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Public Utility Commission of Texas

December 29, 2000

Honorable Members of the Seventy-Seventh Texas Legislature:

We are pleased to submit our Report on Switched Access Charges, as required by Section 58.303 of the Public Utility Regulatory Act (PURA).

This report provides a description and discussion of switched access charges, an important issue in telecommunications. As required by the statute, this report examines whether alternative rate structures for recovery of switched access revenues are in the public interest and competitively neutral, examines whether disparities in rates for switched access service between local exchange companies are in the public interest, and provides our recommendations on the issues reviewed and evaluated.

This is one of three reports on telecommunications issues being provided to the Seventy-Seventh Texas Legislature by our Commission. The companion documents are the Report on the Scope of Competition in Telecommunications, and the Report on the Deployment of Advanced Services in Rural Areas of Texas.

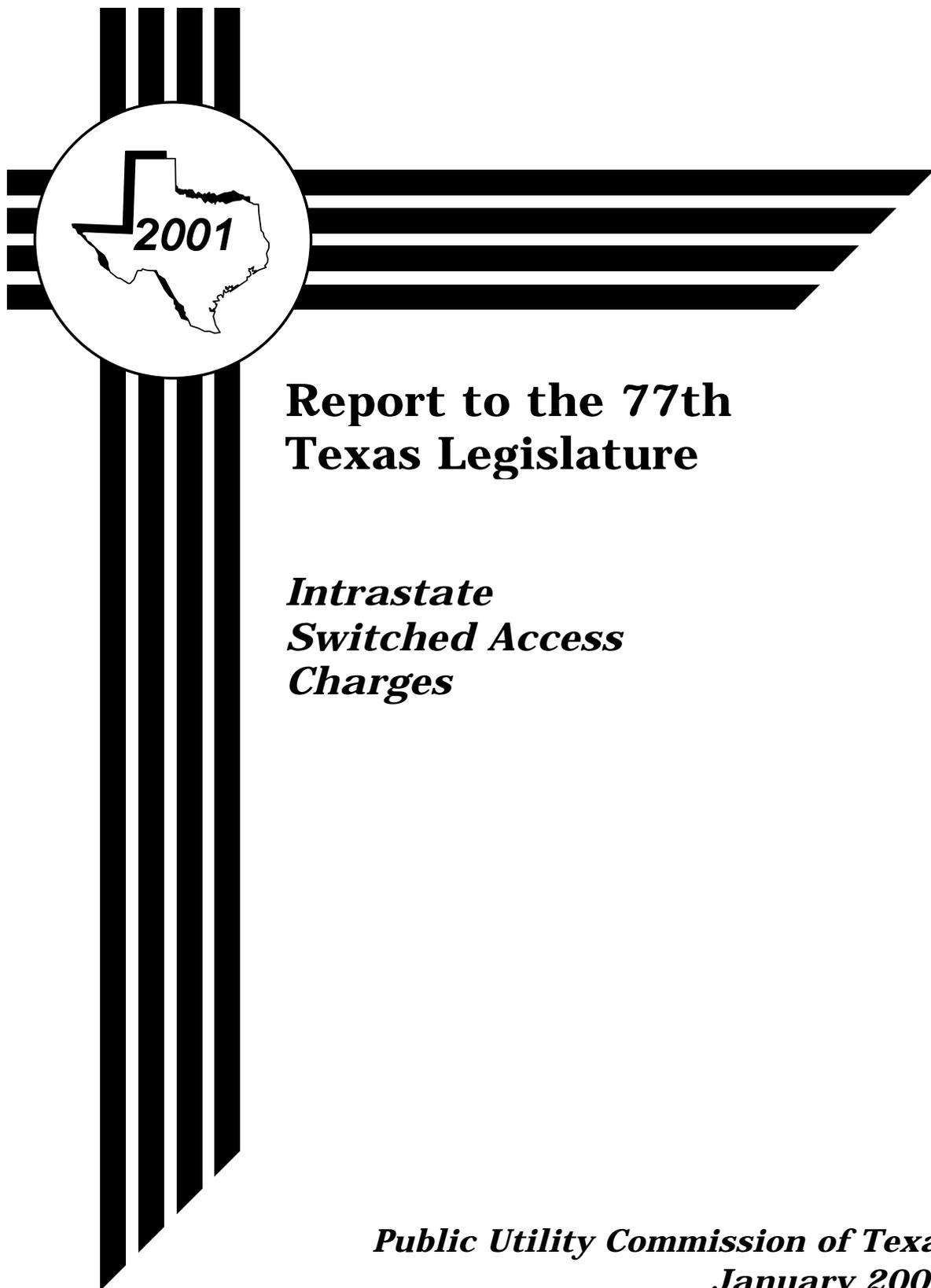
We hope that the information contained in this report will assist you in meeting your public policy objectives. If you need additional information about any issues addressed in the report, please call on us.

Sincerely,

Pat Wood, III
Chairman

Judy W. Walsh
Commissioner

Brett A. Perlman
Commissioner



**Report to the 77th
Texas Legislature**

***Intrastate
Switched Access
Charges***

***Public Utility Commission of Texas
January 2001***

**REPORT TO THE 77TH TEXAS LEGISLATURE ON
SWITCHED ACCESS CHARGES**

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EXECUTIVE SUMMARY

A telephone call placed locally from one customer to another is generally handled by the customers' local telephone company. A long distance call typically involves at least two companies: the local telephone company on each end and a long-distance telephone company. When a long distance company uses a local telephone company's network to originate or terminate a call, the long distance company must pay fees to the local company for the use of the local network. These fees are called *access charges*. The access charges are wholesale charges paid by the long distance company to the local telephone company, and in turn are recovered through the rates charged to customers for long distance calls.

Access charges were created in 1984 as a mechanism that allowed competitive long distance companies to connect with local telephone companies, at the same time that the regional Bell companies were divested from AT&T. When first established, access charges were relatively high – over 20 cents per minute – because local telephone companies had used long distance charges to support low local service rates. In 1987, the FCC began reducing the per-minute access charges, and increasing flat-rate charges for interstate calls. Over time, the FCC has continued to reduce per-minute access charges and increase other charges to the customer. The Texas Legislature and the PUC have also taken steps to reduce the level of per-minute access charges levied by local telephone companies for long distance calls within the state of Texas.

Usage-sensitive (per-minute) access charges for long distance calls within Texas remain higher than for calls going outside the state. Average access charges for calls within Texas are approximately 5.5 cents per minute (total for both ends of a call), while access charges for interstate calls are approximately 1.3 cents per minute. The lower interstate charges are made possible, however, by the federally-imposed Subscriber Line Charge. This charge is currently a flat monthly rate of \$4.35 for residential customers, regardless of whether any long distance calls are made, and that charge is scheduled to increase in coming years.

The emergence of competitive local telephone companies has added another layer of complexity in the evaluation of access charges, since competitive telephone companies may assess their own access charges for originating or terminating a long distance call. Access charges of competitive telephone companies in Texas are currently capped or limited as a result of recent Commission decisions implementing legislation.

This report provides a description of switched access charges and the changes that have occurred in recent years. While intrastate switched access charges have decreased significantly, disparities continue to exist between interstate and intrastate access charges, and among the access charges of many of the state's local telephone companies.

