend that the proposal be examined and resolved in a separate proceeding initiated by the Commission.

132. The proposed Unity 1-A schedule raises several problems. First, the January 1, 1988 date proposed in Unity 1-A for implementing pooling modifications was established to coincide with implementation of Unity 1-A's proposed increase in subscriber line charges to \$4.00. Although there is no persuasive evidence that a LEC's considerations about withdrawing from the pool would be substantially altered due to the difference between the \$4.00 ceiling proposed in Unity 1-A and our own recommendation that subscriber line charges ultimately be raised to \$3.50, our proposed schedule regarding increases will provide for only \$2.60 of subscriber line charge recovery as of January 1, 1988. This level of subscriber line charge recovery is not high enough to permit many LECs to withdraw from the NECA tariff and pooling arrangement, including some of the largest LECs.¹⁹⁵ Because the goals we seek to achieve through our proposed pooling modifications hinge upon the withdrawal of the largest companies from the NECA tariff,¹⁹⁶ we recommend that such modifications be implemented on April 1, 1989, the date we have proposed an increase in the ceiling on subscriber line charges to \$3.50.

133. The second problem with the proposed Unity 1-A schedule is the establishment of a single opportunity for LECs to announcing an intention to withdraw and qualify to receive transitional support payments. This may well place a significant and unreasonable burden upon all but the largest companies.¹⁹⁷ Smaller companies that might wish to leave the pool

195 Among other reasons, a \$2.60 subscriber line charge would require certain LECs outside the NECA pool, particularly high cost LECs, to tariff a CCL rate so high as to significantly exacerbate uneconomic bypass incentives in their study areas, as well as threaten continued averaging of interstate toll rates.

196 See supra para. 125. In making our recommendations regarding pooling modifications, we are relying upon the representations made by Unity 1-A's sponsors that the largest companies will withdraw from the NECA Common Line tariff and pool. If the benefits we seek to obtain through pooling modifications are substantively compromised as a result of companies not acting as they have represented, we recommend that our proposals be revisited.

197 Most of the LECs that Unity 1-A indicates will withdraw from the NECA pool are operating companies within holding companies that own or control more than 300,000 access lines and in excess of \$150 million in annual operating revenues. Compare Joint Comments at n. 19 with United States Telephone Association, Telephone Statistics for the Year 1985, Vol. 1, July 1986, at 8 (access lines and annual operating revenues of 100 largest companies). For purposes of our discussions of pooling modifications, we

do not enjoy the substantial staff and related resources of the largest companies, and likely will need more time to evaluate the implications for themselves and their customers of withdrawing from the NECA tariff, as well as to assemble and prepare the information necessary to file their own tariffs with the Commission. For these reasons, we recommend that smaller companies be given an additional opportunity, in 1989 as well as in 1988, to announce their intention to withdraw while still qualifying for transitional support.¹⁹⁸

134. Implementing our proposed pooling modifications in this two-stage process, beginning April 1, 1989, is also designed to alleviate the potentially significant administrative burdens such implementation could place on the Commission.¹⁹⁹ If receipt of transitional support is contingent upon withdrawing from the pool on one particular date, as proposed in Unity 1-A, all net recipient LECs that seek to withdraw from the pool will be encouraged to file their own CCL tariffs at the same time. We have concluded that a two-stage process for these carriers will significantly ease the administrative burden, with few adverse consequences.

135. Even if the first filing of common line tariff revisions relating to pooling modifications involves only the largest LECs, the Commission may have to review as many as 40 such tariffs, and potentially many more, as a matter of first impression.²⁰⁰ Performing this review in a meaningful manner would be difficult under any circumstances. It would be especially difficult if it were conducted in conjunction with the Commission's scheduled annual review of access tariff revisions,²⁰¹ as

will refer to LECs meeting these criteria as the largest companies and to all other LECs as smaller companies.

198 We also recommend that smaller LECs announcing in 1989 their intention to withdraw from the NECA tariff be provided with four years of transitional support, commencing in 1990.

199 It is unlikely that our proposed pooling modifications will have any significant impact on state commissions, although a limited number of changes may be required in states in which the present intrastate CCL rate is tied to the NECA CCL rate.

