

FEDERAL COMMUNICATIONS COMMISSION

47 CFR Parts 54, 61, and 69

[CC Docket Nos. 96–262; 94–1; 99–249; 96–45; FCC 00–193]

Access Charge Reform, Price Cap Performance Review for Local Exchange Carriers, Low-Volume Long-Distance Users, and Federal-State Joint Board on Universal Service

AGENCY: Federal Communications Commission.

ACTION: Final rule.

SUMMARY: This document adopts an integrated interstate access reform and universal service proposal put forth by the members of the Coalition for Affordable Local and Long-distance Service (CALLS). By adopting this document, the Commission takes action to further accelerate the development of competition in the local and long-distance telecommunications markets, and to further establish explicit universal service support that will be sustainable in an increasingly competitive marketplace, pursuant to the mandate of the 1996 Act.

DATES: Effective June 21, 2000.

FOR FURTHER INFORMATION CONTACT: Joi Roberson Nolen, Common Carrier Bureau, Competitive Pricing Division, (202) 418–1520.

SUPPLEMENTARY INFORMATION: This is a summary of the Commission's Sixth Report and Order in CC Docket Nos. 96–262 and 94–1, Report and Order in CC Docket No. 99–249, Seventh Report and Order in CC Docket No. 96–45 ("CALLS Report and Order") adopted on May 31, 2000 and released on May 31, 2000. The full text of this Report and Order, as well as the complete files for the relevant dockets, is available for inspection and copying during the weekday hours of 9 a.m. to 4:30 p.m. in the Commission's Reference Center, 445 12th Street, SW, Room CY–A257, Washington, DC or copies may be purchased from the Commission's duplicating contractor, ITS Inc., 1231 20th Street, NW, Washington, DC 20036; (202) 857–3088. The complete text of the Order also may be obtained through the World Wide Web at <http://www.fcc.gov>.

The Federal Communications Commission (FCC) has received Office of Management and Budget (OMB) approval for the following public information collections pursuant to the Paperwork Reduction Act of 1995, Public Law 104–13. An agency may not conduct or sponsor and a person is not

required to respond to a collection of information unless it displays a currently valid control number.

OMB Approval Number: 3060–0942.

Expiration Date: 12/31/2000.

Title: Access Charge Reform—CC Docket No. 96–262 (*Sixth Report and Order*) Price

Cap Performance Review for Local Exchange Carriers—CC Docket No. 94–1 (Sixth Report and Order), Low-Volume Long-Distance Users—CC Docket No. 99–249 (Report and Order), Federal-State Joint Board on Universal Service—CC Docket No. 96–45 (Eleventh Report and Order).

Form No.: N/A.

Respondents: Business or other for profit.

(1) *Estimates of hour burden of the collection of information.*

(a) *Modified tariff filings with the Commission:*

Number of Respondents: 18.

Frequency of Response: On occasion. 1 per year.

Annual Hour Burden: 2.

Total Annual Hour Burden for All Respondents: 36.

(b) *USAC filings. Price Cap LECs—line counts:*

Number of Respondents: 18.

Frequency of Response: Quarterly. 4 per year.

Annual Hour Burden: 20.

Total Annual Hour Burden for All Respondents: 20 hours per respondent × 18 respondents = 360.

(c) *Price Cap LECs-price and revenue data:*

Number of Respondents: 18.

Frequency of Response: Annual. 1 per year (2 in the year 2000 only).

Total Annual Hour Burden for All Respondents: 6081 (12,162 in the year 2000).

(d) *Competitive LECs:*

Number of Respondents: 9

Frequency of Response: Quarterly. 4 per year.

Annual Hour Burden: 20 hours.

Total Annual Hour Burden for All Respondents: 20 hours per respondent × 9 respondents = 180 hours.

(e) *Total Annual Hour Burden for price cap LECs and CLECs: 6621.*

(f) *Cost support filings with the Commission:*

Number of Respondents: 2

Frequency of Response: 1 per year.

Total Annual Hour Burden for all Respondents: 20

(g) *Total Annual Burden for All Collections: 36 + 360 + 12,162 + 180 + 20 = 12,758 hours.*

(h) *Estimated Annual Reporting and Recordkeeping Cost Burden: \$0.*

Needs and Uses

The Commission will use the modified tariff information filed by the

price cap local exchange carriers (LECs) to ensure compliance with the various interstate access reforms of the CALLS proposal. USAC will use the line count and other information filed by price cap and competitive LECs to determine, on a per-line basis, the amount that the carrier will receive from the interstate access universal service support mechanism. The Commission will use the cost support information filed by the price cap LECs to ensure that their interstate access rates are just and reasonable, as required by section 201(b) of the Communications Act.

Obligation to respond: Required to obtain or retain benefits.

Public reporting burden for the collections of information are as noted above. Send comments regarding the burden estimate or any other aspect of the collections of information, including suggestions for reducing the burden to Performance Evaluation and Records Management, Washington, DC 20554.

Regulatory Flexibility Certification

As required by the Regulatory Flexibility Act, this Report and Order contains a Final Regulatory Flexibility Analysis regarding the Order. A brief description of the analysis follows. Pursuant to section 604 of the Regulatory Flexibility Act, the Commission performed a comprehensive analysis of the Order with regard to small entities. This analysis includes: (1) A succinct statement of the need for, and objectives of, the Commission's decisions in the Order; (2) a summary of the significant issues raised by the public comments in response to the initial regulatory flexibility analysis, a summary of the Commission's assessment of these issues, and a statement of any changes made in the Order as a result of the comments; (3) a description of and an estimate of the number of small entities to which the Order will apply; (4) a description of the projected reporting, recordkeeping and other compliance requirements of the Order, including an estimate of the classes of small entities which will be subject to the requirement and the type of professional skills necessary for compliance with the requirement; and (5) a description of the steps the Commission has taken to minimize the significant economic impact on small entities consistent with the stated objectives of applicable statutes, including a statement of the factual, policy, and legal reasons for selecting the alternative adopted in the Order and why each one of the other significant alternatives to each of the Commission's decisions which affect small entities was rejected.

Synopsis of Order

We note that CALLS submitted both an original and modified proposal. Unless otherwise noted, any reference to the CALLS proposal refers to the modified proposal. CALLS has presented us with an integrated and cohesive proposal that aims to resolve major outstanding issues concerning access charges. In addressing these issues, the CALLS proposal reduces, and in most instances eliminates, implicit subsidies among end-user classes; makes implicit universal service funding in access charges explicit and portable; provides significant benefits to consumers who make few or no long-distance calls; and sets carrier charges at reasonable levels. Because we find that the CALLS proposal resolves these issues in a way that benefits consumers and is pro-competitive and economically efficient, we adopt certain parts of the plan, largely rate structure components, as mandatory for all price cap LECs for the full five years of the plan. As discussed in more detail below, for certain rate-level components of the plan, we adopt it as mandatory on an interim basis. Price cap LECs will be able to choose between having these interim rate-level components apply for the full five years or having their rates reinitialized based on forward-looking economic cost.

The proposal that we adopt provides for the following:

- (1) Elimination of the residential prescribed interexchange carrier charge (PICC);
- (2) Increases to the primary residential and single-line business subscriber line charge (SLC) caps, beginning at \$4.35 on July 1, 2000, and gradually increasing to \$6.50 on July 1, 2003, provided that LECs can justify any increase beyond \$5.00;
- (3) A review of the SLC rates prior to the increase scheduled for July 1, 2002, including evaluation of forward looking cost information;
- (4) Targeting of an X-factor for switched access to switching and switched transport elements;
- (5) Creation of a separate X-factor for special access services;
- (6) \$2.1 billion in reductions to switched access usage rates effective July 1, 2000;
- (7) Reduction of the switched access X-factor to the Gross Domestic Product—Price Index (GDP—PI) once specific target rate levels are achieved;
- (8) Removal of \$650 million in implicit universal service support from access charges, and the creation of an explicit, portable interstate access universal service support mechanism at the same level;

(9) Recovery of LEC universal service contributions directly from end users;

(10) Elimination of minimum usage charges (MUCs) by participating long-distance carriers;

(11) A commitment by participating long-distance carriers to flow through reductions in access rates to residential and business customers over the life of the plan; and

(12) Adjustment of the Lifeline Assistance universal service support mechanism to shield low-income customers from increases in the residential SLC.

As an initial point, the CALLS proposal reduces, and in many cases eliminates, implicit subsidies among customer classes through two means. First, by permitting a greater proportion of the local loop costs of primary residential and single-line business customers to be recovered through the SLC, rather than through the CCL charge and the multi-line business PICC, the CALLS proposal reduces, and in most instances removes, the subsidies associated with both of the latter charges. Second, by permitting participating LECs to deaverage their SLCs once the CCL charge and multi-line business PICCs are eliminated, the CALLS proposal reduces the subsidy that subscribers in low-cost areas provide those in higher cost areas.

The CALLS proposal reduces these subsidies, and keeps rates affordable in high-cost areas, by replacing the subsidies with explicit interstate access universal service support. In section 254(e), Congress stated that federal universal service support should be made explicit. The CALLS proposal identifies and removes \$650 million of implicit universal service support in interstate access charges, creates an explicit interstate access universal service support mechanism in this amount to replace the implicit support, and makes interstate access universal service support fully portable among eligible telecommunications carriers. The CALLS proposal conforms with our tentative conclusion in the *Universal Service Seventh Report and Order*, 64 FR 30440, that price cap LECs should reduce their interstate access rates to reflect any increase in explicit high-cost support. In addition, we conclude that this interstate access universal service support mechanism is specific, predictable and sufficient. Moreover, by making universal service support explicit and portable, the interstate access universal service support mechanism should also encourage competitive entry into high-cost areas.

We note that even as the CALLS proposal phases out these subsidies, it

maintains several safeguards that ensure that the rates consumers pay for the SLC remain well within a zone of reasonableness. The CALLS proposal maintains an overall cap on the SLC assessed on primary residential and single-line business lines at \$6.50, and could set the cap even lower if price cap LECs cannot justify higher increases. Thus, as explained below, CALLS ensures that basic telephone service does not become too expensive. The CALLS proposal also asks the Commission to examine the appropriateness of setting the SLC caps for primary residential and single-line business lines above \$5.00 before doing so. In addition, the CALLS proposal provides for additional Lifeline support so that low-income subscribers will not be hurt by increases to the primary residential SLC cap. The CALLS proposal also provides that Lifeline customers will not be assessed universal service charges by price cap LECs.

Low-volume long-distance users also benefit from the CALLS proposal. First, AT&T and Sprint both commit to having no monthly minimum charge on their Basic Schedule for at least three years. Second, both carriers agree to eliminate their PICC pass-through charges for residential and single-line business subscribers in light of the elimination of the PICCs for those customers. Third, in a move that benefits all subscribers, both carriers have agreed to flow through to residential and business customers the savings they realize from the CALLS-related reductions in access charges. We find that these commitments are in the public interest and adopt them as requirements of this Order.

We adopt the CALLS proposal because it accomplishes many objectives that the Commission to date has been unable to achieve in the absence of an industry consensus plan, while providing significant consumer benefits that we would not otherwise be able to ensure on such a wide-scale basis and in such a timely manner. We therefore find the CALLS proposal to be in the public interest. Certainly there is no guarantee that, at the end of the CALLS proposal's five-year term, competition will exist to such a degree that deregulation of access charges for price cap LECs is the next logical step. Nevertheless, the CALLS proposal provides stability during its term and addresses several issues that have served as major obstacles to access charge reform and universal service. We also find the CALLS proposal to be consistent with our market-based approach to regulation.