The Commission offers several options in this report, but concludes that further evidentiary proceedings are necessary to determine the proper course of action in restructuring intrastate access charges. Some modest statutory changes are required if the Legislature desires the Commission to move ahead on this path.

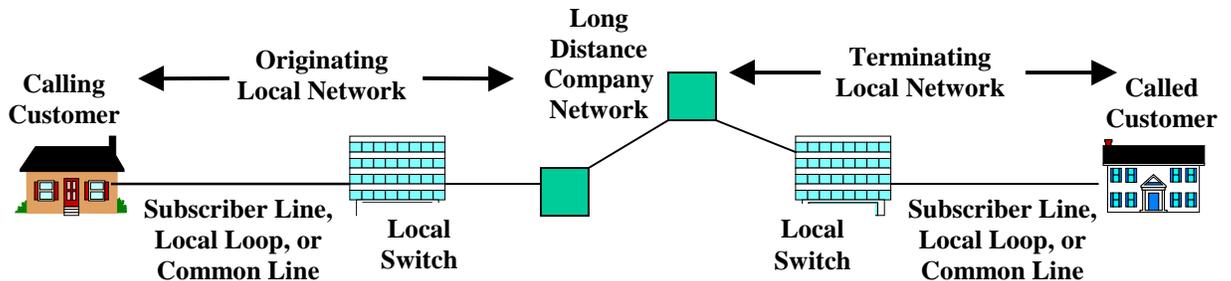
BACKGROUND

What are Switched Access Charges?

When a customer places a long distance call, the call must use the local telephone company's network as well as the long distance company's network to reach its destination. The long distance company charges the customer for the call and the long distance company must compensate the local telephone company (or companies) for the use of the local network on each end of the call.

Switched access charges are the wholesale rates paid by the long distance companies to the local telephone companies – both incumbent and competitive – for access to the public switched network for the origination and termination¹ of customers' long distance calls.² Competing local telephone companies also pay each other terminating switched access charges when their customers make long distance calls to the other telephone company's customers.

The diagram below may help in visualizing the transport and switching of a typical call from one customer's premise to another's:



Switched Access Charge elements can be both usage-sensitive and flat-rated. Usage-sensitive rates are developed on a per-minute of use basis where the wholesale customer pays “x” cents per minute to the incumbent or competitive local telephone company. Flat-rated means that the wholesale customer pays to the local telephone company the same amount per month regardless of the amount of time the service is

¹ “Originating” applies to the caller’s end of the public switched network. “Terminating” applies to the called party’s end of the public switched network. For example, if a long distance provider handles a call originating in Southwestern Bell (SWBT) territory and terminating in GTE Southwest (GTESW) territory, that long distance provider pays the originating components of the call’s switched access charges to SWBT and the terminating components of the switched access charges to GTESW.

² There are actually two types of access charges – switched access and special access. Special access charges, which are not the focus of this report, involve the use of dedicated non-switched circuits between customer locations.

used. Generally, long distance companies develop the rates they charge to their long distance customers based upon the wholesale structure and rates that they pay to the local telephone companies.

Federal and state regulators share jurisdiction over telephone companies, and therefore over switched access rates. The Federal Communications Commission (FCC) sets the federal switched access rates that apply to calls made from state to state (interstate). The Texas PUC sets the switched access rates applicable to long distance calls made from point to point within Texas (intrastate).

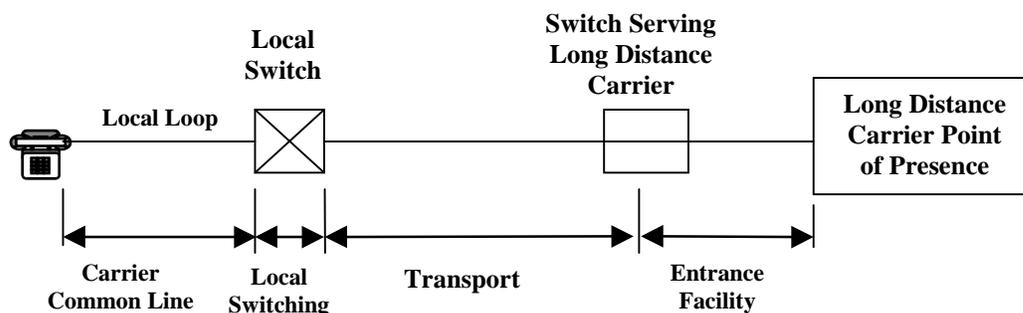
Why Are Access Charges Necessary?

Before the divestiture of the Bell companies from AT&T in 1984, the monopoly telephone companies pooled long distance revenues and calculated payments to one another from those pools based upon minutes of use and mileage to compensate for the use of one another's networks. Simply put, switched access charges replaced the revenue sharing mechanisms of the monopoly telephone companies.

How Are Access Charges Structured and Calculated?

Access charges actually consist of several elements, as shown in the diagram below. As discussed in greater detail in Appendix A, the local loop facilities between the local switch and the customer's location are represented through an access charge element known as the Carrier Common Line (CCL) charge. The CCL element is charged on a per-minute basis, which is controversial. Since the cost of the customer's loop network does not vary with usage, most critics argue that the cost should be recovered through flat-rate charges rather than per-minute charges. The Local Switching (LS) element is based on usage-sensitive costs and is charged on a per-minute basis. Entrance Facilities and Transport elements are charged according to the needs of the long distance company.

Generic Depiction of Switched Access Charge Elements on Each End of a Call



What Information is Contained in this Report?

This report is prepared pursuant to the Public Utility Regulatory Act (PURA) §58.303, *Switched Access Charge Study*, which states:

“(a) Not later than November 1, 1999, the commission shall begin a review and evaluation of the rates for intrastate switched access service. The review shall include an evaluation of at least the following issues:

- (1) whether alternative rate structures for recovery of switched access revenues are in the public interest and competitively neutral; and
- (2) whether disparities in rates for switched access service between local exchange companies are in the public interest.

(b) The commission shall file a report with the legislature not later than January 1, 2001. The report must include the commission's recommendations on the issues reviewed and evaluated.”³

Chapter 1 of this Report discusses recent developments affecting switched access charges in both the state and federal jurisdictions.

Chapter 2 of the Report highlights the disparities in switched access rates between the local exchange companies on both the intrastate and interstate basis and discusses whether such disparities are in the public interest.

In Chapter 3, the Report describes alternative access charge structures proposed by interested parties and a discussion of other options, along with the advantages and disadvantages of each. This chapter also includes general recommendations of the Commission regarding possible legislative action on access charge issues.

Appendix A provides a history of the development of switched access charges in both the federal and state jurisdictions.

Appendix B compares interstate and intrastate switched access charges among states.

Appendix C compares incumbent and competitive local telephone companies' interstate and intrastate access rates. The comparisons show differences in each access charge element, comparing interstate to intrastate, incumbent to competitor, and comparing “electing” incumbents with rate-of-return incumbent local telephone companies.

Appendix D shows the intrastate rates for each access charge element for incumbent and competitive local telephone companies.