200 The Commission will have to review 40 separate CCL rates if all LECs that Unity 1-A's sponsors predict will withdraw from the NECA tariff, see supra note 196, thereafter file their own CCL tariffs at the study area level.

201 This review is conducted each year during the period from October 1 through December 31. See 47 C.F.R. § 69.3(a).

proposed in Unity 1-A. Finally, the establishment of an April 1, 1989, effective date for implementation of pooling modifications permits us to recommend that the date on which LECs will have their first opportunity to announce their intention to withdraw from the NECA tariff occur during August 1988. In 1989 and thereafter, we recommend that June be established as the month in which NECA must be notified of a LEC's intention to withdraw.²⁰²

VIII. Monitoring Program

136. Several significant steps are taken in this Order in the areas of MTS cost recovery and subscriber line charges, high cost assistance, lifeline assistance, and pooling of common line costs. While we view the proposals presented in this Order as final recommendations, we also recognize our continuing responsibility to monitor the impact of our recommendations in the increasingly dynamic telecommunications environment. Therefore, we are recommending that the Commission establish a comprehensive monitoring program by this Joint Board and the Commission to track the impact of this Recommended Decision and Order and Commission action on it.

137. We recommend that the Commission direct this Joint Board to issue in the near future a more complete order delineating the framework of, and schedule for, this monitoring program.²⁰³ Generally, we recommend that this program include collection of data on the impact of subscriber line charges. The Census Bureau's data on subscribership levels presently collected through the Current Population Survey should be enhanced with data designed to examine the effects of subscriber line charges on specific population segments. The effectiveness of lifeline plans, both the existing

202 If the Commission adopts our recommendations relating to pooling revisions, adjustments will be necessary to the current Part 69 rules governing the administration of NECA and the operations of the Common Line pool. Since the pooling modifications we are recommending will not become effective until April 1989, these adjustments need not be made immediately. We note that the Commission already is considering various issues relating to NECA's activities and administration. See Amendment and Clarification of Part 69 Rules Governing the National Exchange Carrier Association, Memorandum Opinion and Order and Notice of Proposed Rulemaking, CC Docket No 87-2, FCC 87-19, released Jan. 16, 1987.

203 The Joint Board Recommended Decision and Order on the monitoring program should be released by May 10, 1987 in order to be in effect on June 1, 1987.

subscriber line charge waiver measures and the proposed new service commencement charge assistance measures, also should be analyzed. Additionally, reliable data on growth of network usage should also be included in the monitoring program, as well as information and data on the development of uneconomic bypass affecting the public switched network. Monitoring the results of the retargeted high cost assistance mechanism recommended in this Order also will help ascertain whether the support provided through this program is providing effective assistance to customers in rural and other high cost areas. Revisions to the pooling of CCL costs and revenues, to be effective on April 1, 1989, will necessitate the monitoring of those LECs that withdraw from the NECA pooling and tariff process, the dimensions of the LTS and TRS payments between the LECs, the CCL revenue requirements for the LECs that remain in the NECA pool, and the economic pressures for IXCs to deaverage interstate toll rates. Finally, monitoring the rates and revenues for basic local services, or other state services and interstate toll should also be included.

138. In order to ensure that the monitoring program takes into account all relevant factors, we further recommend that an open record be maintained in this docket to allow for the filing of comments at any time regarding the structure and effectiveness of the program. Finally, we recommend that a series of reports based upon the data collected through the program be submitted to Congress and state regulators. These reports would be prepared on a quarterly basis. In addition to these reports, the members of the Joint Board and the Commission would conduct a 90-day study and review of the impact of subscriber line charges prior to the two final increases in these charges in 1988 and 1989. Finally, we recommend that the Commission submit the results of these reviews to Congress and state regulators.

139. The recommendations contained herein have been analyzed with respect to the Paperwork Reduction Act of 1980 and found to impose a new or modified information collection requirement on the public. Implementation of any new or modified requirement will be subject to approval by the Office of Management and Budget as prescribed by the Act.