We approve and adopt the CALLS proposal because it resolves in a manner consistent with the public interest a number of complex, contentious and interrelated issues that stand as a roadblock to a competitive marketplace. The CALLS proposal is a reasonable approach for moving toward the Commission's goals of using competition to bring about cost-based rates, and removing implicit subsidies without jeopardizing universal service. The CALLS proposal is not designed as a permanent solution to all of the issues it addresses; instead, it is a transitional plan that moves the marketplace closer to economically rational competition, and it will enable us, once such competition develops, to adjust our rules in light of relevant market developments. Consequently, as the term of the CALLS proposal nears its end, we envision that the Commission will conduct a proceeding to determine whether and to what degree it can deregulate price cap LECs to reflect the existence of competition. At that time, the Commission can also examine whether the interstate access universal service support mechanism remains sufficient.

The level of access rates, the amount of universal service support in access rates, and the appropriate X-factor have all been subject to contentious proceedings that heretofore have not been resolved despite years devoted to their resolution. For many years, IXC's and consumer groups have argued that access rates are significantly above cost and contain monopoly profits, the amount of which was itself subject to serious debate. Incumbent LECs, on the other hand, have contended that reducing access charges threatened universal service support. This dispute cannot be resolved with exactitude, as setting access charges is at best an imprecise process whose success can be measured only by using a zone of reasonableness. With adoption of the CALLS proposal, we believe that we have achieved a reasonable and appropriate up-front reduction to access rates that addresses the positions of both sides.

The 1996 Act stated that the Commission should create explicit universal service mechanisms that would be secure in a competitive environment. The interstate access universal service support mechanism we create today to replace the implicit universal service support removed from access charges has been subject to heated debate as to the appropriateness of its size and distribution methodology. During the course of the proceeding, some parties have argued that the

amount of implicit universal service support in access charges is as high as \$3.9 billion, while others have argued that the figure is only \$250 million. Determining the amount of implicit universal service support is an imprecise exercise at best. Consequently, it is only today, more than four years after the passage of the 1996 Act, that we issue a decision on this matter.

Similarly, the size of the X-factor has been subject to debate ever since the first time it was set with the creation of price caps. More recently, the current X-factor of 6.5 percent, which was set in 1997, is currently on remand with the Commission. By adopting the reasonable approach set forth in the CALLS proposal, which treats the X-factor not as a productivity estimate but as a method to reduce rates to certain levels, we expect to end the debate over the appropriate size of the X-factor now and for the next five years for participating price cap LECs.

The rates proposed by CALLS are reasonable. We have compared LEC revenues over the five-year period under the modified CALLS proposal with what their revenues would be under the status quo, and conclude that they are roughly the same. Overall LEC revenues are roughly \$700 million lower than they would have been for the first year of the plan, but gradually increase in the later years so that projected revenue is higher than the status quo at the end of the plan. We note, however, that these estimates make no adjustment to account for voluntary reductions participating LECs might make in response to the development of competition in the marketplace, something that is much more likely to occur in the later years of the plan, in part due to the reduction of implicit subsidies by the CALLS proposal.

We find that the CALLS proposal provides a number of consumer benefits that are in the public interest. By eliminating the residential PICC, the CALLS proposal provides immediate reductions to consumers' overall rates, even after taking the increase to the primary residential SLC into account. By having IXC's provide calling plans with no monthly minimum charges, CALLS also provides additional benefits to low-volume long-distance customers. In addition, by recovering a greater proportion of loop costs directly from the end user and by creating an explicit and portable interstate access universal service mechanism, the CALLS proposal also promotes the development of greater facilities-based residential competition.

By adopting the CALLS proposal, we require price cap LECs to make a larger rate reduction than they otherwise would have on July 1, 2000. For carriers that elect CALLS, however, we defer the rate prescription scheduled to take place next year that the Commission established as a "backstop" to the market-based approach in the event competition was slow to develop. We thereby allow four additional years for competition to develop sufficiently to begin to control access rates.

With one exception that we discuss below, we decline to make any significant modifications to the CALLS proposal as some parties advocate, and instead agree with the CALLS signatories that we should assess the proposal as a whole. In so doing, we note that the original proposal, made by a group of price cap LECs and IXCs but without comment from consumer groups, did not address the interests of consumers as adequately as the modified proposal. In response to the various critiques of the original proposal, CALLS made several pro-consumer changes that resulted in a substantially more equitable proposal. These changes include lowering the primary residential and single-line business SLC caps from the original proposal, both at the start of the plan and throughout its term; proposing a cost review to examine the appropriateness of raising the SLC caps above \$5.00; eliminating minimum usage charges for basic long-distance service by CALLS long-distance signatories; and removing a significant amount of revenues from access charges altogether, rather than shifting those permitted revenues to the common line basket.

Although we find the CALLS proposal is reasonable for CALLS signatories and is likely to be reasonable for non-signatory price cap LECs, we recognize that it was developed with the idea that it would be voluntary for price cap LECs. At the same time, however, the benefits of the CALLS proposal could not be fully realized if all price cap LECs did not participate. Because the CALLS proposal is a cohesive proposal, failure to implement it fully would frustrate the consumer benefits we find appropriate for its adoption. Moreover, failure to implement CALLS completely will impede advancement toward the 1996 Act's competition and universal service goals.

We recognize that not all price cap LECs could agree on all aspects of the CALLS proposal. CALLS members worked among themselves to develop the mechanisms under which price cap LECs contribute toward reducing

switched access usage charges by \$2.1 billion, as well as the rules that determine the size and distribution of the \$650 million interstate access universal service support mechanism. These decisions necessarily pit each price cap LEC's interest against the interests of all other price cap LECs. Consequently, price cap LECs that did not agree to the CALLS proposal might not receive the same benefits or carry the same burdens as the CALLS LEC signatories.

Accordingly, out of an abundance of caution, we provide an opportunity for price cap LECs to choose between two options for certain rate-level, as opposed to rate structure, components of the CALLS proposal. Specifically, price cap LECs may elect CALLS for the full five-year period. Alternatively, price cap LECs may elect to submit a cost study based on forward-looking economic cost that will be the basis for reinitializing rates to the appropriate level. Because a cost study proceeding necessarily requires data specific to the price cap LEC to be submitted and analyzed, we find it necessary to mandate the CALLS rate-level components on an interim basis, subject to true-up, in order to provide sufficient time to complete a cost study. A price cap LEC that elects the second option will be subject to the following rate-level components of the CALLS proposal until we have completed the forward-looking economic cost review: the size of the up-front reduction; the size of the carrier's interstate access universal service support; the X-factor; and the switching target levels. Adopting these components on an interim basis will permit realization of the full consumer benefits of the CALLS proposal and preserve the \$2.1 billion reduction in switched access usage charges for the first year.

At the same time, we adopt the rate structure components of the CALLS proposal as mandatory for all price cap LECs, for the five-year period envisioned by the CALLS proposal. The rate structure components are the new SLC caps, elimination of the residential PICC, the multi-line business PICC caps, the creation of a separate basket for special access, elimination of the marketing basket and the recovery of the revenues it recovered as part of CMT revenues, recovery of universal service contributions directly from end users, SLC deaveraging, portability of the interstate access universal service mechanism, and increased Lifeline support to cover the new SLC caps. For the reasons discussed elsewhere in this Order, the changes made in these components are reasonable and in the

public interest and consistent with our policy of requiring, to the extent possible, that non-traffic sensitive costs be recovered through fixed rates or flat charges. In addition, these changes do not affect carriers' overall recovery of their costs and thus do not raise the same issues as the rate-level components.

For the rate-level components, each price cap LEC will, at the holding-company level, choose between two options. The first alternative is to subscribe to the CALLS proposal for its full five-year term. The second alternative is to submit a cost study based on forward-looking economic costs, resulting in the LEC's rates being reinitialized to the appropriate level indicated by the study and then made subject to a price cap plan and X-factor that we would determine.

This cost study proceeding is consistent with what we outlined in the *Access Charge Reform Order*. See 62 FR 31868. In the *Access Charge Reform Order*, the Commission stated that its goal was for interstate access charges to reflect the forward-looking economic costs of providing interstate access services. The Commission adopted a two-phased approach to reach that goal. It adopted a market-based approach that relied on competitive pressures to bring prices toward forward-looking economic cost, with incumbent LECs receiving additional pricing flexibility where competition has developed. The second phase provided, however, that the Commission would require forward-looking cost studies by no later than February 8, 2001 for access services that were not subject to competition and "eventually prescribe rates for those services at forward-looking economic cost levels." For those carriers that accept the CALLS proposal, we are extending for five years the period during which we will allow the market-based approach to bring interstate access prices toward forward-looking economic cost. Those carriers that reject the CALLS proposal will operate under the framework the Commission set forth in the *Access Charge Reform Order* to address services that are not subject to substantial competition.

Each price cap LEC will have 60 days from the release of this Order to make its election between the two options. This election will be binding for the five-year term of CALLS. Price cap LECs that elect to proceed with a cost study will be subject to the rules we adopt today until the completion of our cost study proceeding. We make this election binding because we believe the CALLS proposal, coupled with a true-up mechanism discussed below, will

ensure reasonable rate levels for all price cap LECs, while ensuring that the Commission does not waste its limited resources in cost proceedings performed solely for the purpose of having LECs determine under which approach they would be better off.

For a price cap LEC electing the cost study option, we also adopt a true-up mechanism to be applied to such price cap LEC's rates. This will enable the LEC and its customers to be treated as it would have been, had we completed the cost study in time to avoid the need for imposing the CALLS proposal for an interim period. Should any price cap LEC elect to participate in the cost study proceeding, the Commission will consider the sufficiency of the interstate access universal service support mechanism, including both the size and distribution of support, concurrently with the industry-wide review of the increase to the primary residential SLC cap after July 2001, to avoid duplication of effort.

Final Regulatory Flexibility Analysis

As required by the Regulatory Flexibility Act (RFA), an Initial Regulatory Flexibility Analysis (IRFA) was incorporated in the CALLS NPRM, and revised in the Public Notice requesting comment on the modified CALLS proposal. The Commission sought written public comment on the proposals in the CALLS NPRM and the CALLS proposal, including comments on the IRFAs. This present Final Regulatory Flexibility Analysis (FRFA) conforms to the RFA, as amended. To the extent that any statement in this FRFA is perceived as creating ambiguity with respect to our rules or statements made in preceding sections of this Order, the rules and statements set forth in those preceding sections shall be controlling.

Need for and Objectives of This Order

The CALLS members offer the proposal as a comprehensive solution to the members' access charge, universal service, and price cap concerns. The CALLS plan would revise the current system of common line charges by combining existing carrier and subscriber charges into one flat-rated subscriber line charge (SLC), and would provide for limited deaveraging of those charges under specific conditions. The CALLS plan also would establish an interstate access universal service support mechanism that provides explicit support to replace support currently implicit in interstate access charges. In addition, the CALLS plan calls for annual reductions in traffic

sensitive switching access rates until they reach a specified level.

We believe that the CALLS proposal is in the public interest, and so adopt it to the extent discussed in this Order. This Order agrees with the CALLS members that the CALLS proposal is the result of certain segments of the telecommunications industry developing a comprehensive approach to resolve outstanding issues concerning access charges and universal service. By adopting the CALLS proposal, this Order will result in lower rates for both low-volume and high-volume long-distance consumers, more competition, greater flexibility for price cap LECs to meet competition, and an explicit, portable interstate access universal service support mechanism. It is the CALLS proposal's comprehensive solution of historically contentious issues that allows the Commission to take these actions while ensuring that consumers in high-cost areas will continue to have affordable service.

Summary of Significant Issues Raised by the Public Comments in Response to the IRFA

The Commission received no comments addressing the IRFA. We did, however, receive some general small-business-related comments. Some commenters request that the CALLS proposal require a proportionate share of the agreed upon local switching rate reductions to come from tandem-switched rates. Other commenters argue that the CALLS proposal should have a separate X-factor for mid-size price cap LECs. These comments are addressed in detail in this Order.