Appendix E provides another perspective on the rates for access charge elements for incumbent and competitive local telephone companies, with the companies grouped

³ The remainder of §58.303 states: “(c) This section expires September 1, 2001.” §58.303 was added by 1999 Amendments contained in SB 560, § 45.

by electing incumbent local telephone companies, rate-of-return incumbents, and competitive telephone companies.

Appendix F is the summary of staff findings in the review of earning reports for the year ending 12/31/99.

CHAPTER 1

RECENT CHANGES IN ACCESS CHARGES

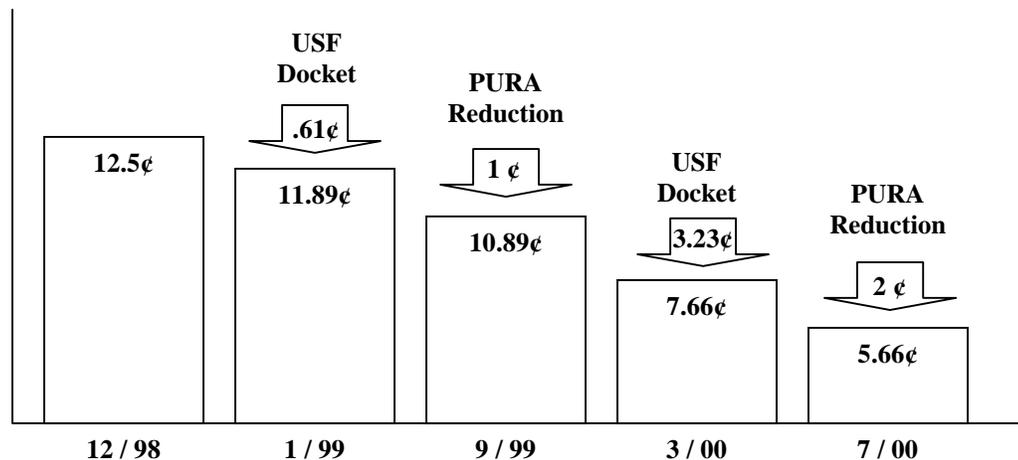
Access charge structures and rates have recently been modified by both the Texas PUC (for in-state calls) and the FCC (for interstate calls). This chapter describes the changes in both jurisdictions to facilitate a better understanding of the actions and their relationship.

Texas Activity on State Switched Access Charges

Switched access reductions prior to 1999 came from either rate case activity or general access reform cases. Because Texas' usage-based switched access rates began in 1984 at over 20 cents per minute, and no flat-rate access charge was employed, the significant reductions from past cases still left intrastate switched access rates very high when compared to interstate rates.

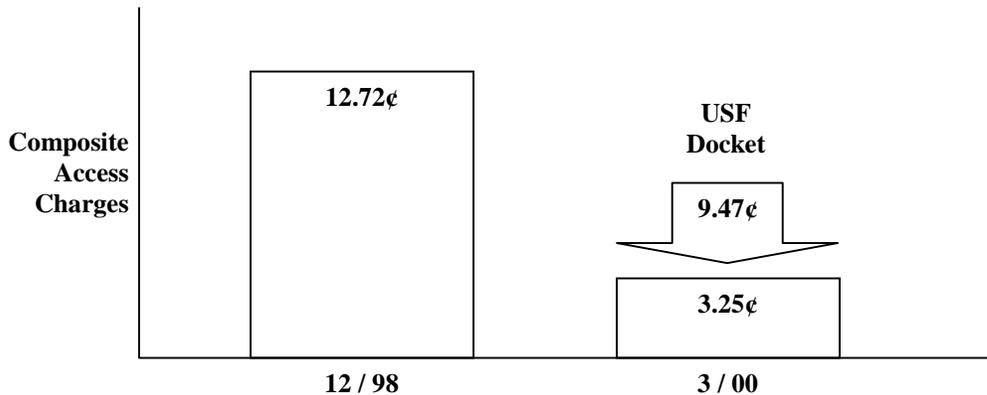
Switched access rates have been significantly reduced in Texas during the last two years as a result of activities related to the Texas Universal Service Fund (TUSF) and PURA requirements. Within Texas, high switched access rates were used to support local telephone companies' high cost and rural infrastructure requirements. But under the directives established by PURA 95, FTA 96, and PURA 99 to reduce subsidies, the PUC investigated and increased the TUSF and made offsetting reductions to switched access charges for the incumbent local telephone companies between December 1998 and March 2000. PURA Section 58.301 required Southwestern Bell Telephone Company (SWBT) to reduce its combined originating and terminating switched access charges by one cent per minute in September 1999 and by an additional two cents per minute in July 2000. The graphic below illustrates recent reductions in SWBT's access charge rates.

Southwestern Bell's Recent Access Rate Reductions
(Composite Originating and Terminating Charges; Excludes Transport Element)



While GTE/Verizon did not have reductions from statutory requirements, the company did experience a significant decrease in access charges as a result of the PUC's TUSF proceeding, as illustrated below.

GTE/Verizon's (Verizon's) Recent Access Rate Reductions
(Composite Originating and Terminating Charges; Excludes Transport Element)



As described more fully in Appendix A, there have been efforts to reduce the level of switched access charges, specifically the usage-sensitive Carrier Common Line (CCL) element. As a result of these efforts, CCL charges have been reduced, and in some cases eliminated, by the local telephone companies. The following table shows the current CCL rates and annualized revenues for the largest incumbent local telephone companies as well as the range of rates and revenues for the small incumbents.

Current Carrier Common Line (CCL) Rates and Revenue For Incumbent Carriers⁴

Incumbent Local Exchange Carrier	Originating CCL Revenue	Originating CCL - Present Rate or Range	Terminating CCL Revenue	Terminating CCL - Present Rate or Range	Total CCL Revenue
Southwestern Bell	\$69,950,000	1.6¢	\$178,450,000	2.7¢	\$248,400,000
GTE/Verizon (incl. Contel)	\$0	0.0	\$0	0.0	\$0
Valor	\$0	0.0	\$0	0.0	\$0
United	\$5,550,000	2.8¢	\$3,150,000	1.4¢	\$8,700,000
Centel	\$0	0.0	\$0	0.0	\$0
Small ILECs	\$8,860,000	0.5¢ - 2.8¢	\$12,700,000	0.9¢ - 7.1¢	\$21,560,000
Total Revenue	\$84,360,000		\$194,300,000		\$278,660,000

⁴ Large telephone company revenue estimates are derived from financial results for 12 months ended 06/30/99 with 5% growth factor for 1yr. Small telephone company revenue estimates are derived from financial results of 12/31/97 with 5% growth factor for 2 yrs.

When evaluating the rates for switched access elements, it is important to note that the charges apply on both the originating end of the connection and the terminating end. Thus, the total charge to the long distance company is the sum of all originating and terminating rate elements. Originating and terminating rates may vary, and the rates may be different for each end of the call, depending on the local telephone company serving the calling or called customer.

The following table shows the composite rate (combined originating and terminating) rates per minute for the CCL and the local switching, but not the transport element of access which could be usage sensitive or flat rated.⁵ The composite rate assumes that a call is originated and terminated within the same local telephone company's territory.