IX. Ordering Clause

140. ACCORDINGLY, the Joint Board RECOMMENDS that the Commission adopt the proposals discussed above and the attached revisions to Parts 67 and 69 of the Commission's Rules.²⁰⁴

FEDERAL COMMUNICATIONS COMMISSION
For the Federal-State Joint Board

204 This recommendation is adopted pursuant to Sections 4(i), 4(j), 201, 202, 203, 205, 221, 403, and 410 of the Communications Act of 1934, as amended, 47 U.S.C. §§ 154(i)-(j), 201, 202, 203, 205, 221, 403 and 410 (1986).

Appendix A

List of Parties Filing Comments or Replies in the Reexamination Proceeding

Ad Hoc Telecommunications Users Committee (Ad Hoc)
 Ad Hoc Telecommunications Users Committee, Computer and Business Equipment
 Manufacturers Association, Information Industry Association,
 Tele-Communications Association (ADAPSO)
 The State of Alaska (Alaska)
 ALC Communications Corporation (ALC)
 ALLTEL Corporation (ALLTEL)
 American Association of Retired Persons (AARP)
 American Petroleum Institute, Committee on Telecommunications (API)
 American Telephone and Telegraph Company (AT&T)
 Ameritech Operating Companies (Ameritech)
 Arkansas Public Service Commission (Arkansas)
 Bell Atlantic Telephone Companies (Bell Atlantic)
 BellSouth Corporation (BellSouth)
 The State of California and the Public Utilities Commission of California
 (California)
 Central Telephone Company (Centel)
 Cincinnati Bell Telephone Company (Cincinnati Bell)
 Colorado Public Utilities Commission Staff (Colorado)
 Colorado Office of Consumer Counsel, Office of Consumers' Counsel of the
 State of Georgia, and the Public Counsel Section of the Office of the
 Attorney General of Washington State (Consumers' Counsels)
 Communications Workers of America (CWA)
 Concerned Citizens for Universal Service (CCUS)
 Consumer Federation of America (CFA)
 Contel Corporation (Contel)
 CP National Corporation (CP National)
 Office of the People's Counsel of the District of Columbia
 Public Service Commission of the District of Columbia (District of Columbia)
 Florida Public Service Commission (Florida)
 Granite State Telephone, Merrimack County Telephone Company, Fort Bend
 Telephone Company and Elkhart Telephone Company (Independents)
 GTE Service Corporation (CTOCs)
 Idaho Public Utilities Commission (Idaho)
 Illinois Commerce Commission (Illinois)
 International Communications Association (ICA)
 Kansas Corporation Commission (Kansas)
 Lackawaxen Telephone Company (Lackawaxen)
 MCI Telecommunications Corporation (MCI)
 Michigan Public Service Commission Staff (Michigan)
 Missouri Public Service Commission (Missouri)
 Mountain States Telephone and Telegraph Company, Northwestern Bell Telephone

Company and Pacific Northwest Bell Telephone Company (US West)
 National Association of State Utility Consumer Advocates (NASUCA)
 National Exchange Carrier Association (NECA)
 National Rural Telecom Association (NRTA)
 National Rural Telecom Association, National Telephone Cooperative
 Association, Organization for the Protection and Advancement of Small
 Telephone Companies and United States Telephone Association
 (Joint Comments)
 National Telecommunications and Information Administration (NTIA)
 National Telephone Cooperative Association (NTCA)
 New Jersey Board of Public Utilities (New Jersey)
 New York State Consumer Protection Board
 New York State Department of Public Service (New York)
 New York Telephone Company and New England Telephone and Telegraph Company
 (NYNEX)
 Office of the Consumers' Counsel, State of Ohio (Ohio Consumers' Counsel)
 Organization for the Protection and Advancement of Small Telephone Companies
 (OPASTCO)
 Pacific Bell and Nevada Bell
 Pennsylvania Public Utility Commission Staff (Pennsylvania)
 Puerto Rico Telephone Company (Puerto Rico Telephone)
 Rochester Telephone Corporation (Rochester)
 Shenandoah Telephone Company (Shenandoah)
 Southern New England Telephone Company (SNET)
 Southwestern Bell Telephone Company (Southwestern Bell)
 Public Utility Commission of Texas (Texas)
 United Church of Christ Office of Communication (UCCOC)
 United States Department of Justice (DoJ)
 United States Telecommunications Association (USTA)
 United Telephone System, Inc. (United)
 US Sprint Communications Company (US Sprint)
 Vermont Public Service Board (Vermont)
 Waitsfield-Fayston Telephone Company (Waitsfield-Fayston)
 Wisconsin State Telephone Association (Wisconsin)

Appendix B

Proposed Part 67 & Part 69 Rule Changes

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Proposed Part 67 Rule Changes

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67.613 Submission of Information by the National Exchange Carrier Association

(a) On September 1 of each year after 1987, the National Exchange Carrier Association shall file with the Commission the information listed below. Information filed with the Commission shall be compiled from information provided to the Association by telephone companies pursuant to § 67.611.