Description and Estimate of the Number of Small Entities to Which the Rules Will Apply

The RFA directs agencies to provide a description of, and, where feasible, an estimate of the number of small entities that may be affected by the proposed rules, if adopted. The Regulatory Flexibility Act defines the term "small entity" as having the same meaning as the terms "small business," "small organization," and "small business concern" under section 3 of the Small Business Act. A small business concern is one which: (1) Is independently owned and operated; (2) is not dominant in its field of operation; and (3) satisfies any additional criteria established by the SBA.

The SBA has defined a small business for Standard Industrial Classification (SIC) category 4813 (Telephone Communications, Except Radiotelephone) to be a small entity that has no more than 1500 employees.

Total Number of Telephone Companies Affected

Price Cap Local Exchange Carriers. The Commission does not have data specifying the number of these carriers that are either dominant in their field of operations, are not independently owned and operated, or have more than 1,500 employees, and thus is unable at this time to estimate with greater precision the number of price cap LECs that would qualify as small business concerns under the SBA's definition. However, there are currently only 13 price cap LECs, four of which share common ownership. Consequently, significantly fewer than 13 providers of local exchange service are estimated to be small entities or small price cap LECs that may be affected by these proposals. We have included small price cap LECs in this present RFA analysis. As noted above, a "small business" under the RFA is one that, *inter alia*, meets the pertinent small business size standard (e.g., a telephone communications business having 1,500 or fewer employees), and "is not dominant in its field of operation." The SBA's Office of Advocacy contends that, for RFA purposes, small price cap LECs are not dominant in their field of operation because any such dominance is not "national" in scope. We have therefore included small price cap LECs in this RFA analysis, although we emphasize that this RFA action has no effect on FCC analyses and determinations in other, non-RFA contexts.

Competitive Local Exchange Carriers. Neither the Commission nor the SBA has developed a definition of small providers of local exchange service. The closest applicable definition under SBA rules is for telephone telecommunications companies other than radiotelephone (wireless) companies. The most reliable source of information regarding the number of competitive LECs nationwide of which the Commission is aware appears to be the data that the Commission collects annually in connection with the Telecommunications Relay Service (TRS). According to the Commission's most recent data, 129 companies reported that they were engaged in the provision of either competitive access provider services or competitive local exchange carrier services. The Commission does not have data specifying the number of these carriers that are either dominant in their field of operations, are not independently owned and operated, or have more than 1,500 employees, and thus is unable at this time to estimate with greater precision the number of competitive

LECs that would qualify as small business concerns under the SBA's definition. Consequently, the Commission estimates that fewer than 129 providers of local exchange service are small entities or small competitive LECs that may be affected by these proposals.

Description of the Projected Reporting, Recordkeeping, and Other Compliance Requirements

It is not clear whether, on balance, the CALLS proposal will increase or decrease price cap incumbent local exchange carriers' administrative burdens. Some of the rate structure reforms in the CALLS proposal will require additional filings. In particular, the CALLS proposal requires price cap LECs to file with USAC additional information pertaining to line counts by zone and customer class, revenue data, and information regarding zone boundaries. Competitive LECs would also have to file with USAC line counts by zone and customer class. The filings are on a quarterly basis. On the other hand, other reforms in the CALLS proposal, such as the elimination of the PICC, should reduce administrative burdens for price cap LECs. Finally, some of the reforms in the CALLS proposal may have a neutral affect on administrative burdens. For example, under the CALLS proposal, implicit subsidies now collected by price cap LECs from IXCs through access charges will be collected as explicit subsidies from USAC. This reform should neither increase nor decrease the administrative burden for price cap LECs.

Steps Taken To Minimize Significant Economic Impact on Small Entities, and Significant Alternatives Considered

The proposals made by CALLS could have varying positive or negative impacts on price cap LECs, including any such small carriers. The alternative to consideration of adopting the CALLS proposal at this time would be to continue in effect the existing access charge and universal service fund rules. Neither this alternative, nor any other identified by the Commission, would lessen the significant economic impact on small entities while remaining consistent with this Order's objectives.

Several commenters, while not directly responding to our IRFA, did raise general small-business-related concerns. Commenters concerned about protecting smaller IXCs in competition with large IXCs request that the CALLS proposal require a proportionate share of the agreed upon local switching rate reductions to come from tandem-switched rates. This Order explains,

however, that (1) competition in the long-distance market eliminates the need for rules protecting smaller IXCs, and (2) even if price cap LECs target their access rate reductions only to direct-trunked transport, these reductions should make direct-trunked transport an affordable alternative for smaller IXCs. Other commenters argue that the CALLS proposal should have a separate X-factor for mid-size price cap incumbent LECs because these carriers are not able to achieve the same levels of productivity growth as larger LECs. As this Order explains, however, the X-factor adopted under the CALLS proposal is not a productivity offset, but is merely a method to reduce traffic sensitive charges to the Proposal's target level.

This Order makes two allowances for smaller price cap LECs. First, the Order allows a higher target access rate for smaller and very low-density price cap LECs. Whereas the target for the BOCs and GTE is set at 0.55 cents, the target is 0.95 cents for small very-low density price cap LECs and 0.65 cents for the other smaller price cap LECs. Second, the Order allows mid-size price cap carriers with at least 20 percent of total holding company lines serving statutorily rural areas to pool their access charge reductions and to temporarily recover them from sources other than residential end users and per-minute charges.

Report to Congress

The Commission will send a copy of this Order, including this FRFA, in a report to be sent to Congress pursuant to the Small Business Regulatory Enforcement Fairness Act of 1996. In addition, the Commission will send a copy of this Order, including this FRFA, to the Chief Counsel for Advocacy of the Small Business Administration. A copy of this Order and FRFA (or summaries thereof) will also be published in the **Federal Register**.

Paperwork Reduction Act

The action contained herein has been analyzed with respect to the Paperwork Reduction Act of 1995 and found to impose new or modified reporting and recordkeeping requirements or burdens on the public. Implementation of these new or modified reporting and recordkeeping requirements have been approved by OMB as prescribed by the Act, and will go into effect upon publication in the **Federal Register**.

Pursuant to sections 1, 4(i) and (j), 201-209, 218-222, 254, and 403 of the Communications Act, as amended, 47 U.S.C. 151, 154 (i), 154(j), 201-209,

218-222, 254, and 403 that this Order *Is Hereby Adopted*.

We, therefore, *Order* that the Inquiry initiated in CC Docket 99-249 is hereby *Terminated*. This action is taken pursuant to authority contained in sections 4(i) and 303 of the Communications Act of 1934, as amended, 47 U.S.C. 4(i), 303.

The Commission's Consumer Information Bureau, Reference Information Center, Shall Send a copy of this Order, including the Final Regulatory Flexibility Analysis, to the Chief Counsel for Advocacy of the Small Business Administration.

Pursuant to 5 U.S.C. 553(d)(3), we find good cause exists to have the rules take effect immediately upon publication in the **Federal Register**. Local exchange carriers subject to price cap regulation must file access reform tariffs no later than June 16, 2000 in order for them to be effective by July 1, 2000, as required by 47 CFR 69.3. In addition, to ensure that the local exchange carriers subject to price cap regulation have actual notice of these rules immediately following their release, we are serving those entities by overnight mail.

List of Subjects

47 CFR Part 54

Reporting and recordkeeping requirements, Telecommunications, Telephone.

47 CFR Part 61

Access charges, Communications common carriers, Telephone.

47 CFR Part 69

Communications common carriers, Telephone.

Federal Communications Commission.

William F. Caton,
Deputy Secretary.

Regulatory Text

For the reasons set forth in the preamble, the Federal Communications Commission amends 47 CFR parts 54, 61, and 69 as follows:

PART 54—UNIVERSAL SERVICE

1. The authority citation for part 54 continues to read as follows:

Authority: Secs. 1, 4(i), 201, 205, 214, and 254 unless otherwise noted.

2. Amend § 54.403 by removing paragraph (d) and revising paragraphs (a) and (b) to read as follows:

§ 54.403 Lifeline support amount.

(a) The federal Lifeline support amount for all eligible telecommunications carriers shall equal:

(1) *Tier One.* The tariffed rate in effect for the primary residential End User Common Line charge of the incumbent local exchange carrier serving the area in which the qualifying low-income consumer receives service, as determined in accordance with § 69.104 or §§ 69.152(d)(1) and 69.152(q) of this chapter, whichever is applicable;

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

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

(b) For the qualifying low-income consumer, the federal Lifeline support amount shall not exceed \$3.50 plus the tariffed rate in effect for the primary residential End User Common Line charge of the incumbent local exchange carrier serving the area in which the qualifying low-income consumer receives service, as determined in accordance with § 69.104 or §§ 69.152(d)(1) and 69.152(q) of this chapter, whichever is applicable. Eligible telecommunications carriers that charge federal End User Common Line charges or equivalent federal charges shall apply Tier One federal Lifeline support to waive Lifeline consumers' federal End User Common Line charges. Such carriers shall apply any additional federal support amount to a qualifying low-income consumer's intrastate rate, if the state has approved of such additional support. Other eligible telecommunications carriers shall apply Tier One federal Lifeline support amount, plus any additional federal support amount, to reduce their lowest tariffed (or otherwise generally available) residential rate for the services enumerated in § 54.101(a)(1) through (a)(9), and charge Lifeline consumers the resulting amount.

* * * * *

3. Amend § 54.701 by revising paragraph (g) to read as follows:

§ 54.701 Administrator of universal service support mechanism.

* * * * *

(g)(1) The Administrator shall establish three divisions:

(i) the Schools and Libraries Division, which shall perform duties and

functions in connection with the schools and libraries support mechanism under the direction of the Schools and Libraries Committee of the Board, as set forth in § 54.705(a);

(ii) The Rural Health Care Division, which shall perform duties and functions in connection with the rural health care support mechanism under the direction of the Rural Health Care Committee of the Board, as set forth in § 54.705(b); and

(iii) The High Cost and Low Income Division, which shall perform duties and functions in connection with the high cost and low income support mechanism, and the interstate access universal service support mechanism described in subpart J of this part, under the direction of the High Cost and Low Income Committee of the Board, as set forth in § 54.705(c).

(2) As directed by the Committees of the Board set forth in § 54.705, these divisions shall perform the duties and functions unique to their respective support mechanisms.

* * * * *

4. Amend § 54.702 by revising paragraphs (a) and (i) to read as follows:

§ 54.702 Administrator's functions and responsibilities.

(a) The Administrator, and the divisions therein, shall be responsible for administering the schools and libraries support mechanism, the rural health care support mechanism, the high cost support mechanism, the low income support mechanism, and the interstate access universal service support mechanism described in subpart J of this part.

* * * * *

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

* * * * *

5. Amend § 54.705 by revising paragraph (c)(1) to read as follows:

§ 54.705 Committees of the Administrator's Board of Directors.

* * * * *

(c) * * *

(1) *Committee functions.* The High Cost and Low Income Committee shall oversee the administration of the high-cost and low-income support mechanisms and the interstate access universal service support mechanism

described in subpart J of this Part, by the High Cost and Low Income Division. The High Cost and Low Income Committee shall have the authority to make decisions concerning:

(i) How the Administrator projects demand for the high-cost, low-income, and interstate access universal service support mechanisms;

(ii) Development of applications and associated instructions as needed for the high-cost, low-income, and interstate access universal service support mechanisms;

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

(iv) Performance of audits of beneficiaries under the high-cost, low-income, and interstate access universal service support mechanisms and;

(v) Development and implementation of other functions unique to the high-cost, low-income, and interstate access universal service support mechanisms.

* * * * *

6. Amend § 54.715 by revising paragraph (c) to read as follows:

§ 54.715 Administrative expenses of the Administrator.

* * * * *

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

7. Add subpart J to part 54 to read as follows:

Subpart J—Interstate Access Universal Service Support Mechanism

Sec.