Current Composite Switched Access Charge Rates for Incumbent Carriers

Incumbent Local Exchange Carrier	Composite of Originating and Terminating Switched Access Charges⁶
Southwestern Bell	5.7¢
GTE/Verizon (incl. Contel)	3.3¢
Valor	3.3¢
Sprint/United	6.7¢
Sprint/Contel	1.5¢
TXU Communications	4.4¢
Century – San Marcos	4.1¢
Fort Bend	4.1¢
Sugarland	4.4¢
Small ILECs	3.4 ¢ - 11.8 ¢

⁵ See Appendix A for a more detailed description of switching and transport elements.

⁶ Rounded, does not include charges for transport.

Recent FCC Actions - Interstate Switched Access

In May 1997, the FCC adopted the Access Charge Reform Order,⁷ applicable to the large incumbent local telephone companies, which established a new common line rate structure in an attempt to align cost recovery with the way costs are incurred. This structure was designed to recover all interstate-allocated common line costs through two flat rate charges: the flat-rate SLC to end users, and a new flat-rate Presubscribed Interexchange Carrier Charge (“PICC”) assessed to long distance companies based on their number of presubscribed customers. With this change, the FCC eliminated the originating and/or terminating CCL charges in some instances for the large incumbent local telephone companies and shifted revenue recovery to the PICC. The Order attempted to reduce usage-sensitive access charges through what the FCC described as a market-based approach. In a revenue-neutral manner, the Order separated the previous minute-of-use rate into two parts: a much lower minute-of-use rate and a fixed monthly PICC.

It was the FCC’s intent to make these changes without significant rate increases for customers. However, the restructuring failed to reduce long distance rates as planned, primarily because the long distance companies passed the PICC charge directly onto customers’ bills in the form of minimum monthly charges, regardless of long distance usage. As a result, many customers’ bills did increase, and the FCC began searching for another remedy.

In July 1999, the Coalition for Affordable Local and Long Distance Services (“CALLS”) submitted a proposal to the FCC to revise interstate access charges and universal service rules for the larger incumbent local telephone companies.⁸ The FCC adopted a modified version of the CALLS plan⁹ on May 31, 2000. The FCC’s rationale for implementing revisions to interstate access rates was that it would lower rates, lessen confusion to customers, and establish a more rational interstate rate structure for the large telephone companies. The FCC reduced the originating and/or terminating interstate CCL for “price cap” incumbent local telephone companies¹⁰ in May 2000. However, all other federally regulated incumbent telephone companies still charge the CCL rate at this time.

The *CALLS Order* eliminated the PICC for residential and small business customers, established a cap on the PICC for multi-line business customers, and reduced originating and terminating CCL charges. The FCC replaced the revenue lost from the

⁷ *Access Charge Reform*, CC Docket No. 96-262, First Report and Order, 12 FCC Rcd 15982 (1997) (*Access Charge Reform Order*).

⁸ CALLS consists of AT&T, Bell Atlantic, BellSouth, GTE, SBC, and Sprint.

⁹ Sixth Report and Order in CC Dockets 96-262 and 94-1, Report and Order in CC Docket No. 99-249 and Eleventh Report and Order in CC Docket No. 96-45, May 31, 2000 (*CALLS Order*).

¹⁰ Rate-of-return regulation is designed to control the profits an incumbent local carrier may earn from access service, whereas the FCC’s price cap regulation plan focuses primarily on the prices that such a carrier may charge and the revenues it may generate from interstate access services.

reduced or eliminated charges with an increase in the interstate SLC¹¹ as well as funding from a new \$650 million federal USF program. Therefore, customers continue to pay for a portion of local loop costs through their interstate SLC charges. The FCC has scheduled future review of the switched access revisions and has established a phase-in for the SLC increases. As an additional part of the *CALLS Order*, the FCC increased its support for Lifeline and Link-Up services, targeted at low-income individuals. The interstate switched access reforms in the *CALLS Order* will be required of price cap LECs, including Southwestern Bell and Verizon (formerly GTE SW), for a five-year term. At the end of the five years, the FCC will conduct a proceeding to determine whether to partially or fully deregulate price cap LECs, and to assess the adequacy of the interstate access universal service support mechanism. A version of access charge reform for smaller and rural LECs is currently being evaluated as well.¹²

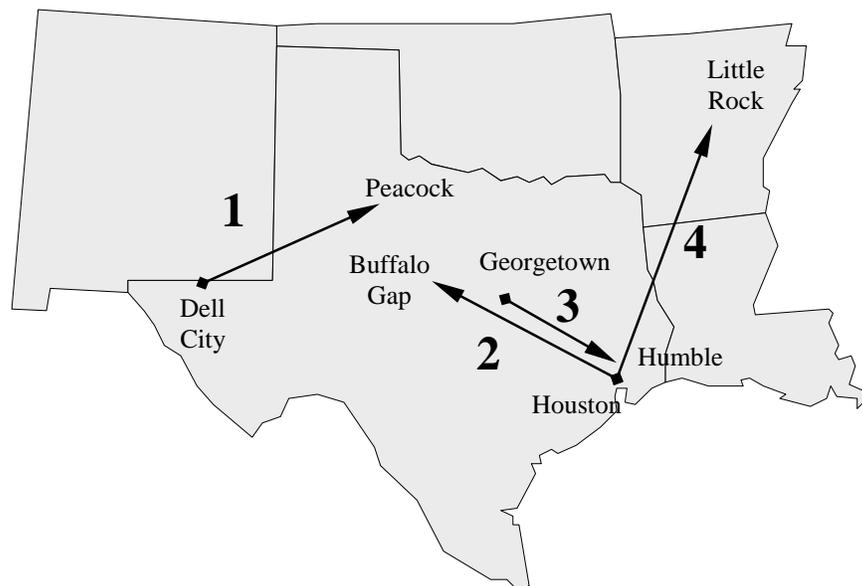
¹¹ The FCC raised the interstate SLC from \$3.50 to \$4.35 monthly for single line residence and business access lines, and phases in additional increases to the monthly rates for residence and business access lines over a five-year period.

¹² For a complete copy of the proposal, known as the MAG plan, as submitted to the FCC on October 20, 2000, see; www.opastco.org or www.ntca.org/mag.html

CHAPTER 2: EVALUATION OF SWITCHED ACCESS RATE DISPARITIES

This chapter analyzes the disparities in switched access rates that exist between the federal and state jurisdiction and between companies within the state, and considers whether any such disparities are in the public interest.

The map and table below illustrate the sizeable variation that exists in access rates between local telephone companies, and between the intrastate and interstate access charges. The charges shown in this example are for each minute of the call.



	FROM: (Location/Telco)	Originating Charges	TO: (Location/Telco)	Terminating Charges	Total Charges
In-State					
1	Dell City, Texas (Dell Telephone Co-op)	\$.031075	Peacock, Texas (Cap Rock Tel. Co-op)	\$.080121	\$.111196
2	Houston, Texas (Southwestern Bell)	.024620	Buffalo Gap, Texas (Taylor Telephone Co-op)	.071248	.095868
3	Georgetown, Texas (GTE/Verizon)	.0181573	Humble, Texas (Sprint/Centel)	.00877	.0269273
Interstate					
4	Houston, Texas (Southwestern Bell)	.006902 (interstate)	Little Rock, Arkansas (Southwestern Bell)	.006902	.013804

Comparison of Local Telephone Company Access Rates

In May 2000, the PUC issued a request for switched access rate data to all local exchange telephone companies, both incumbents and competitors (COA and SPCOA holders¹³) in the state. Responses were received from 102 parties. Parties' responses and comments received over the course of the project and during workshops have been used to develop the following discussion.