(1) The unseparated loop cost for each study area and a nationwide-average unseparated loop cost.

(2) The annual amount of the high cost expense adjustment for each study area, and the total nationwide amount of the expense adjustment.

(3) The dollar amount and percentage of the increase in the nationwide average unseparated loop cost, as well as the dollar amount and percentage increase for each study area, for the previous 5 years, or the number of years NECA has been receiving information under § 67.611, whichever is the shorter time period.

* * * * *

67.631 Expense Adjustment

(a) Until August 31, 1988, for study areas reporting 50,000 or fewer working loops pursuant to § 67.611(a)(8), the expense adjustment (additional interstate expense allocation) is equal to the sum of the following:

* * * * *

(b) Until August 31, 1988, for study areas reporting more than 50,000 working loops pursuant to § 67.611(a)(8) the expense adjustment (additional interstate expense allocation) is equal to the sum of the following:

(c) Beginning September 1, 1988, for study areas reporting 200,000 or fewer working loops pursuant to § 67.611(a)(8), the expense adjustment (additional interstate expense allocation) is equal to the sum of the following:

- (1) Sixty-five percent of the study area average unseparated loop cost per working loop as calculated pursuant to § 67.622(b) in excess of 115 percent of the national average for this cost but not greater than 150 percent of the national average for this cost as calculated pursuant to § 67.622(a) multiplied by the number of working loops reported in § 67.611(a)(8) for the study area.
- (2) Seventy-five percent of the study area average unseparated loop cost per working loop as calculated pursuant to § 67.622(b) in excess of 150 percent of the national average for this cost as calculated pursuant to § 67.622(a) multiplied by the number of working loops reported in § 67.611(a)(8) for the study area.

(d) Beginning September 1, 1988, for study areas reporting more than 200,000 working loops pursuant to § 67.611(a)(8), the expense adjustment (additional interstate expense allocation) is equal to the sum of the following:

- (1) Ten percent of the study area average unseparated loop cost per working loop as calculated pursuant to § 67.622(b) in excess of 115 percent of the national average for this cost but not greater than 160 percent of the national average for this cost as calculated pursuant to § 67.622(a) multiplied by the number of working loops reported in § 67.611(a)(8) for the study area.
- (2) Thirty percent of the study area average unseparated loop cost per working loop as calculated pursuant to § 67.622(b) in excess of 160 percent of the national average for this cost but not greater than 200 percent of the national average for this cost as calculated pursuant to § 67.622(a) multiplied by the number of working loops reported in § 67.611(a)(8) for the study area.
- (3) Sixty percent of the study area average unseparated loop cost per working loop as calculated pursuant to § 67.622(b) in excess of 200 percent of the national average for this cost but not greater than 250 percent of the national average for

this cost as calculated pursuant to § 67.622(a) multiplied by the number of working loops reported in § 67.611(a)(8) for the study area.

- (4) Seventy-five percent of the study area average unseparated loop cost per working loop as calculated pursuant to § 67.622(b) in excess of 250 percent of the national average for this cost as calculated pursuant to § 67.622(a) multiplied by the number of working loops reported in § 67.611(a)(8) for the study area.

Subpart G - Lifeline Connection Assistance Expense Allocation

67.701 General

- (a) The Lifeline Connection Assistance Expense portion of the interstate apportionment shall consist of an expense adjustment computed in accordance with this Subpart. The expense adjustment will be added to interstate expenses and deducted from state expenses for eligible study areas as defined in this Subpart after all other steps required by this Part have been completed.
- (b) The expense adjustment will be computed as provided in § 67.741.