54.800 Terms and definitions.

54.801 General.

54.802 Obligations of LECs and the Administrator.

54.803 Universal service zones.

54.804 Preliminary study area minimum access universal service support calculated by the Administrator.

54.805 Zone and study area above benchmark revenues calculated by the Administrator.

54.806 Calculation by the Administrator of interstate access universal service support for areas served by price cap LECs.

54.807 Interstate access universal service support.

54.808 Transition provisions and periodic calculation.

54.809 Carrier certification.

Subpart J—Interstate Access Universal Service Support Mechanism

§ 54.800 Terms and definitions.

(a) *Average Price Cap CMT Revenue Per Line Month in a Study Area* has the same meaning as that term is defined in § 61.3(d) of this chapter, except that it includes exogenous changes in effect prior to the effective date of a calculation made pursuant to § 54.808 and exogenous changes not yet effective related to the sale or acquisition of exchanges, but excludes any other exogenous changes or other changes made pursuant to § 61.45(i)(4) of this chapter that are not yet effective.

(b) *Base Period Lines.* For purposes of calculations pursuant to this subpart, Base Period Lines are the number of lines for a given study area or zone as of the end of the quarter ending 6 months prior to the effective date of a calculation pursuant to § 54.808.

(c) *Interstate Access Universal Service Support Benchmark* shall mean, for residential and single-line business lines, \$7.00, and for multi-line business lines, \$9.20.

(d) *Minimum Adjustment Amount (MAA)* is defined in § 54.806(f).

(e) *MAA Phase In Percentage* is: 50% as of July 1, 2000, 75% as of July 1, 2001, 100% as of July 1, 2002.

(f) *Minimum Delta (MD)* is defined in § 54.806(d).

(g) *Minimum Support Requirement (MSR)* is defined in § 54.806(g).

(h) *Nationwide Total Above Benchmark Revenues* is defined in § 54.806(b).

(i) *Price Cap LEC* is defined in § 54.802(c).

(j) *Preliminary Study Area Minimum Access Universal Service Support* is the amount calculated pursuant to § 54.804.

(k) *Preliminary Study Area Universal Service Support (PSAUSS)* is defined in § 54.806(c).

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

(m) *Study Area Access Universal Service Support (SAAUS)* is defined in § 54.806 (i) and (j).

(n) *Total National Minimum Delta (TNMD)* is the nationwide sum of all study area Minimum Deltas.

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

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

(q) *Zone Average Revenue per Line.*

The amount calculated as follows:

Zone Average Revenue Per Line =
 $(25\% * (\text{Loop} + \text{Port})) + U$ (Uniform revenue per line adjustment)
 Loop = Price for the loop in a particular zone.

Port = Price for the port in a particular zone.

$U = \frac{[(\text{Average Price Cap CMT Revenue Per Line Month in a study area} * \text{LEC Base Period Lines}) - (25\% * \Sigma (\text{LEC Base Period Lines in a UNE Zone} * (\text{Loop} + \text{Port}) \text{ for all zones}))]}{\div \text{LEC Base Period Lines in a study area.}}$

§ 54.801 General.

(a) The total amount of universal service support under this subpart, excluding administrative expenses, for areas served by price cap LECs as of June 30, 2000, is targeted to be \$650 million per year, if no exchanges, other than those offered for sale prior to January 1, 2000, are sold to non-price-cap LECs or purchased from non-price cap LECs by price cap LECs.

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

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

(d) In the event that a price cap LEC acquires additional exchanges from an

entity that is also a price cap LEC, the acquiring price cap LEC will receive support under this subpart at the same level as the selling price cap LEC formerly received, and both carriers will adjust their line counts accordingly beginning with the next quarterly report to the Administrator. At the subsequent report to the Administrator for purposes of recalculating support as required by § 54.808, the acquiring and selling price cap LECs will reflect the acquired and sold lines, and will adjust the average CMT Revenue per Line per Month for the affected study areas accordingly.

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

§ 54.802 Obligations of LECs and the Administrator.

(a) Each Eligible Telecommunications Carrier that is providing service within an area served by a price cap LEC shall submit to the Administrator, on a quarterly basis on the last business day of March, June, September, and December of each year line count data showing the number of lines it serves for the period ending three months prior to the reporting date, within each price cap LEC study area disaggregated by UNE Zone if UNE Zones have been established within that study area, showing residential/single-line business and multi-line business line counts separately. For purposes of this report, and for purposes of computing support under this subpart, the aggregated residential/single-line business class lines reported include single and non-primary residence lines, single-line business lines, ISDN BRI and other related residence class lines. Similarly, the multi-line business class lines reported include multi-line business, centrex, ISDN PRI and other related business class lines assessed the End User Common Line charge pursuant to § 69.152 of this chapter. For purposes of this report and for purposes of computing support under this subpart, lines served using resale of the price cap LEC's service pursuant to section 251(c)(4) of the Communications Act of 1934, as amended, shall be considered lines served by the price cap LEC only and must be reported accordingly.

(b) In addition to the information submitted pursuant to paragraph (a) of this section, each price cap LEC must submit to the Administrator, on June 30, 2000, October 15, 2000, and April 16, 2001 and annually thereafter or as determined by the Administrator according to § 54.808:

(1)(i) Average Price Cap CMT Revenue Per Line Month in a study area for each of its study areas;

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

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

(2) Provided, however, that after the June 30, 2000 filing, if there have been no changes since its previous filing a company may submit a statement that there have been no changes in lieu of such information, and further provided that, for study areas in which UNE Zones have been newly established since the last filing pursuant to this paragraph, the price cap LEC shall also report the information required by paragraphs (b)(1)(ii) and (b)(1)(iii) of this section to the Administrator on July 15, 2000, or January 15, 2001, as required.

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

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

(1) Perform the calculations described in §§ 54.804 through 54.807 of this subpart;

(2) Publish the results of these calculations showing Interstate Access Universal Service Support Per Line available in each price cap LEC study area, by UNE Zone and customer class;

(3) Collect the funds necessary to provide support pursuant to this subpart in accordance with subpart H; and

(4) Distribute support calculated pursuant to the rules contained in this subpart; and;

(5) Report quarterly to the Commission on the collection and distribution of funds under this subpart as described in § 54.701(g). Fund distribution reporting will be by state and by eligible telecommunications carrier within the state.

§ 54.803 Universal service zones.

(a) The zones used for determining interstate access universal service

support shall be the same zones that would be used for End User Common Line (EUCL) charge deaveraging as described in § 69.152(q)(2) of this chapter.

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

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

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

§ 54.804 Preliminary study area minimum access universal service support calculated by the Administrator.

(a) If Average Price Cap CMT Revenue Per Line Month is greater than \$9.20 then: Preliminary Minimum Access Universal Service Support (for a study area) = Price Cap CMT Revenue Per Line Month in a study area \times LEC Base Period Lines \times 12) - ((\$7.00 \times LEC Base Period Residential and Single-Line Business Lines \times 12) + (\$9.20 \times LEC Base Period Multi-line Business Lines \times 12)).

(b) If Price Cap CMT Revenue Per Line Month in a study area is greater than \$7.00 but less than \$9.20 then: Preliminary Minimum Access Universal Service Support (for a study area) = (Price Cap CMT Revenue Per Line Month in a study area - \$7.00) \times (LEC Base Period Residential and Single-Line Business Lines \times 12).

(c) If Price Cap CMT Revenue Per Line Month in a study area is less than \$7.00 then the Preliminary Minimum Access Universal Service Support (for a study area) is zero.

§ 54.805 Zone and study area above benchmark revenues calculated by the Administrator.

(a) The following steps shall be performed by the Administrator to determine Zone Above Benchmark Revenues for each price cap LEC.

(1) Calculate Zone Average Revenue Per Line.

(2) Calculate Zone Above Benchmark Revenues. Zone Above Benchmark Revenues is the sum of Zone Above Benchmark Revenues for Residential and Single-Line Business Lines and Zone Above Benchmark Revenues for Multi-line Business Lines Zone Above Benchmark Revenues for Residential and Single-Line Business Lines is, within each zone, (Zone Average Revenue Per Line minus \$7.00) multiplied by all eligible telecommunications carrier Base Period Residential and Single-Line Business Lines times 12. If negative, the Zone Above Benchmark Revenues for Residential and Single-Line Business Lines for the zone is zero. Zone Above Benchmark Revenues for Multi-line Business Lines is, within each zone, (Zone Average Revenue Per Line minus \$9.20) multiplied by all eligible telecommunications carrier zone Base Period Multi-line Business Lines times 12. If negative, the Zone Above Benchmark Revenues for Multi-line Business Lines for the zone is zero.

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

§ 54.806 Calculation by the Administrator of interstate access universal service support for areas served by price cap LECs.

(a) The Administrator, based on the calculations performed in §§ 54.804 and 54.805, shall calculate the Interstate Access Universal Service Support for areas served by price cap LECs according to the following methodology:

(b) Calculate Nationwide Total Above Benchmark Revenues. Nationwide Total Above Benchmark Revenues is the sum of all Study Area Above Benchmark Revenues for all study areas served by LECs,

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

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

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

(d) Calculate the Minimum Delta (MD) by study area. Within each study area the Minimum Delta will be equal to the Preliminary Minimum Access Universal Service Support less the PSAUSS, if the difference is greater than zero. If the difference is less than or equal to zero, the MD is equal to zero.

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

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

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

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

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

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

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

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

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

Preliminary Study Area Universal Service Support \times (\$650 million - TNMSR) \div (the sum of PSAUSS of study areas where the Preliminary Minimum Access Universal Service Support is less than PSAUSS).

(j) Calculate Study Area Access Universal Service Support (SAAUS) for a price cap LEC that has not established geographically deaveraged state-

approved rates for UNE loops. In such study areas, the SAAUS shall be the lesser of the Preliminary Minimum Access Universal Service Support or:

(1) For study areas in which the Preliminary Minimum Access Universal Service Support is greater than PSAUSS, and for which an estimate has been made for deaveraged UNE loop costs, the SAAUS for that study area is the MSR.

(2) For study areas in which the Preliminary Minimum Access Universal Service Support is less than PSAUSS, and for which an estimate has been made for deaveraged UNE loop costs, the SAAUS for that study area is equal to:

Preliminary Study Area Universal Service Support \times (\$650 million - TNMSR) \div (the sum of PSAUSS of study areas where the Preliminary Minimum Access Universal Service Support is less than PSAUSS).

§ 54.807 Interstate access universal service support.

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

(b) In any study area within which the LEC has not established state approved geographically deaveraged rates for UNE loops, the Administrator shall calculate the Interstate Access Universal Service Support Per Line by dividing Study Area Access Universal Service Support by twelve times all eligible telecommunications carriers' base period lines in that study area adjusted for growth during the relevant support period based on the average nationwide annual growth in eligible lines during the three previous years. For the purpose of calculating growth, the Administrator shall use a simple average of annual growth rates for total switched access lines for the three most recent years as reported in the Common Carrier Bureau Report, Statistics of Communications Common Carriers, Table 6.10—Selected Operating Statistics. Interested parties may obtain this report from the U.S. Government Printing Office or by downloading it from the Federal Communication Commission's website <http://www.fcc.gov>.

(c) In any study area within which the LEC has established state approved geographically deaveraged rates for UNE loops, the Administrator shall calculate the Interstate Access Universal Service Support Per Line for each customer class and zone using all eligible telecommunications carriers' base

period lines by customer class and zone adjusted for growth during the relevant support period based on the average nationwide annual growth in eligible lines during the three previous years.