COMPARISON OF INTRASTATE AND INTERSTATE SWITCHED ACCESS RATES

A comparison of intrastate and interstate switched access rates indicates that the majority of companies utilize the same recurring switched access rate elements in their intrastate tariffs that are used in their interstate tariffs. These common recurring rate elements, as previously discussed, are the Originating and Terminating Common Carrier Line (CCL), Local Switching (LS), and either Switched Transport (TR) or Tandem Switching (TS) and Tandem Switched Transport (TST). More complete descriptions of these elements can be found in Appendix A.

The rates for switched access charge elements can be found in Appendix C of this report. The following table provides the range of rates reported by the incumbent and competitive local telephone companies for each switched access recurring rate element. The rate range is shown by the lowest and highest rates in the categories.

**Interstate vs. Intrastate Switched Access Rate Ranges
(Incumbent and Competitive Local Telephone Companies, Per Minute)**

Rate Element	Intrastate Range		Interstate Range	
	Low	High	Low	High
Originating Carrier Common Line (CCL)	0¢	2.80¢	0¢	2.93¢
Terminating CCL	0¢	7.05¢	0¢	4.88¢
Originating Local Switching (LS)	0.30¢	2.58¢	0.51¢	4.04¢
Terminating LS	0.30¢	2.58¢	0.51¢	4.34¢
Originating Switched Transport (TR)	0.009¢	2.45¢	0.004¢	0.09¢
Terminating TR	0.03¢	2.45¢	0.006¢	0.09¢
Originating Tandem Switching (TS)	0¢	0.55¢	0.019¢	3.92¢
Terminating TS	0¢	0.55¢	0.01¢	3.92¢
Originating Tandem Switched Transport (TST)	0.016¢	0.12¢	0.01¢	1.6¢
Terminating TST	0.016¢	0.12¢	0.01¢	1.6¢

¹³ COA stands for Certificate of Operating Authority, and SPCOA stands for Service Provider Certificate of Operating Authority.

Intrastate Terminating CCL clearly exceeds its interstate counterpart for the larger local telephone companies. Analysis of the data reveals that the range for interstate switched access rates is generally lower for the larger local telephone companies than the same range for intrastate rates. In addition, the highest access charges for intrastate Tandem Switching (TS) and Tandem Switched Transport (TST) are lower than the same elements for interstate calls. However, these elements make up only a small amount of the total access charge. It appears that CCL at the high end of the range is where intrastate rates exceed their interstate counterpart. The graphs provided in Appendix B show the differences in these rate elements between jurisdictions.

COMPARISON OF INTRASTATE RATES: INCUMBENTS VS. COMPETITORS

An evaluation of incumbent and competitive local telephone company rates indicates that competitors do not charge all of the rate elements that incumbents do, but instead create composites of the rate elements or only offer certain parts of the switched access package.

Furthermore, a comparison of the rates between and among incumbent and competitive local telephone companies indicates that there is no consistent pattern for whether competitors or incumbents charge higher access rates by element. This is at least partially due to the fact that the rate elements themselves do not exactly correspond between and among companies. Generally, for larger incumbent telephone companies as well as competitors, interstate rates are lower than the companies' intrastate rate counterparts. However, this is not always the case, as may be seen in the charts in Attachments D and E.

The most significant rate disparity apparent from the data collected is the range of rates for Terminating CCL, which is an unavoidable charge that applies to every call's termination in a local telephone company's territory. Terminating CCL is considerably higher for incumbent local telephone companies than for competitive local telephone companies. Because these rates are all usage-sensitive, minor differences in the fractional rate may result in significant revenue increases or decreases.

COMPARISON BETWEEN CHAPTER 58 AND 59 (ELECTING) INCUMBENTS AND SMALL/RURAL INCUMBENTS

Currently three incumbent local telephone companies in Texas have elected into the plan of incentive regulation under Chapter 58 of PURA: Southwestern Bell Telephone (SWBT) and the Verizon companies (GTE Southwest or GTESW, and Continental Telephone or Centel).¹⁴ Seven incumbent local telephone companies in Texas have elected into incentive regulation under Chapter 59 of PURA: Sprint (Central Telephone Company of Texas or Centel, and United), TXU (formerly Lufkin-Conroe), Century Telephone of San Marcos, Fort Bend Telephone, Sugar Land Telephone, and Valor.¹⁵ The balance of Texas' incumbent local telephone companies are either partially regulated cooperatives or companies regulated pursuant to rate of return analysis.¹⁶ Although the switched access rate element structure is essentially the same for the incumbent local telephone companies, a comparison of the rate ranges between and among these companies indicates disparities in the rates charged for the same element.

If the intrastate rate ranges of the Chapter 58- and Chapter 59-electing incumbents are isolated from the balance of Texas' rate of return regulated incumbents, it is clear that the latter group of local telephone companies have significantly higher switched access rates for terminating CCL than do the electing companies. The high-end rate range for the Originating LS and Terminating LS elements of the Chapter 58 and Chapter 59 incumbents is skewed because of United Telephone Company's rates. It should be noted that United Telephone Company currently has the highest intrastate switched access rates of the large telephone companies because of adjustments that were made during the Commission's TUSF review that did not allow for a full reduction consistent with that of other large incumbents.¹⁷

¹⁴ Verizon has two Chapter 58 ILECs in Texas, Centel and GTESW.

¹⁵ Sprint owns two ILECs in Texas, Centel and United.

¹⁶ Rate of return regulation is traditional regulation wherein a company's revenues are evaluated and an allowable return level is established for the company's earnings. When the company exceeds its allowed return it is notified, and either it voluntarily adjusts its rates to attain the proper earnings level, or the Commission examines its rates in a docketed proceeding to adjust it to the allowable rate of return.

¹⁷ United receives Federal USF support which offsets the Texas USF support amount. The reduced TUSF support prevented United's switched access rates from being lowered to those of its "sister" company, Centel.

Limitation on Competitive Local Telephone Company Access Charges

In July 2000, the Commission adopted a rule to implement PURA § 52.155. Substantive Rule 26.223, *Establishment of COA/SPCOA Usage-Sensitive Intrastate Switched Access Rates*, addresses the usage-sensitive intrastate switched access rates that can be charged by competitive local telephone companies. That rule states that a competitive local telephone company may not charge a higher aggregated rate than that of the certificate of convenience and necessity (CCN) holder (the incumbent local telephone company) responsible for the territories in which the competitor's calls originate and terminate. The Commission has the latitude to approve a higher rate for a COA or SPCOA holder if the company seeks a good-cause exception from the Commission. COA or SPCOA holders have the additional option of electing to charge the statewide weighted-average composite originating and terminating usage-sensitive intrastate switched access rates developed by the Commission, based upon rate information provided annually to the Commission's Staff. On October 19, 2000, the Commission adopted the first statewide composite rates available for COA and SPCOA election. In instances where the rate element has gone to zero for the CCN holder,¹⁸ the statewide average composite rate could pose a problem in that significant rate discrepancies could exist for the purpose of reciprocity.