DEFINITIONS

67.711 Lifeline Connection Assistance

- (a) For purposes of this Subpart, Lifeline Connection Assistance shall describe the following lifeline telephone assistance for eligible residential subscribers as defined in § 67.711(b):
 - (1) a reduction in the charges for commencing telephone service assessed for a single telephone line per household at the principal place of residence; and/or
 - (2) a deferred schedule for payment of the charges assessed for commencing service, for which the telephone company does not charge interest.
- (b) In order to be eligible for assistance, a residential subscriber must:
 - (1) have lived at an address where there has been no telephone service for at least three months immediately prior to the

1108

- date that the assistance described in §§ 67.711(a)(1) and/or § 67.711(a)(2) is requested from the telephone company;
- (2) not have received assistance pursuant to §§ 67.711(a)(1) and/or 67.711(a)(2) within the last two years, with receipt of such assistance to be measured from the date of initiation of the telephone service for which assistance was provided;
 - (3) not be a dependent for federal income tax purposes as defined in 26 U.S.C. § 152 (1986) unless the subscriber is more than 60 years of age; and
 - (4) meet the requirements of a state established income test.
- (c) Charges assessed for commencing service include any state tariffed charges levied for connecting a subscriber to the network. These charges do not include security deposit requirements.

TELEPHONE COMPANY ELIGIBILITY

67.721 Telephone Company Eligibility for Lifeline Connection Assistance Expense Allocation

- (a) In order to be entitled to the additional interstate expense adjustment described in this Subpart a telephone company:
- (1) must provide Lifeline Connection Assistance as defined in §§ 67.711(a)(1) and/or 67.711(a)(2) to eligible subscribers as defined in § 67.711(b);
 - (2) shall verify that subscribers meet the eligibility criteria set out in §§ 67.711(b)(1)-(2) provided that:
 - (i) verification of subscriber eligibility by designated state officials may be substituted for verification by the telephone company;
 - (ii) if a state determines that it is administratively or economically infeasible for the state or telephone company to verify the eligibility criteria described in §§ 67.711(b)(1)-(2) when the necessary information must be provided by a telephone company or agency outside the state, or when this determination is made in other specified circumstances, self-certification of these criteria will be allowed;

- (iii) if the eligibility criteria described in §§ 67.711(b)(1)-(2) are self-certified, the eligibility criterion described in § 67.711(b)(4) must be verified by the state or by the telephone company;
 - (3) may accept self certification of the eligibility criteria described in §§ 67.711(b)(3)-(4), except as provided in § 67.721(a)(2)(iii).
 - (4) shall file information with the Commission Secretary demonstrating that it is eligible for the additional interstate expense adjustment.
- (b) The additional interstate expense adjustment shall be effective as soon as the Commission certifies that the state or local telephone company is eligible for the additional interstate expense adjustment, the local exchange company files the data required by § 67.731 with the National Exchange Carrier Association, and the relevant tariff provisions become effective.

DATA COLLECTION

67.731 Submission of information to the National Exchange Carrier Association.

- (a) In order to allow calculation of the lifeline expense adjustment each local telephone company wishing to receive the additional interstate expense allocation provided for in this Subpart shall provide the National Exchange Carrier Association established pursuant to Part 69 of the Commission's rules with the information listed below for each of its study areas. The information for the succeeding calendar year is to be filed with the Association on June 30th of each year after certification of the plan by the Commission pursuant to § 67.721(b). The information filed on June 30th of each year will be used in the jurisdictional allocations underlying the cost support data for the access tariffs to be filed the following October.
- (1) an estimate of the number of eligible households which will receive the lifeline assistance described in § 67.711(a)(1) pursuant to a lifeline assistance program which has received Commission certification.
 - (2) an estimate of the average discount on service commencement charges to be provided to each subscriber, not to exceed 50 percent of the charges for commencement of the same service applicable to non-lifeline customers or \$30.00, whichever is

less;