For the purpose of calculating growth, the Administrator shall use a simple average of annual growth rates for total switched access lines for the three most recent years as reported in the Common Carrier Bureau Report, Statistics of Communications Common Carriers, Table 6.10—Selected Operating Statistics. Support shall be allocated to lines in the highest cost UNE zone first, and will "cascade" to lines in lower cost UNE zones to the extent that sufficient funding is available. Beginning with the zone with the highest Zone Average Revenue Per Line, support will be applied in the following order of priority:

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

(2) If the Zone Average Revenue Per Line in the next highest zone is greater than \$9.20, then to all lines in both zones to eliminate the amount per line by which Zone Average Revenue per Line exceeds \$9.20 or the Zone Average Revenue Per Line in the third highest zone. This application of support will continue to additional zones in the same fashion until the amount per line by which Zone Average Revenue Per Line exceeds \$9.20 has been eliminated in all zones, or until the available support has been exhausted;

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

(4) If the Zone Average Revenue per Line in the next highest zone is greater than \$7.00, then to all residential and single-line business lines in both zones to eliminate the remaining amount per line by which Zone Average Revenue Per Line exceeds \$7.00. This application of support will continue to additional zones in the same fashion until the difference between Zone Average Revenue Per Line and \$7.00 has been eliminated in all zones, or until the available support has been exhausted.

(d) Notwithstanding the provisions of § 54.307(a)(2), the per-line support amount determined within each zone by applicable customer class under paragraph (b) or (c) of this section is portable among all eligible

telecommunications carriers providing service within that zone.

§ 54.808 Transition provisions and periodic calculation.

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

§ 54.809 Carrier certification.

(a) *Certification.* Carriers that desire to receive support pursuant to § 54.807 must file a certification with the Administrator and the Commission stating that all interstate access universal service support provided to such carrier will be used only for the provision, maintenance, and upgrading of facilities and services for which the support is intended. Support provided pursuant to § 54.807 shall only be provided to the extent that the carrier has filed the requisite certification pursuant to this section.

(b) *Certification format.* A certification pursuant to this section may be filed in the form of a letter from an authorized representative for the carrier, and must be filed with both the Office of the Secretary of the Commission clearly referencing CC Docket No. 96-45, and with the Administrator of the interstate access universal service support mechanism, on or before the filing deadlines set forth in paragraph (c) of this section. All of the certifications filed by carriers pursuant to this section shall become part of the public record maintained by the Commission.

(c) *Filing deadlines.* In order for a price cap local exchange carrier, and/or an eligible telecommunications carriers serving lines in the service area of a price cap local exchange carrier, to receive interstate access universal service support, such carrier must file an annual certification, as described in paragraph (b) of this section, on the date that it first files its line count information pursuant to § 54.802, and thereafter on June 30th of each year.

PART 61—TARIFFS

8. The authority citation for part 61 continues to read as follows:

Authority: Secs. 1, 4(i), 4(j), 201-205 and 403 of the Communications Act of 1934, as amended; 47 U.S.C. 151, 151(i), 154(j), 201-205 and 403, unless otherwise noted.

9. Amend § 61.3 by revising paragraphs (d) through (pp) and adding paragraphs (qq) through (zz) to read as follows:

§ 61.3 Definitions.

* * * * *

(d) *Average Price Cap CMT Revenue per Line month.* (1) Price Cap CMT Revenue (as defined in § 61.3(cc)) per month as of July 1, 2000 (adjusted to remove Universal Service Contributions assessed to LECs pursuant to § 54.702 of this chapter) using 2000 annual filing base period demand, divided by the 2000 annual filing base period demand. In filing entities with multiple study areas, if it becomes necessary to calculate the Average Price Cap CMT Revenue Per Line month for a specific study area, then the Average Price Cap CMT Revenue Per Line month for that study area is determined as follows, using base period demand revenues (adjusted to remove Universal Service Contributions assessed to Local Exchange Carriers pursuant to § 54.702 of this chapter), Base Factor Portion (BFP) and 2000 annual filing base period lines:

$$\text{Average Price Cap CMT Revenue Per Line Month in a study area} = \frac{\text{Price Cap CMT Revenue} \times (\text{BFP in the study area})}{\text{BFP} + (\text{Lines in the study area})}$$

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

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

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

(e) Average traffic sensitive charge. (1) The Average Traffic Sensitive Charge ("ATS charge") is the sum of the following two components:

(i) *The Local Switching (LS) component.* The Local Switching component will be calculated by dividing the proposed Local Switching revenues (End Office Switch, LS trunk ports, Information Surcharge, and signalling transfer point (STP) port) by the base period LS minutes of use (MOUs); and

(ii) *The Transport component.* The Transport component will be calculated by dividing the proposed Transport revenues (Switched Direct Trunk Transport, Signalling for Switched Direct Trunk Transport, Entrance Facilities for Switched Access traffic, Tandem Switched Transport, Signalling for Tandem Switching and residual per minute Transport Interconnection Charge (TIC) pursuant to § 69.155 of this chapter by LEC only base period MOUs

(including meet-point billing arrangements for jointly-provided interstate access by a LEC and any other LEC).

(2) For the purposes of determining whether the ATS charge has reached the Target Rate as set forth in § 61.3(qq), the calculations should include all the relevant revenues and minutes for services provided under generally available price cap tariffs.

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

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

(h) *Basket.* Any class or category of tariff service or charge:

(1) Which is established by the Commission pursuant to price cap regulation;

(2) The rates of which are reflected in an Actual Price Index; and

(3) The related revenues of which are reflected in a Price Cap Index.

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

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

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

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

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

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

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

(p) *Corrections.* The remedy of errors in typing, spelling, or punctuation.

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

(r) *GDP Price Index (GDP-PI).* The estimate of the Chain-Type Price Index for Gross Domestic Product published by the United States Department of Commerce, which the Commission designates by Order.

(s) *GNP Price Index (GNP-PI).* The estimate of the "Fixed-Weighted Price Index for Gross National Product, 1982 Weights" published by the United States Department of Commerce, which the Commission designates by Order.

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

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

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

(w) *Mid-size company.* All price cap LECs other than the Regional Bell Operating Companies and GTE.

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

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

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

(aa) *Price cap LEC.* See § 61.41(a) of this section.

(bb) *Local switching pooled Revenue.* For certain qualified companies as set forth in § 61.48 (m), is the amount of additional local switching reductions in the July 2000 Annual filing allowed to be moved and recovered in the common line basket.

(cc) *Price Cap CMT Revenue.* The maximum total revenue a filing entity would be permitted to receive from End User Common Line charges under § 69.152 of this chapter, Presubscribed Interexchange Carrier charges (PICCs) under § 69.153 of this chapter, Carrier Common Line charges under § 69.154 of this chapter, and Marketing under § 69.156 of this chapter, using Base Period lines. Price Cap CMT Revenue does not include the price cap LEC universal service contributions as of July 1, 2000. The Price Cap CMT revenue does not include the pooled local switching revenue outlined in paragraph (bb) of this section.

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

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

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

(gg) [Reserved]

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

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

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

(kk) *Regulations*. The body of carrier prescribed rules in a tariff governing the offering of service in that tariff, including rules, practices, classifications, and definitions.

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

(mm) *Rural Company*. A company that, as of December 31, 1999, was certified to the Commission as a rural telephone company.

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

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

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

(qq) *Target Rate*. The applicable Target Rate shall be defined as follows:

(1) For regional Bell Operating Companies and GTE, \$0.0055 per ATS minute of use;

(2) For a holding company with a holding company average of less than 19 Switched Access End User Common Line charge lines per square mile served such company may elect to use a Target Rate of \$0.0095 with respect to all exchanges owned by that holding company on July 1, 2000, or which that

holding company is, as of April 1, 2000, under a binding and executed contract to purchase;

(3) For other price cap local exchange carriers, \$0.0065 per ATS minute of use.

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

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

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

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

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

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

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

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

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

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

Where:

Loop = the price for unbundled loops in a UNE zone.

Port = price for switch ports in that UNE zone.

U (Uniform revenue per line adjustment) =

$$U = \left[\frac{(\text{Price Cap CMT Revenue Per Line Month in a study area} * \text{LEC Base Period Lines}) - (25\% * \sum (\text{LEC Base Period Lines in a UNE Zone} * ((\text{Loop} + \text{Port}) \text{ for all zones}))}{\text{LEC Base Period Lines in a study area}} \right]$$

10. Amend § 61.41 by revising paragraphs (c) and (d) to read as follows:

§ 61.41 Price cap requirements generally.

* * * * *

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

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

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

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

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

11. Amend § 61.42 by removing paragraphs (d)(6) and (e)(2)(v) through (e)(2)(vii) and revising paragraphs (d)(1), (d)(3), (d)(5), (e)(2)(i) through (e)(2)(iv), and adding paragraph (e)(3), to read as follows:

§ 61.42 Price cap baskets and service categories.

* * * * *

(d) * * *

(1) A basket for the common line, marketing, and certain residual interconnection charge interstate access elements as described in §§ 69.115, 69.152, 69.153, 69.154, 69.155, 69.156, and 69.157 of this chapter. For purposes of §§ 61.41 through 61.49, this basket shall be referred to as the "CMT basket."

* * * * *

(3) A basket for trunking services as described in §§ 69.110, 69.111, 69.112, 69.125(b), 69.129, and 69.155 of this chapter. For purposes of §§ 61.41

through 61.49, this basket shall be referred to as the "trunking basket."

* * * * *

(5) A basket for special access services as described in § 69.114 of this chapter.

* * * * *

(e) * * *

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

(i) Voice grade entrance facilities, voice grade direct-trunked transport, voice grade dedicated signalling transport,

(ii) High capacity flat-rated transport, including the following service subcategories:

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

(B) DS3 entrance facilities, DS3 direct-trunked transport, DS3 dedicated signalling transport.

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

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

* * * * *

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

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

(ii) Audio and video services;

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

(A) DS1 special access services; and

(B) DS3 special access services;

(iv) Wideband data and wideband analog services.

12. Revise § 61.45 to read as follows:

§ 61.45 Adjustments to the PCI for Local Exchange Carriers.

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

(b)(1)(i) Adjustments to local exchange carrier PCIs, in those carriers' annual access tariff filings, the traffic sensitive basket described in § 61.42(d)(2), the trunking basket described in § 61.42(d)(3), the special access basket described in § 61.42(d)(5) and the Interexchange Basket described in § 61.42(d)(4)(i), shall be made pursuant to the following formula:

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

Where the terms in the equation are described:

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

X = For the CMT, traffic sensitive, and trunking baskets, for annual filings only, the factor is set at the level prescribed in paragraphs (b)(1)(ii) and (iii) of this section. For the interexchange basket, for annual filings only, the factor is set at the level prescribed in paragraph (b)(1)(v) of this section. For the special access basket, for annual filings only, the factor is set at the level prescribed in paragraph (b)(1)(iv) of this section. For all other filings, the value is zero.

g = For annual filings for the CMT basket only, the ratio of minutes of use per access line during the base period, to minutes of use per access line during the previous base period, all minus 1.

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

Targeted Reduction = the actual possible dollar value of the (GDP-PI-X) reductions that will be targeted to the ATS Charge pursuant to § 61.45(i)(3). The reductions calculated by applying the (GDP-PI-X) portion of the formula to the CCL element within the CMT basket will contain the "g" component, as defined above.

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

w = R + Z, all divided by R (used for the traffic sensitive, trunking, and special access baskets).

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

PCI_t = The new PCI value.

PCI_{t-1} = the immediately preceding PCI value.