¹⁸ As a result of the TUSF docket, GTESW, Continental Telephone Company and Central Telephone Company were able to eliminate their switched access rates for originating and terminating CCL. These companies represent 17% of the ILEC market for access lines.

Are Disparities in the Public Interest?

In requiring this report of the Commission, the Texas Legislature seeks to determine “whether disparities in rates for switched access service between local exchange companies are in the public interest.”

Rate differences for identical services are not generally desirable. Since switched access charges are wholesale in nature, however, the impact of such disparities is not as noticeable as it would be in the case of retail rates. Nevertheless, some of the direct and indirect effects of disparities, including unhealthy economic pressures, should be avoided.

Federal law requires interstate long distance retail rates to be averaged.¹⁹ Further, PURA authorizes the Commission to require statewide-averaged toll rates.²⁰ A long distance call in the Texas Panhandle must cost the same as a comparable call in the Piney Woods, assuming they are both carried by the same long distance company. But there is significant difference in long distance retail rates for interstate and intrastate calls, based on the underlying disparity in the charges for switched access. Thus, a call from Midland to Marfa may well be more expensive than a call from Midland to Albuquerque.

Disparities in wholesale access charge rates may have significant effects that may not be apparent to retail customers, at least in the short term. The effects on retail customers include both price and availability. Statewide long distance rates are generally tied to the switched access rates of the largest local telephone companies, so disparities among small local telephone companies would not likely affect statewide rates. However, a significantly higher switched access charge for connection to a small rural local telephone company may cause long distance companies to question whether they want to serve that particular area. Customers in that area might then have access to fewer competitive long distance companies. To address this concern, PURA allows the Commission to conduct a proceeding to determine whether it is in the public interest for a long distance company to abandon service to a specific location.²¹

Additionally, long distance connections between two local telephone companies might be affected by significantly disparate switched access charges. To the extent that such companies, incumbent or competitive, trade long distance traffic on a reciprocal

¹⁹ 47 U.S.C. § 254(g): “INTEREXCHANGE AND INTERSTATE SERVICES - Within 6 months after the date of enactment of the Telecommunications Act of 1996, the [FCC] shall adopt rules to require that the rates charged by providers of interexchange telecommunications services to subscribers in rural and high cost areas shall be no higher than the rates charged by each such provider to its subscribers in urban areas. Such rules shall also require that a provider of interstate interexchange telecommunications services shall provide such services to its subscribers in each State at rates no higher than the rates charged to its subscribers in any other State.”

²⁰ See V.A.C.S. Art. 1446c-0, Sec. 52.102(a)(4), giving the PUC authority to require the maintenance of statewide average rates or prices of telecommunications service offered by non-dominant carriers.

²¹ V.A.C.S. Art. 1446c-0, Sec. 52.105(b) and Sec. 52.108(2).

basis, there are economic disincentives to trade traffic if access charges are widely disparate.

Intrastate switched access charges that significantly exceed interstate access charges may also have undesirable consequences. As discussed previously with respect to intrastate switched access, widely disparate switched access charges could result in decisions by competitive long distance companies to limit service to certain areas. Some long distance companies currently have exceptions to discount long distance plans, such that the plans are not available to Texas customers. In addition, long distance companies report on the percentage of interstate vs. intrastate usage, and would have incentives to mis-report if disparities are great.

Finally, disproportionately high switched access charges for small local telephone companies and cooperatives contribute to over-earnings of those companies. Long distance companies must pay the high charges in order to terminate calls to customers served by the local telephone companies. The companies identified as over-earning in Appendix F of this report have generally generated their high profits from disparate switched access charges.

CHAPTER 3: COMMISSION ALTERNATIVES AND RECOMMENDATIONS

Alternative Rate Structures Proposed by Parties

At the April 27, 2000, Open Meeting, the Commission directed Staff to convene a forum in preparation for this report in which interested parties could have an opportunity to reach consensus on intrastate switched access reform in Texas. On May 22, 2000 and June 21, 2000, workshops were held at the PUC to allow switched access stakeholders an opportunity to reach a consensus on the issues essential to a re-examination of intrastate switched access rates and to propose alternative approaches to the existing rate structure.

While no consensus was reached on an alternative structure, the parties proposed two options for addressing intrastate switched access rates:

- 1.) “Flat Rate” Proposal – reduce or eliminate CCL usage-sensitive rates and create a flat rate applied uniformly to end users,²² or
- 2.) “No Change” Proposal - make no changes to the intrastate access rates and evaluate the impact of the switched access rate reductions that have occurred over the last two years.²³

The “Flat Rate” proposal transfers a majority of the switched access cost directly to the customer regardless of the customer’s long distance usage. Proponents argue that the customer should pay a flat rate that covers the non-traffic sensitive cost since the customer’s local loop is the primary element of that cost. Opposing parties argue that this proposal does not serve the public interest, that customers already face a list of confusing surcharges on their telephone bills and that the IXCs and LECs gain considerable profit through the existence of each customer’s local loop. Therefore, opponents of the “Flat Rate” proposal believe that the CCL charge, for originating and terminating long distance calls through the local loop, should remain one of “doing business” and should be the responsibility of the IXCs and LECs.

Opponents of the “Flat Rate” proposal also express concerns that rates are already above actual costs, and a flat rate charge (that produces the same revenue as the CCL) levied on end users will reward telephone companies that are currently over-earning. This argument carries additional meaning when the Commission’s own analysis indicates

²² Parties proposing this approach are AT&T, Verizon, and larger CLECs.

²³ Parties proposing this approach include all of the small and rural ILECs, SWBT, Worldcom, Time Warner Telecom, Sage Telecom, Inc., the Texas Statewide Telecommunications Carriers, the Office of Public Utility Counsel, Consumer’s Union, and Texas Legal Services.

that the profits of many incumbent local telephone companies have reached record highs, all founded on the public switched network.²⁴

Supporters of the “No Change” proposal claim that it will allow the Commission and the Industry additional time to evaluate the recent PURA and TUSF changes that occurred in 1999 and 2000 and that have affected Texas’ switched access rates. Proponents claim that evaluation of the effect of these reductions over time may allow the Commission and the parties to fine tune reform for intrastate switched access rates. This proposal also defers the possibility of any additional cost burden being passed directly to the customer.

Opponents of the “No Change” proposal argue that it is not competitively neutral because certain switched access rate elements will continue to remain well above cost, to the extent that costs can be determined. The plan’s opponents, primarily competitive telephone companies, indicate that the current structure is not cost based and imposes an undue burden upon new companies, thereby stifling true competition. Opponents argue that ratepayers suffer because there is less opportunity for telecommunications choice and less innovation when competition is suppressed by high rates for wholesale services.

Proponents of both the Flat Rate and the No Change proposals believe their proposals will best serve the public interest. Appendix 5 provides charts and graphs of the span of access charges throughout the state that may assist in an evaluation of the parties’ positions by summarizing in a simple format the current intrastate switched access structure’s impact.