- (3) an estimate of the number of eligible subscribers which will receive the lifeline assistance described in § 67.711(a)(2).
- (4) an estimate of the average deferred interest cost for each subscriber, provided that:
 - (i) the deferred amount on which the cost of interest shall be calculated is not to exceed \$200.00; and
 - (ii) interest shall be applied only to amounts actually outstanding, at the rate for 10-year Treasury Bills on January 1 of each year, with the interest rate adjusted only with each filing.
- (b) In the event that this additional interstate expense allocation is to be in effect for a given study area for less than a full calendar year, the carrier is to submit the information described in §§ 67.731(a)(1)-(4) adjusted to reflect the number of subscribers and the relevant costs for the portion of the year during which this expense adjustment will be in effect as part of its § 67.721(a)(4) submission to the Commission. These data shall be filed with NECA at the same time they are filed with the Commission

CALCULATION OF LIFELINE CONNECTION ASSISTANCE EXPENSE ADJUSTMENT

67.741 Expense Adjustment

- (a) The additional interstate expense allocation shall be calculated by adding the following: (1) the number of households provided pursuant to § 67.731(a)(1) times the dollar amount provided pursuant to § 67.731(a)(2); and (2) the number of households provided pursuant to § 67.731(a)(3) times the dollar amount provided pursuant to § 67.731(a)(4).
- (b) The expense adjustment calculated pursuant to § 67.741(a) shall be adjusted each year to reflect the actual number of lifeline recipients and the actual dollar amount of the benefits provided to them in the previous year. If the actual benefits provided in a given calendar year exceed the estimated benefits for that year calculated pursuant to § 67.741(a), this difference shall be added to the amount calculated pursuant to § 67.741(a) for the following year. If the actual benefits provided in a given year are less than the estimated amount for that year calculated pursuant to § 67.741(a), this difference shall be subtracted from the amount

calculated pursuant to § 67.741(a) for the following year.

- (c) A pro-rata share of the expense adjustment calculated pursuant to § 67.741(a)-(b) shall be subtracted from the intrastate expenses for each account described below as calculated pursuant to the preceding Subparts of Part 67 and added to the interstate expenses for each such account calculated pursuant to the preceding Subparts of Part 67. The pro-rata share for each account shall be calculated by multiplying the total interstate expense adjustment by the ratio of the unseparated expenses for the account involved to the unseparated expenses for all of the accounts listed below:

- (1) Accounts 602.1-602.8 - Repairs of outside plant
- (2) Account 603 - Test desk work
- (3) Account 604 - Repairs of central office equipment
- (4) Account 645 - Local Commercial operations
- (5) Accounts 662 - Revenue Accounting Expenses

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Proposed Part 69 Rule Changes

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69.2 Definitions

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- (hh) Level I Contributors - Telephone companies that are not association Common Line tariff participants, file their own Common Line tariffs effective April 1, 1989, and had a lower than average Common Line revenue requirement per minute of use in 1988 and thus were net contributors (i.e. had a negative net balance) to the association Common Line pool in 1988.
- (ii) Level I Receivers - Telephone companies that are not association Common Line tariff participants, file their own Common Line tariffs effective April 1, 1989, and had a higher than average Carrier Common Line revenue requirement per minute of use in 1988 and thus were net receivers (i.e. had a positive net balance) from the association Common Line pool in 1988.

- (jj) Level II Contributors - A telephone company or group of affiliated telephone companies with fewer than 300,000 access lines and less than \$150 million in annual operating revenues that is not an association Common Line tariff participant, files its own Common Line tariff effective January 1, 1990, and that had a lower than average Common Line revenue requirement per minute of use in 1988 and thus was a net contributor (i.e., had a negative net balance) to the association Common Line pool in 1988.
- (kk) Level II Receivers - A telephone company or group of affiliated telephone companies with fewer than 300,000 access lines and less than \$150 million in annual operating revenues that is not an association Common Line tariff participant, files its own Common Line tariff effective January 1, 1990, and that had a higher than average Carrier Common Line revenue requirement per minute of use in 1988 and thus was a net receiver (i.e., had a positive net balance) from the association Common Line pool in 1988.
- (ll) "Long Term Support" (LTS) means funds provided by telephone companies that are not association Common Line tariff participants to association Common Line tariff participants. LTS enables association Common Line tariff participants to charge a Carrier Common Line (CCL) rate equivalent to the CCL rate that would result if all telephone companies participated in the association Common Line tariff.
- (mm) "Transitional Support" (TRS) means funds provided by telephone companies that are not association Common Line tariff participants, but were net contributors to the association Common Line pool in 1988, to telephone companies that are not association Common Line tariff participants and were net receivers from the association Common Line pool in 1988.