(b)(1)(ii) The X value applicable to the baskets specified in §§ 61.42(d)(1), (d)(2), and (d)(3), shall be 6.5%, to the extent necessary to reduce a tariff entity's ATS charge to its Target Rate as set forth in § 61.3(qq). Once an LEC

tariff entity's ATS Charge is equal to the Target Rate as set forth in § 61.3(qq) for the first time (the former NYNEX telephone companies may be treated as a separate tariff entity), then, except as provided in paragraph (b)(1)(iii) of this section, X is equal to GDP-PI and no further reductions will be mandated (i.e., if applying the full X-factor reduction for a given year would reduce the ATS charge below the Target Rate as set forth in § 61.3 (qq), the amount of X-factor reduction applied that year will be the amount necessary to reach the Target Rate as set forth in § 61.3 (qq)). A filing entity does not reach the Target Rate as set forth in § 61.3(qq) in any year in which it exercises an exogenous adjustment pursuant to § 61.45(d)(vii). For companies with separate tariff entities under a single price cap, the following rules shall apply:

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

(B) Each tariff entity shall only be required to use the amount of targeting necessary to get to the Target Rate as set forth in § 61.3 (qq).

(b)(1)(iii)(A) Except as provided in paragraph (b)(1)(iii)(B) of this section, once the Tariff Entity's Target Rate as set forth in § 61.3 (qq) is achieved, the X-factor for the CMT basket will equal GDP-PI as long as GDP-PI is less than or equal to 6.5% and greater than 0%. If GDP-PI is greater than 6.5%, and an entity has eliminated its CCL and multi-line business PICs charges, the X-factor for the CMT basket will equal 6.5%, and all End User Common Line charges, rates and nominal caps, will be increased by the difference between GDP-PI and the 6.5% X-factor. If GDP-PI is less than 0, the X-factor for the CMT basket will be 0.

(B) For tariff filing entities with a Target Rate of \$0.0095, or for the portion of a filing entity consolidated pursuant to § 61.48(o) that, prior to such consolidation, had a Target Rate of \$0.0095, in which the ATS charge has achieved the Target Rate but in which the carrier common line (CCL) charge has not been eliminated, the X-factor for the CMT basket will be 6.5% until the earlier of June 30, 2004, or until CCL charges are eliminated pursuant to paragraph (i)(4) of this section.

Thereafter, in any filing entity in which a CCL charge remains after July 1, 2004, the X-factor for the CMT basket will be determined pursuant to paragraph (b)(1)(iii)(A) of this section as if CCL charges were eliminated.

(b)(1)(iv) For the special access basket specified in § 61.42(d)(5), the value of X shall be 3.0% for the 2000 annual filing.

The value of X shall be 6.5% for the 2001, 2002 and 2003 annual filings. Starting in the 2004 annual filing, X shall be equal to GDP-PI for the special access basket.

(b)(1)(v) For the interexchange basket specified in § 61.42(d)(4), the value of X shall be 3.0% for all annual filings.

(b)(2) Adjustments to local exchange carrier PCIs and average price cap CMT revenue per line, in tariff filings other than the annual access tariff filing, for the CMT basket described in § 61.42(d)(1), the traffic sensitive basket described in § 61.42(d)(2), the trunking basket described in § 61.42(d)(3), the interexchange basket described in § 61.42(d)(4), and the special access basket described in § 61.42(d)(5), shall be made pursuant to the formulas set forth in paragraph (b)(1)(i) of this section, except that the "w(GDP-PI-X)" component of those PCI formulas shall not be employed.

(c) Effective July 1, 2000, the prices of the CMT basket rate elements, excluding special access surcharges under § 69.115 of this chapter and line ports in excess of basic under § 69.157 of this chapter, shall be set based upon Average Price Cap CMT Revenue Per Line month.

(d) The exogenous cost changes represented by the term "Z" in the formula detailed in paragraphs (b)(1)(i) of this section shall be limited to those cost changes that the Commission shall permit or require by rule, rule waiver, or declaratory ruling.

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

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

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

(iii) Changes in the Separations Manual;

(iv) [Reserved]

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

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

(vii) Retargeting the PCI to the level specified by the Commission for carriers whose base year earnings are below the level of the lower adjustment mark, subject to the limitation in § 69.731 of this chapter. The allocation of LFAM amounts will be allocated pursuant to

§ 61.45(d)(3). This section shall not be applicable to tariff filings during the tariff year beginning July 1, 2000, but is applicable in subsequent years;

(viii) Inside wire amortizations;

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

(2) Local exchange carrier specified in §§ 61.41(a)(2) or (a)(3) shall, in their annual access tariff filing, recognize all exogenous cost changes attributable to modifications during the coming tariff year in their Subscriber Plant Factor and the Dial Equipment Minutes factor, and completions of inside wire amortizations and reserve deficiency amortizations.

(3) Exogenous cost changes shall be apportioned on a cost-causative basis between price cap services as a group, and excluded services as a group. Total exogenous cost changes thus attributed to price cap services shall be recovered from services other than those used to calculate the ATS charge.

(e) [Reserved]

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

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

(h) [Reserved]

(i)(1)(i) Price cap local exchange carriers that are recovering revenues through rates pursuant to §§ 69.106, 69.108, 69.109, 69.110, 69.111, 69.112, 69.113, 69.118, 69.123, 69.124, 69.125, 69.129, or § 69.155 of this chapter shall target, to the extent necessary to reduce the ATS Charge to the Target Rate as set forth in § 61.3 (qq) for the first time, any PCI reductions associated with the dollar impact of application of the (GDPPI-X) portion of the formula in § 61.45(b)(1)(i) to the traffic sensitive and trunking baskets. In order to calculate the actual dollars to transfer to the trunking and traffic sensitive baskets, carriers will first determine the "Targeted Revenue Differential" that will be transferred to the trunking and traffic sensitive baskets to reduce the ATS Charge to the Target Rate as set forth in § 61.3(qq). The Targeted Revenue Differential shall be applied only to the trunking and traffic sensitive baskets to the extent necessary to reduce the ATS charge to the Target Rate as set

forth in § 61.3 (qq), and shall not be applied to reduce the PCIs in any other basket or to reduced average price cap CMT Revenue per line, except as provided in § 61.45(i)(4).

(ii) For the purposes of § 61.45(i)(1)(i), Targeted Revenue Differential will be determined by adding together the following amounts:

(A) $R * (GDP-PI - X)$ for the traffic sensitive basket, trunking basket, and the CMT basket excluding CCL revenues; and

(B) $CCL \text{ Revenues} * [(GDP-PI-X - (g/2)]/[1 + (g/2)]$

Where "g" is defined in § 61.45(b)(1)(i).

(2) Until a tariff entity's ATS Charge equals the Target Rate as set forth in § 61.3 (qq) for the first time, the Targeted Revenue Differential will be targeted to reduce the following rates for that tariff filing entity, in order of priority:

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

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

(iii) To the other Local Switching charges and Switched Transport charges until the tariff entity's ATS Rate equals the Target Rate as set forth in § 61.3(qq) for the first time. In making these reductions, the reductions to Local Switching rates as a percentage of total X-factor reductions must be greater than or equal to the percentage proportion of Local Switching revenues to the total sum of revenues for Local Switching, Local Switching Trunk Ports, Signalling Transfer Point Port Termination, Switched Direct Trunked Transport, Signalling for Switched Direct Trunked Transport, Entrance Facilities for switched access traffic, Tandem Switched Transport, and Signalling for Tandem Switching (*i.e.*, Local Switching gets at least its proportionate share of reductions).

(3) After a price cap LEC reaches the Target Rate as set forth in § 61.3(qq) level, the ATS Rate will be recalculated each subsequent Annual Filing. This process will identify the new ATS Charge for the new base period level. Due to change in base period demand and inclusion of new services for that annual filing, the absolute level of a tariff entity's ATS Charge may change. The resulting new ATS Charge level will be what that tariff entity will be measured against during that base period. For example, if a company whose target is \$0.0055 reached the Target Rate during the 2000 annual filing, that level may change to \$0.0058 in the 2001 annual filing due to change in demand and inclusion of new

services. Therefore, it will be the \$0.0058 average rate that the tariff entity will be measured against for all non-annual filings. Likewise, if that same company was at the Target Rate during the 2000 filing, that level may change to \$0.0053 average rate in the 2001 annual filing due to change in demand and inclusion of new services. In that case, it will be at the \$0.0053 average rate that the tariff entity will be measured.

(4) A company electing a \$0.0095 Target Rate will, in the tariff year it reaches the Target Rate, apply any Targeted Revenue Differential remaining after reaching the Target Rate to reduce Average Price Cap CMT Revenue per Line month until the CCL charge is eliminated. In subsequent years, until the earlier of June 30, 2004 or when the CCL charge is eliminated, tariff filing entities with a Target Rate of \$0.0095, or the portion of a filing entity consolidated pursuant to § 61.48(o) that, prior to such consolidation, had a Target Rate of \$0.0095, will reduce Average Price Cap CMT Revenue per Line month according to the following method:

(i) Filing entity calculates the maximum allowable carrier common line revenue, as defined in § 61.46(d)(1), that would be permitted in the absence of further adjustment pursuant to this paragraph;

(ii) Filing entity identifies maximum amount of dollars available to reduce Average Price Cap CMT Revenue per Line month by the following:

(CMT revenue in a \$0.0095 Area less CCL revenue in a \$0.0095 Area) * (GDPPI-X) + (CCL Revenue in a \$0.0095 Area) * [GDPPI-X - (g/2)]/[1+(g/2)]

(iii) The Average Price Cap CMT Revenue per Line month shall then be reduced by the lesser of the amount described in paragraph (i)(4)(i) of this section and the amount described in paragraph (i)(4)(ii) of this section, divided by base period Switched Access End User Common Line Charge lines.

* * * * *

13. Revise § 61.46 to read as follows:

§ 61.46 Adjustments to the API.

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

$$API_t = API_{t-1} [S_1 v_i (p_t / p_{t-1})^i]$$

Where:

API[t] = the proposed API value,

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

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

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

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

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

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

(d) The maximum allowable carrier common line (CCL) revenue shall be computed pursuant to the following methodology:

$$CCL = CMT - EUCL - \text{Interstate Access Universal Service Support Mechanism Per Line} - PICC$$

Where:

CMT = Price Cap CMT Revenue as defined in § 61.3(cc).

EUCL = Maximum allowable EUCL rates established pursuant to § 69.152 of this chapter multiplied by base period lines.

Interstate Access Universal Service Support Per Line = the amount as determined by the Administrator pursuant to § 54.807 of this chapter times the number of base period lines for each customer class and zone receiving Interstate Access USF support pursuant to part 54, subpart J.

PICC = Maximum allowable PICC rates established pursuant to § 69.153 of this chapter multiplied by base period lines.

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

contract tariff in the calculations required by this section.

14. Amend § 61.47 by revising paragraphs (e) through (k) to read as follows:

§ 61.47 Adjustments to the SBI; pricing bands.

* * * * *

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

(1) Five percent:

(i) Local Switching (traffic sensitive basket)

(ii) Information (traffic sensitive basket)

(iii) Database Access Services (traffic sensitive basket)

(iv) 800 Database Vertical Services subservice (traffic sensitive basket)

(v) Billing Name and Address (traffic sensitive basket)

(vi) Local Switching Trunk Ports (traffic sensitive basket)

(vii) Signalling Transfer Point Port Termination (traffic sensitive basket)

(viii) Voice Grade (trunking and special access baskets)

(ix) Audio/Video (special access basket)

(x) Total High Capacity (trunking and special access baskets)

(xi) DS1 Subservice (trunking and special access baskets)

(xii) DS3 Subservice (trunking and special access baskets)

(xiii) Wideband (special access basket)

(2) Two percent:

(i) Tandem-Switched Transport (trunking basket)

(ii) Signalling for Tandem Switching (trunking basket)

(f) A local exchange carrier subject to price cap regulation may establish density zones pursuant to the requirements set forth in § 69.123 of this chapter, for any service in the trunking and special access baskets, other than the interconnection charge set forth in § 69.124 of this chapter. The pricing flexibility of each zone shall be limited to an annual increase of 15 percent, relative to the percentage change in the PCI for that basket, measured from the

levels in effect on the last day of the preceding tariff year. There shall be no lower pricing band for any density zone.