Options Available to the Commission

The Commission generally agrees with parties who assert that usage-sensitive access charges such as the CCL should not be used to recover non-traffic sensitive costs. The originating and terminating CCL charge should be eliminated as soon as it is practical to do so. However, the CCL charge represents a significant amount of revenue for both large and small ILECs, and the elimination must be handled cautiously. One of the following options, or a combination of the options, could accomplish the elimination of the CCL:

- A. Elimination, immediately or over time, of the originating and terminating carrier common line (CCL) charges for all incumbent local telephone companies without providing for a specific new revenue stream to compensate the telephone companies for the elimination of the charges.***

Advantages:

- Eliminates non-cost based minute-of-use charges.

²⁴ See Appendix F showing the Commission’s most recent financial analysis of the ILECs.

- Directly reduces the cost of long distance calls to long distance companies, and reduces the total bills for customers that use long distance, assuming access charge reductions are flowed through to reduce long distance rates.
- Disparities that exist today between interstate and intrastate switched access rates and among local telephone companies would be greatly reduced.

Disadvantages

- Not all incumbent local telephone companies may be earning enough to absorb the revenue decrease, thereby requiring additional alternative methods for some companies to recover a revenue shortfall.

B. Implementation of a statewide Subscriber Line Charge (SLC) for all incumbent local telephone companies and reduce and/or eliminate any remaining originating and terminating CCL. This proposal is equivalent to the “Flat Rate Proposal” suggested by the parties. The new state SLC would appear on each customer’s bill regardless of whether the customer makes long distance calls.

Advantages:

- Eliminates the non-cost based minute-of-use charges.
- Reduces the cost of long distance calls to long distance companies, and reduces the total bills for customers that use long distance, assuming access charge reductions are flowed through to reduce long distance rates.
- Disparities that exist today between interstate and intrastate switched access rates and among local telephone companies would be greatly reduced.

Disadvantages

- For customers who do not use long distance frequently, the SLC charge may exceed any savings on reduced long distance charges, thus increasing the customer’s total bill.
- As with the federal SLC, a disproportionately high amount of the loop cost is imposed on those who make very few long distance calls.
- All incumbent local telephone companies do not need to participate in a statewide SLC plan because some incumbent telephone companies do not have CCL charges.
- An additional surcharge (the state SLC) would be added to customer bills; existing surcharges are already the source of customer confusion and irritation.
- PURA Section 53.113 currently requires intrastate switched access service tariffs to include all rate elements in the company's interstate access tariff other than end-user charges.

C. Reduce and/or eliminate any remaining originating and terminating CCL charges, and instead establish a flat rate charge to be levied against the long distance company carrying the call. The new charge would be assessed to the long distance company each month based on the number of customers that the long distance company has that month.

Advantages:

- Eliminates the non-cost based minute-of-use charge.
- Changes the wholesale charge to the long distance company from usage-sensitive to a flat rate.
- Reduces the cost of long distance calls to long distance companies, and reduces the total bills for customers that use long distance, assuming access charge reductions are flowed through to reduce long distance rates.
- Disparities that exist today between interstate and intrastate switched access rates and among local telephone companies would be greatly reduced.

Disadvantages

- This option is similar to the PICC (see Attachment A) method used and then rejected by the FCC for interstate access charges because it resulted in higher customer bills.
- Local telephone companies that do not currently have CCL charges would not need to establish this wholesale flat rate, but may be required to do so in order to provide consistency for long distance companies in all areas of the State. In that case, customers would be burdened with a charge they should not be paying.
- If the fixed charge is passed through to customers, then those customers who do not use long distance frequently would have a higher bill than they currently do.

Commission Observations and Recommendations

None of the options above, implemented individually, is likely to resolve the switched access charge conundrum. A reasonable solution that is in the public interest and is competitively neutral will likely consist of a combination of the options listed.

The Commission recommends that further evidentiary proceedings be conducted to determine the proper course of action in restructuring intrastate access charges. Many factors should be reviewed in these proceedings. Public policy issues surrounding the implementation of an intrastate SLC should be fully explored. The impact on customers of different incumbent local telephone companies may be significantly different. For example, the table below shows the estimated monthly Subscriber Line Charge that would likely result from reducing Southwestern Bell's and Sprint-United's CCL revenues by two-thirds. A \$1.50 Residential SLC and a \$3.00 Business SLC would allow SWBT to eliminate their Carrier Common Line Charges, while Sprint-United would require SLCs of over twice that amount.

Example of Replacing CCL Revenue with Subscriber Line Charges²⁵

Company	Result	Residential SLC	Business SLC
SWBT	Eliminate all CCL revenues	\$1.50	\$3.00
	Reduce CCL revenues by 67%	1.00	2.00
Sprint-United	Eliminate all CCL revenues	3.55	7.10
	Reduce CCL revenues by 67%	2.38	4.76

However, the Commission notes that the earnings position of the incumbent local telephone companies should be considered, and that absolute reductions in the access revenues of incumbents could be used to reduce switched access charges. The Commission Staff has prepared its annual analysis of the incumbent local telephone company earnings reports for 1999, and this analysis (Appendix F) shows that a number of the incumbent local telephone companies are earning at levels over and above a reasonable rate of return.

²⁵ Estimates are derived from the Texas Telephone Association's "Phone Facts 2000" report and access line information on file at the Commission.

In order for the Commission to conduct such proceedings successfully, the following statutory changes should be considered:

- Provide the statutory ability for the Commission to restructure access charges and reduce access charge revenues for Chapter 58 and 59 incumbent local telephone companies.
- Provide the statutory ability for the Commission to hold a combined proceeding to restructure and reduce access charges for small incumbent local companies and cooperatives. Currently, separate proceedings must be conducted for each incumbent local telephone company in order to adjust or eliminate access charge elements.
- Extend the expiration date of PURA Section 52.112, which requires large long distance carriers to pass through to customers any switched access rate reductions that occur. The section currently expires on the second anniversary of Southwestern Bell's entry into the statewide long distance market in Texas, which was in June 2000. In order to ensure customer protections resulting from switched access charge reductions, this provision should extend beyond the 2002 expiration date.

APPENDIX A

HISTORY AND CURRENT STRUCTURE OF SWITCHED ACCESS CHARGES

Early History

To understand how switched access charges as we know them today came about, it helps to start with an understanding of the chain of policy decisions that created the charges. In the early 1900s, the federal government began to regulate the telephone industry, along with other industries regarded as monopolies. Unlike electric rates, which are usually closely linked to the underlying cost of the service, local and long-distance telephone rates have historically been set with certain policy objectives in mind. Chief among these objectives has been the goal of universal service. The ideal goal of universal service is the availability of telephone service in all households at reasonable rates. As states created their own regulatory agencies, the goal of universal connectivity was adopted on an intrastate basis.