69.3 Filing of access service tariffs

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- (e) (1) Such a tariff must cross reference association charges for the Carrier Common Line and End User Common Line element or elements if such company or companies participate in the pooling of revenues and revenue requirements for such elements.

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- (e) (9) A telephone company or group of affiliated telephone companies that elects to file its own Common Line tariff

effective April 1, 1989 shall notify the association not later than August 30 of the preceding year that it will no longer participate in the association tariff. A telephone company or group of affiliated telephone companies that elects to file its own Common Line tariff effective January 1, 1990, or thereafter pursuant to Section 69.3(a), shall notify the association not later than June 30 of the preceding year that it will no longer participate in the association tariff. A telephone company or group of affiliated telephone companies that elects to file its own Common Line tariff for one of its study areas shall file its own Common Line tariff(s) for all of its study areas.

69.4 Charges to be filed

- (b) Except as provided in Subpart C of this Part and in Section 69.4(c), the carrier's carrier charges for access service filed with this Commission shall include charges for each of the following elements:

- (c) For all tariffs filed with this Commission that become effective after March 31, 1989, the carrier's carrier charges for access service shall include charges for each of the elements listed in Section 69.4(b) and for each of the following elements:

- (1) Universal Service Fund
- (2) Lifeline Assistance

69.5 Persons to be assessed

- (d) Beginning April 1, 1989, Universal Service Fund and Lifeline Assistance charges shall be assessed upon all interexchange carriers that use local exchange switching facilities for the provision of interstate or foreign telecommunications services and that have at least: (1) one percent of the total common lines presubscribed to interexchange carriers in all study areas; or (2) five percent of the presubscribed lines in any study area and a minimum of one thousand presubscribed lines in that study area.

69.104 End user common line

- (c) Except as provided in subsections 69.104(d)-(h), the single line rate or charge shall be computed 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.
- (d) If the monthly charge computed in accordance with subsection 69.104(c) exceeds \$6, the charge for each local exchange service subscriber line, except a residential line, a single-line business line, or a line used for Centrex-CO service that was in place or on order as of July 27, 1983, shall be \$6.
- (e) The monthly charge for each residential or single line business local exchange service subscriber shall be the charge computed in accordance with subsection 69.104(c), or the relevant transitional charge established in Section 69.203, whichever is lower.
- (f) Except as provided in subsections 69.104(j) and (k), the charge for each 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 line if the subscriber pays a rate for such line that is described as a residential rate in the local exchange service tariff.
- (h) A line shall be deemed to be a single line business 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.
- (i) The End User Common Line charge for each multi-party subscriber shall be assessed as if such subscriber had subscribed to single-party service.
- (j) The End User Common Line charge for a residential subscriber shall be 50% of the charge specified in subsections 69.104(c) and (d) 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.

(k) (1) The End User Common Line charge for residential subscribers shall be reduced to the extent of the state assistance as calculated in subsection (k)(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 below. In order to qualify for this waiver, the subscriber must be eligible for and receive assistance or benefits provided pursuant to a narrowly targetted 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 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 subsection (k)(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 subsection 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 for 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 (k)(2)(ii)(A) and (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.

- (1) In connection with the filing of access tariffs pursuant to Section 69.3(a), telephone companies shall calculate for the association their projected revenue requirement attributable to the operation of Sections 69.104(j)-(k). The association shall add such amounts to the Lifeline Assistance revenue requirement, bill and collect such amounts from interexchange carriers pursuant to Sections 69.116-69.117, and distribute the funds to qualifying telephone companies pursuant to Section 69.603(d).