- (g) [Reserved]
- (h) [Reserved]
- (i)(l) [Reserved]

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

- (3) [Reserved]

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

(5) Effective July 1, 2000, notwithstanding the requirements of paragraph (a) of this section and subject to the limitations of § 61.45(i), if a local exchange carrier is recovering an ATS charge greater than its Target Rate as set forth in 61.3(qq), any reductions to the PCI for the Traffic Sensitive or Trunking baskets designated in §§ 61.42(d)(2) and 61.42(d)(3) resulting from the application of the provisions of § 61.45(b), and the formula in § 61.45(b) and from the application of the provisions of §§ 61.45(i)(1), and 61.45(i)(2) shall be directed to the SBIs of the service categories designated in § 61.42(e)(1) and 61.42(e)(2).

- (j) [Reserved]

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

15. Amend § 61.48 by removing and reserving paragraphs (j) and (k), revising paragraphs (i)(2), (i)(3), (i)(4) introductory text and (i)(4)(iii), and by adding paragraphs (l) through (o), to read as follows:

§ 61.48 Transition rules for price cap formula calculations.

- * * * * *
- (i) * * *

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

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

* * * * *

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

* * * * *

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

* * * * *

(l) *Average Traffic Sensitive Revenues.* (1) In the July 1, 2000 annual filing, price cap LECs will make an

additional reduction to rates comprising ATS charge, and to associated SBI upper limits and PCIs. This reduction will be calculated to be the amount that would be necessary, when calculated as if all price cap LECs elect to be price cap LECs, to achieve a total \$2.1 billion reduction in carrier common line and ATS rates by all price cap LECs, compared with those rates as they existed on June 30, 2000 using 2000 annual filing base period demand.

(i) The net change in revenue associated with Carrier Common Line Rate elements resulting from:

- (A) The removal from access of LEC contributions to the Federal universal service mechanisms;
- (B) LEC receipts of Interstate Access USF pursuant to subpart J of part 54;
- (C) Changes in End User Common Line Charges and PICC rates;
- (D) Changes in Carrier Common Line charges due to GDP-PI-X targeting for \$0.0095 filing entities.

(ii) Reductions in Average Traffic Sensitive charges resulting from:

(A) Targeting of the application of the (GDPPI-X) portion of the formula in § 61.45(b), and any applicable "g" adjustments;

(B) The removal from access of LEC contributions to the Federal universal service mechanisms;

(C) Additional ATS charge reductions defined in paragraph (2) of this section.

(2) Once the reductions in paragraph (l)(1)(i) and paragraphs (l)(1)(ii)(A) and (l)(1)(ii)(B) of this section are identified, the difference between those reductions and \$2.1 billion is the total amount of additional reductions that would be made to ATS rates of price cap LECs. This amount will then be restated as the percentage of total price cap LEC Local Switching revenues as of June 30, 2000 using 2000 annual filing base period demand ("June 30 Local Switching revenues") necessary to yield the total amount of additional reductions and taking into account the fact that, if participating, a price cap LEC would not reduce ATS rates below its Target Rate as set forth in § 61.3(qq). Each price cap LEC then reduces ATS rate elements, and associated SBI upper limits and PCIs, by a dollar amount equivalent to the percentage times the June 30 Local Switching revenues for that filing entity, provided that no price cap LEC shall be required to reduce its ATS rates below its Target Rate as set forth in § 61.3(qq). Each carrier can take its additional reductions against any of the ATS rate elements, provided that at least a proportional share must be taken against Local Switching rates.

(m) *Local Switching Revenues.* (1) Price cap local exchange carriers are

permitted to pool local switching revenues in their common line basket under one of the following conditions.

(i) Any price cap local exchange carriers that would otherwise have July 1, 2000 price cap reductions as a percentage of Base Period Price Cap Revenues at the holding company level greater than the industry wide total July 1, 2000 price cap revenue reduction as a percentage of Base Period Price Cap Revenues may elect temporarily to pool the amount of the additional reductions above 25% of the Local Switching element revenues necessary to yield that carrier's proportionate share of a total \$2.1 billion reduction in switched access usage rates on July 1, 2000. The basis of the reduction calculation will be R at $PCI_{(t-1)}$ for the upcoming tariff year. The percentage reductions per line amounts will be calculated as follows:

(Total Price Cap Revenue Reduction/ Base Period Price Cap Revenues) Pooled local switching revenue for each filing entity within a holding company that qualifies under this paragraph (i) will continue until such pooled revenues are eliminated under this paragraph. Notwithstanding the provisions of § 61.45(b)(1), once the Average Traffic Sensitive (ATS) rate reaches the applicable Target Rate as set forth in § 61.3(qq), the Targeted Revenue Differential as defined in § 61.45(i) shall be targeted to reducing pooled local switching revenue until the pooled local switching revenue is eliminated. Thereafter, the X-factor for these baskets will be determined in accordance with § 61.45(b)(1).

(ii) Price cap local exchange carriers other than the Bell companies and GTE with at least 20% of total holding company lines operated by companies that as of December 31, 1999 were certified to the Commission as rural carriers, may elect to pool up to the following amounts:

(A) For a price cap holding company's predominantly non-rural filing entities (*i.e.*, filing entities within which more than 50% of all lines are operated by telephone companies other than those that as of December 31, 1999 were certified to the Commission as rural telephone companies), the amount of the additional reductions to Average Traffic Sensitive Charge rates as defined in paragraph (l)(2) of this section, to the extent such reductions exceed 25% of the Local Switching element revenues (measured in terms of June 30, 2000 rates times 1999 base period demand);

(B) For a price cap holding company's predominantly rural filing entities (*i.e.*, filing entities with greater than 50% of lines operated by telephone companies that as of December 31, 1999 were

certified to the Commission as rural telephone companies), the amount of the additional reductions to Average Traffic Sensitive Charge rates as defined in paragraph (l)(2) of this section.

(2) Allocation of Pooled Local Switching Revenue to Certain Common Line Elements.

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

(ii) Pooled local switching revenue will be capped on a revenue per line basis.

(iii) Pooled local switching revenue is included in the total revenue for the common line basket in calculating the X-factor reduction targeted to the traffic sensitive rate elements, and for companies qualified under paragraph (m)(1)(i) of this section, to pooled elements after the Average Traffic Sensitive Charge reaches the target level. For the purpose of targeting X-factor reductions, companies that allocate pooled local switching revenue to other filing entities pursuant to paragraph (m)(2)(vii) of this section shall include pooled local switching revenue in the total revenue of the common line basket of the filing entity from which the pooled local switching revenue originated.

(iv) Pooled local switching revenue shall be kept separate from CMT revenue in the CMT basket. CMT rate elements for each filing entity shall first be set based on CMT revenue per line without regard to the presence of pooled local switching revenue for each filing entity.

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

(vi) Notwithstanding the provisions of § 69.152(k) of this chapter, pooled local switching revenue is first added to the MLB SLC until the rate equals the nominal cap (\$9.20) or the pooled local switching revenue is fully allocated. If pooled local switching revenue remains after applying amounts to the MLB SLC, notwithstanding the provisions of § 69.153 of this chapter, the remaining pooled local switching revenue may be added to the MLB PICC until the rate equals the nominal cap (\$4.31) or the pooled local switching revenue is fully allocated. Unallocated pooled local switching revenue may still remain. For

companies pooling pursuant to paragraph (m)(1)(i) of this section, these unallocated amounts may not be recovered from the CCL charge, the primary residential and single-line business SLC, a non-primary residential SLC, or from CMT elements in any other filing entity.

(vii) For companies pooling pursuant to paragraph (m)(1)(ii) of this section, pooled local switching revenue that can not be allocated to the MLB PICC and MLB SLC rates within an individual filing entity may not be recovered from the CCL charge, primary residential and single-line business SLC or residential/single-line business SLC charges, but may be allocated to other filing entities within the holding company, and collected by adding these amounts to the MLB PICC and MLB SLC rates. The allocation of pooled local switching revenue among filing entities will be recalculated at each annual filing. In subsequent annual filings, pooled local switching revenue that was allocated to another filing entity will be reallocated to the filing entity from where it originated, to the full extent permitted by the nominal caps of \$9.20 and \$4.31.

(viii) Notwithstanding the provisions of § 69.152(k) of this chapter, these unallocated local switching revenues that cannot be recovered fully pursuant to paragraph (m)(2)(vii) of this section are first added to the MLB SLC of other filing entities until the resulting rate equals the nominal cap (\$9.20) or the pooled local switching revenue for the holding company is fully allocated. If the pooled local switching revenue can be fully allocated to the MLB SLC, the amount is distributed to each filing entity with a rate below the nominal cap (\$9.20) based on its below-cap MLB SLC revenue as a percentage of the total holding company's below-cap MLB SLC revenue.

(ix) If pooled local switching revenue remains after applying amounts to the MLB SLC of all filing entities in the holding company, pooled local switching revenue may be added to the MLB PICC of other filing entities. Notwithstanding the provisions of § 69.153 of this chapter, the remaining pooled local switching revenue is distributed to each filing entity with a rate below the nominal cap (\$4.31) based on its below-cap MLB PICC revenue as a percentage of the total holding company's below-cap MLB PICC revenue.

(x) If pooled local switching revenue is added to the MLB SLC but not to the MLB PICC for a filing entity that qualified to de-average SLCs without regard to pooled local switching, the resulting SLC rates can still be de-

averaged. Total pooled local switching is added to the de-averaged zone 1 MLB SLC rate until the per line rate in zone 1 equals the rate in zone 2 or until the pooled local switching is fully allocated to the de-averaged MLB SLC rate for zone 1. If pooled local switching revenue remains after the rate in zone 1 equals zone 2, the de-averaged rates of zone 1 and zone 2 are increased until the pooled local switching is fully allocated to the de-averaged MLB SLC rates of zone 1 and 2 or until those rates reaches zone 3 MLB SLC rate level. This process continues until pooled local switching revenue is fully allocated to the zone de-averaged rates.

(n) Establishment of the special access basket, effective July 1, 2000.

(1) On the effective date, the PCI value for the special access basket, as defined in § 61.42(d)(5) shall be equal to the PCI for the trunking basket on the day preceding the establishment of the special access basket.

(2) On the effective date, the API value for the special access basket, as defined in § 61.42(d)(5) shall be equal to the API for the trunking basket on the day preceding the establishment of the special access basket.

(3) Service Category, Subcategory, and Density Zone SBIs and Upper Limits.

(i) Interconnection, Tandem Switched Transport, and Signalling Interconnection will retain the SBIs and upper limits and remain in the trunking basket.

(ii) Audio/Video and Wideband will retain the SBIs and upper limits and be moved into the special access basket.

(iii) For Voice Grade, the SBIs and upper limits in both baskets will be equal to the SBIs and upper limits in the existing trunking basket on the day preceding the establishment of the special access basket. Voice Grade density zones in the trunking basket will retain their indices and upper limits. Voice Grade density zones will be initialized in the special access basket when services are first offered in them.

(iv) For High Cap/DDS, DS1, and DS3 category and subcategories, the SBIs and upper limits in both baskets will be equal to the SBIs and upper limits in the existing trunking basket on the day preceding the establishment of the special access basket. SBIs and upper limits for services that are in both combined density zones and either DTT/EF or special access density zones will be calculated by using weighted averages of the indices in the affected zones.

(v) For each DTT/EF-related zone remaining in the trunking basket, the values will be calculated by taking the

sum of the products of the DTT/EF revenues times the DTT/EF index (or upper limit) and the DTT/EF-related revenues in the combined zone times the combined index (or upper limit), and dividing by the total DTT/EF-related revenues for that zone.

(vi) For each special access-related zone in the special access basket, the values will be calculated by taking the sum of the products of the special access revenues times the special access index (or upper limit) and the special access-related revenues in the combined zone times the combined index (or upper limit), and dividing by the total special access-related revenues for that zone.