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

69.105 Carrier Common Line

- (a) A charge that is expressed in dollars and cents per access minute of use shall be assessed upon all interexchange carriers that use local exchange common line facilities for the provision of interstate or foreign telecommunications services, except that the charge shall not be assessed upon interexchange carriers to the extent they resell MTS or MTS-type services of other common carriers (OCCs).
- (b) (1) The Carrier Common Line charge of association Common Line tariff participants shall be computed by dividing the projected Carrier Common Line revenue requirement of such telephone companies, plus the projected Carrier Common Line revenue requirement of telephone companies that are not association Common Line tariff participants, by the projected annual access minutes of use for all interstate and international services that use local exchange common line facilities and are subject to charges under paragraph (a) of this section. Each minute of use of any local exchange common line by such services shall be counted for purposes of computing this charge. Telephone companies that are not association Common Line tariff participants shall submit to the Commission and to the association whatever data the Commission shall determine are necessary to calculate this charge.

- (2) The Carrier Common Line charge(s) of telephone companies that are not association Common Line tariff participants shall be computed at the level of Carrier Common Line access element aggregation selected by such telephone companies pursuant to Section 69.3(e)(7). The charge for each such element shall be computed by dividing the projected Carrier Common Line revenue requirement by the projected annual access minutes for all interstate or foreign services that use local exchange common line facilities related to such revenue requirement.

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69.116 Universal Service Fund

Effective April 1, 1989:

- (a) A charge that is expressed in dollars and cents per line per month shall be assessed upon all interexchange carriers that use local exchange switching facilities for the provision of interstate or foreign telecommunications services and that have at least: (1) one percent of the total common lines presubscribed to interexchange carriers in all study areas; or (2) five percent of the presubscribed lines in any study area and a minimum of one thousand presubscribed lines in that study area.
- (b) The charge shall be computed by the association on a semi-annual basis by dividing one-twelfth of the projected annual Universal Service Fund revenue requirement by the total number of common lines presubscribed to interexchange carriers defined in Section 69.116(a). The association shall bill and collect the charge, and disburse associated revenue, on a monthly basis pursuant to Section 69.603(c).
- (c) Telephone companies shall provide to the association the data necessary to compute the charge. These data shall include the number of presubscribed common lines in each study area and the number of those lines associated with each interexchange carrier serving that study area. In a study area served by a single interexchange carrier, all common lines shall be considered as presubscribed to that interexchange carrier. Information concerning presubscribed common lines shall be filed with the association on June 30 and January 2 of each year, beginning on June 30, 1988. Presubscribed common line data filed on June 30 shall be calculated as of December 31 of the preceding year, and presubscribed common line data filed on January 2 shall be calculated as of June 30 of the preceding year.

69.117 Lifeline Assistance

Effective April 1, 1989:

- (a) A charge that is expressed in dollars and cents per line per month shall be assessed upon all interexchange carriers that use local exchange switching facilities for the provision of interstate or foreign telecommunications services and that have at least: (1) one percent of the total common lines presubscribed to interexchange carriers in all study areas; or (2) five percent of the presubscribed lines in any study area and a minimum of one thousand presubscribed lines in that study area.
- (b) The charge shall be computed by the association on a semi-annual basis by dividing the sum of one-twelfth of the projected annual Lifeline Assistance revenue requirement and one-twelfth of the projected annual revenue requirement calculated by all telephone companies pursuant to Section 69.104(1) by the number of common lines presubscribed to interexchange carriers defined in Section 69.117(a). The association shall bill and collect the charge, and disburse associated revenue, on a monthly basis pursuant to Section 69.603(d).
- (c) Telephone companies shall provide to the association the data necessary to compute the charge. These data shall include the number of presubscribed common lines in each study area and the number of those lines associated with each interexchange serving that study area. In a study area served by a single interexchange carrier, all common lines shall be considered as presubscribed to that interexchange carrier. Information concerning presubscribed common lines shall be filed with the association on June 30 and January 2 of each year, beginning on June 30, 1988. Presubscribed common line data filed on June 30 shall be calculated as of December 31 of the preceding year, and presubscribed common line data filed on January 2 shall be calculated as of June 30 of the preceding year.

69.202 Initial End User Common Line Charges DELETE

69.203 Transitional End User Common Line Charges

- (a) Except as provided in Sections 69.104 and 69.204, the End User Common Line charge for single line business subscribers, single line residential subscribers, and multi-line residential subscribers shall be the lesser of the charge computed in Section 69.104(c) or \$2 per line per month until May 31, 1987; \$2.60 per line per month during the period from June 1, 1987 through August 31, 1988; \$3.20 per line per month during the period from