(o) Treatment of acquisitions of exchanges with different ATS Target Rates as set forth in § 61.3(qq):

(1) In the event of that a price cap LEC acquires a filing entity or portion thereof from a price cap LEC after July 1, 2000, and the price cap LEC did not have a binding and executed contract to purchase that filing entity or portion thereof as of April 1, 2000, those properties retain their pre-existing Target Rates as set forth in § 61.3(qq). If those properties are merged into a filing entity with a different Target Rate as set forth in § 61.3(qq), the Target Rate as set forth in § 61.3(qq) for the merged filing entity will be the weighted average of the Target Rates as set forth in § 61.3(qq) for the properties being combined into a single filing entity, with the average weighted by local switching minutes. When a property acquired as a result of a contract for purchase executed after April 1, 2000 is merged with \$0.0095 Target Rate properties, the obligation to apply price-cap reductions to reduce CCL, pursuant to § 61.45(b)(iii) does not apply to the properties purchased under contracts executed after April 1, 2000, but continues to apply to the other properties.

(2) For sale of properties for which a holding company was, as of April 1, 2000, under a binding and executed contract to purchase but which close after June 30, 2000, but during tariff year 2000, and that are subject to the \$0.0095 Target Rate as set forth in § 61.3(qq), the Average Traffic Sensitive Rate charged by the purchaser for that property will be the greater of \$0.0095 or the Average Traffic Sensitive Rate for that property.

PART 69—ACCESS CHARGES

17. The authority citation for part 69 continues to read as follows:

Authority: 47 U.S.C. 154, 201, 202, 203, 205, 218, 220, 254, 403.

18. Revise § 69.4(d) to read as follows:

§ 69.4 Charges to be filed.

* * * * *

(d) Recovery of Contributions to the Universal Service Support Mechanisms by Incumbent Local Exchange Carriers.

(1) Incumbent local exchange carriers other than price cap LECs may recover their contributions to the universal service support mechanisms through carriers' carrier charges.

(i) [Reserved]

(ii) Non-price cap local exchange carriers may recover their contributions to the universal service mechanism by applying a factor to their carrier common line charge revenue requirements.

(2)(i) In lieu of the carriers' carrier charges described in paragraph (d)(1) of this section, price cap local exchange carriers may recover their contributions to the universal service support mechanisms through explicit, interstate, end-user charges that are equitable and nondiscriminatory.

(ii) To the extent that price cap local exchange carriers implement explicit, interstate, end-user charges to recover their contributions to the universal service support mechanisms, they must make corresponding reductions in their access charges to avoid any double recovery.

* * * * *

19. Amend § 69.115 by revising paragraph (c) to read as follows:

§ 69.115 Special access surcharges.

* * * * *

(c) If the association, carrier or carriers that file the tariff are unable to estimate such average usage for a period ending May 31, 1985, the surcharge for such period shall be twenty-five dollars (\$25) per line termination per month. As of June 30, 2000, these rates will remain and be capped at the current levels until June 30, 2005.

* * * * *

20. Revise § 69.152 to read as follows:

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

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

(b) [Reserved]

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

(d)(1) Beginning July 1, 2000, in a study area that does not have deaveraged End User Common Line Charges, the maximum monthly charge for each primary residential or single-line business local exchange service subscriber line shall be the lesser of:

(i) The Average Price Cap CMT Revenue Per Line as defined in §§ 61.3(d) of this chapter or

(ii) The following:

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

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

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

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

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

(e)(1) Beginning July 1, 2000, in a study area that does not have deaveraged End User Common Line Charges, the monthly charge for each non-primary residential local exchange service subscriber line shall be the lesser of:

(i) \$7.00; or

(ii) The greater of:

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

(B) Average Price Cap CMT Revenue Per Line.

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

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

(f) The charge for each primary residential local exchange service subscriber line shall be the same as the charge for each single-line business local exchange service subscriber line.

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

(h) Effective July 1, 1999, only one of the residential subscriber lines a price

cap LEC provides to a location shall be deemed to be a primary residential line.

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

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

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

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

(k)(1) Beginning on July 1, 2000, for any study area that does not have deaveraged End User Common Line charges and in the absence of voluntary reductions, the maximum monthly End User Common Line Charge for multi-line business lines will be the lesser of:

(i) \$9.20, or

(ii) The greater of:

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

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

Note to paragraph (k)(1): Except when the LEC reduces the rate through voluntary reductions, the multi-line business End User Common Line charge will be frozen until the study area's multi-line business PICC and CCL charge are eliminated.

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

(l)(1) Beginning January 1, 1998, LEC shall assess no more than one End User Common Line charge as calculated under the applicable method under paragraph (e) of this section for Basic Rate Interface integrated services digital network (ISDN) service.

(2) Local exchange carriers shall assess no more than five End User Common Line charges as calculated under paragraph (k) of this section for Primary Rate Interface ISDN service.

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

(n) [Reserved]

(o) [Reserved]

(p) [Reserved]

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

(1) In order for price cap LEC to be allowed to de-average End User Common Line charges within a study area, the price cap LEC must have state Commission approved geographically deaveraged rates for UNE loops within that study area. Except where a LEC geographically deaverages through voluntary reductions, before a price cap LEC may geographically deaverage its End User Common Line rates, its Originating and Terminating CCL and Multi-line Business PICC rates in that study area must equal \$0.00.

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

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

(4) For any given class of customer in any given zone, the Zone deaveraged End User Common Line Charge in that zone must be greater than or equal to the Zone deaveraged End User Common

Line charge in the zone with the next lower Zone Average Revenue Per Line.

(5) The sum of all revenues per month that would be generated from all deaveraged End User Common Line charges in all zones within a study area plus Interstate Access USF Support Per Line (as defined in § 54.807 of this chapter) for the applicable customer classes and zones receiving such support multiplied by corresponding base period lines, divided by the number of base period lines in that study area cannot exceed Average Price Cap CMT Revenue Per Line as defined in § 61.3(d) of this chapter for that study area. In addition, the sum of revenues per month that would be generated from all deaveraged End User Common Line charges in all End User Common Line charge deaveraging zones within a study area plus revenues per month from all End User Common Line charge, multi-line business PICC and CCL charges from study areas within that study area that have not geographically deaveraged End User Common Line charges plus the sum of all Interstate Access USF Support Per Line (as defined in § 54.807 of this chapter) for the applicable customer classes and zones receiving such support, multiplied by the corresponding base period lines for the applicable customer classes and zones within the study area, divided by the number of total base period lines in the study area cannot exceed Average Price Cap CMT Revenue Per Line as defined in § 61.3(d) of this chapter for the study area.

(6) *Maximum charge.* The maximum zone deaveraged End User Common Line Charge that may be charged in any zone is the applicable cap specified in § 69.152(d)(1), § 69.152(e)(1)(i) or § 69.152(k)(1)(i) Zone Average Revenue Per Line is the Price Cap CMT Revenue Per Line allocated to a particular state-defined zone used for deaveraging of UNE loop prices. The zone average revenue per line is computed pursuant to § 61.3 (zz) of this chapter.

(7) *Minimum charge.* Except where a LEC chooses to lower the deaveraged End User Common Line Charge through voluntary reductions, the minimum zone deaveraged End User Common Line Charge in any zone in a study area is at least the Minimum EUCL. Minimum EUCL is Zone Average Revenue Per Line for the zone with the lowest Zone Average Revenue Per Line in that study area plus an amount per line calculated to recover the difference between Interstate Access USF Support Per Line (as defined in § 54.807 of this chapter) multiplied by base period lines for the applicable customer class and zones receiving such support and Study

Area Above Benchmark Revenues, first from Zone 1 until the End User Common Line Charges in Zone 1 equal the End User Common Line Charges in Zone 2, and then from lines in Zones 1 and 2 equally until the End User Common Line Charges in those Zones reach Zone 3 (with all End User Common Line Charges subject to the applicable residential and multi-line business lines nominal caps).

(i) For the purposes of this part, "Study Area Above Benchmark Revenues" is the sum of all Zone Above Benchmark Revenues.

(ii) For the purposes of this part, "Zone Above Benchmark Revenues" is calculated as follows:

Zone Above Benchmark Revenues is the sum of Zone Above Benchmark Revenues for Residential and Single-line Business lines and Zone Above Benchmark Revenues for Multi-line Business lines. Zone Above Benchmark Revenues for Residential and Single-line Business lines is, within each zone, (Zone Average Revenue Per Line minus \$7.00) multiplied by all eligible telecommunications carrier Base Period Residential and Single-line Business lines times 12. If negative, the Zone Above Benchmark Revenues for Residential and Single-line Business lines for the zone is zero. Zone Above Benchmark Revenues for Multi-line Business lines is, within each zone, (Zone Average Revenue Per Line minus \$9.20) multiplied by all eligible telecommunications carrier zone Base Period Multi-line Business lines times 12. If negative, the Zone Above Benchmark Revenues for Multi-line Business lines for the zone is zero.

(8) *Voluntary Reductions.* A "Voluntary Reduction" is one in which the LEC reduces prices other than through offset of net increases in End User Common Line charge revenues or Interstate Access USF support received pursuant to § 54.807 of this chapter, or through increases in other zone deaveraged End User Common Line charges.

21. Amend § 69.153 to read as follows:

§ 69.153 Presubscribed interexchange carrier charge (PICC).

(a) A charge expressed in dollars and cents per line may be assessed upon the Multi-line business subscriber's presubscribed interexchange carrier to recover revenues totaling Average Price Cap CMT Revenues Per Line times the number of base period lines less revenues recovered through the End User Common Line charge established under § 69.152 and Interstate Access USF Support Per Line (as defined in

§ 54.807 of this chapter) multiplied by base period lines for the applicable customer class and zones receiving such support, up to a maximum of \$4.31 per line per month. In the event the ceilings on the PICC prevent the PICC from recovering all the residual common line/marketing and residual interconnection charge revenues, the PICC shall recover all residual common line/marketing revenues before it recovers residual interconnection charge revenues.

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

(c) [Reserved]

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

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

(f) [Reserved]

(g) [Reserved]

(h) [Reserved]

22. Amend § 69.154 by revising paragraph (a)(1) to read as follows:

§ 69.154 Per-minute carrier common line charge.

(a)* * *

(1) The per-minute rate using base period demand that would recover the maximum allowable carrier common line revenue as defined in § 61.46(d) of this chapter; or

* * * * *

23. Revise § 69.156 to read as follows:

§ 69.156 Marketing expenses.

Effective July 1, 2000, the marketing expenses formerly allocated to the common line and traffic sensitive baskets, and the switched services within the trunking basket pursuant to § 32.6610 of this chapter and § 69.403 will now be recovered in the CMT basket created pursuant to § 61.42(d)(1) of this chapter. These marketing expenses will be recovered through the elements outlined in §§ 69.152, 69.153 and 69.154.

24. Revise § 69.157 to read as follows:

§ 69.157 Line port costs in excess of basic, analog service.

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

25. Add § 69.158 to read as follows:

§ 69.158 Universal service end user charges.

To the extent the company makes contributions to the Universal Service Support Mechanisms pursuant to §§ 54.706 and 54.709 of this chapter and the LEC seeks to recover some or all of the amount of such contribution, the LEC shall recover those contributions through a charge to end users other than Lifeline users. These contributions are not a part of any price cap baskets, and the charge to recover these contributions is not part of any other element established pursuant to part 69. Such a

charge may be assessed on a per-line basis or as a percentage of interstate retail revenues, and at the option of the LEC it may be combined for billing purposes with other end user retail rate elements. A LEC opting to assess the USF end-user rate element on a per-line basis may apply that charge using the "equivalency" relationships established for the multi-line business PICC for Primary Rate ISDN service, as per § 69.153(d), and for Centrex lines, as per § 69.153(e).

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