Less than twenty years ago, telephone companies were exclusively providing both local and long distance service to residential and business customers. In rural areas of Texas, the actual cost of providing service can exceed \$100/month per line. Local telephone companies historically used a portion of the revenue recovered through long distance charges in order to offset the high costs of serving rural Texans. Thus the rate design employed to accomplish universal service incorporated implicit subsidies, or support mechanisms in the revenue stream of the telephone companies.²⁶ Another reason long distance rates were maintained substantially above cost was to preserve lower basic local service rates. Surplus profitability from long distance rates was regarded as a reasonable trade-off because long distance service was primarily used by business customers and was not regarded as an essential service.²⁷

Competitive Pressure

In the late 1960s, competition began entering AT&T's long distance market, and public policy favored such competition. In 1978, the FCC began a proceeding to re-evaluate the overall rate structure for interstate telecommunications services. A system to recover the cost of local facilities (the local switching and distribution network) used to originate and terminate long distance calls was approved by the FCC in 1983 based upon

²⁶ Substantial subsidies were also provided for universal service by equipment sales, but this mechanism was eliminated by de-regulation of customer premises equipment in the 1980s.

²⁷ There are technically two categories of long distance: intrastate/interLATA and interstate "long distance," and intrastate/intraLATA "Toll." Before recent FCC decisions allowed LECs to provide "long distance" service, the largest LECs were only allowed to charge per minute of use rates for calls that went beyond the local calling scope, "toll calls," but remained within the scope of their LATA boundaries.

its evaluation of the network cost and the quality of interconnection available to the long distance companies. This rate design established elements for each component of the long distance call's connection over the public network from origination (at the calling party's address) to termination (at the called party's address). At the same time the Bell Operating Companies were divested from AT&T in 1984, the uniform access rate structure was put into place at both the federal and state levels.

Access Charge Rate Design

Two issues drove access rate development during the 1980s and 1990s. The first concerned new long distance companies and their technical inability to obtain interconnection with the public switched network of the same quality as that provided to AT&T. At that time AT&T had a virtual monopoly on long distance based on their trunk connections to the central offices of every local exchange telephone company. New long distance competitors were disadvantaged because the cost of such a physical interconnection was prohibitive. The result was that the competitors' customers (end users) had to dial more digits to complete a call (such as with the "950 - telephone number + PIN" arrangement) than AT&T's customers. The FCC devised an interim structure whereby companies with non-"1 plus" interconnection paid lower (non-premium) for that portion of the access charge, and established a transition to "equal access" for all telephone companies.²⁸ Today, equal access has been implemented everywhere in the state and long distance companies no longer have non-premium service; therefore, this disparity in service quality no longer affects the rates charged for switched access in Texas.

The second issue driving switched access rate development concerned rate design, specifically the question of what costs the access rate elements should recover. The cost of the local telephone network is generally categorized into "traffic sensitive" costs and "non-traffic sensitive" costs. Traffic sensitive costs include most of the switching office and other components for which the cost varies with usage. The largest non-traffic sensitive cost is the local loop, although there are other items throughout the network for which the costs do not vary with the amount of usage. Economists generally agree that costs should be recovered in the same manner in which they are incurred. Traffic sensitive costs should be recovered through usage-sensitive rates, and non-traffic sensitive costs should be recovered through charges that do not vary with usage, i.e., "flat" rates.

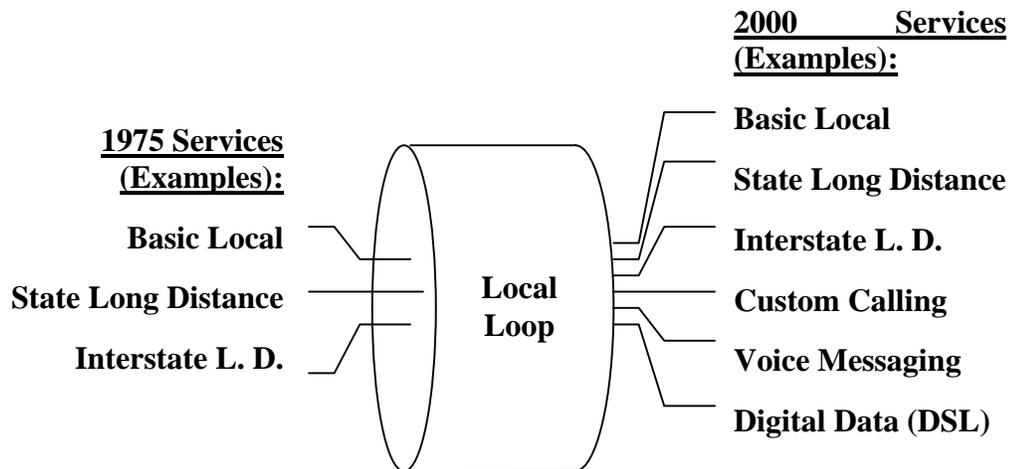
Since the inception of access charges, there has been debate whether usage-sensitive switched access rate elements should recover a portion of the cost of the local loop. The local loop is that part of the local network that goes to each individual customer location, and its cost is considered joint or common, since the loop is used to provide many services. The cost of the local loop has traditionally been split, so that a portion of the common cost is recovered from the customer and a portion is recovered from long distance companies using the loop to provide their services.

²⁸ Generally speaking, equal access allows the end user to dial "1" plus the area code and associated number to automatically route the call through the long distance carrier of choice.

Some economists argue that the end user is the “cost causer” with respect to the local loop, and should therefore pay the entire cost of the loop in flat rates. They assert that whether the customer makes only local calls, only toll calls, some combination of the two, or no calls at all, the simple act of requesting service and establishing connection between the customer’s household and the LEC central office incurs a local loop cost. Therefore, they argue, the customer should be charged for the entire cost of the local loop.

Other economists and public policy analysts contend that the common cost of the local loop should be distributed to all of the services that use the loop. For example, providers of long distance services should be required to share in the common cost of the loop. This treatment is consistent with traditional regulatory policy of keeping basic local rates low and retaining higher access charges and toll rates. Critics argue that such a paradigm cannot be sustained in a competitive environment. Concerns regarding the allocation of the cost of the local loop have heightened in recent years with the additional service offerings that can be provided over the joint-use facility.

The Local Loop Carries Many Services



Under the FCC’s Rules, a portion (25 percent) of the non-traffic sensitive local loop costs are assigned to the federal jurisdiction, for recovery through interstate long distance rates and interstate access charges. The remainder of the loop costs have been assigned to the state jurisdiction, for recovery through intrastate charges: local service, vertical services, toll rates, and access charges (that in turn affect long distance rates.)

The FCC’s basic access charge structure, adopted in 1983, included a monthly per-line end user charge (Subscriber Line Charge or SLC), and a collection of usage-sensitive charges for interstate switched access. The specific access rate elements will be described later in this Appendix.

The Texas PUC adopted an intrastate switched access rate structure that mirrored the interstate switched access rate structure created by the FCC in 1984. However, the

Texas PUC elected not to create an intrastate SLC, based on the view that Texas customers were already paying flat basic monthly local rates that recovered a portion of the non-traffic sensitive network costs. The revenue that would have been produced from an intrastate SLC was generated instead by an additional switched access charge element – the Interexchange Carrier Access Charge (ICAC) – that would be charged along with the Carrier Common Line (CCL) charge. Both of these charges were usage-sensitive and were charged to the long distance companies. The decision to apply the ICAC and CCL charges to long distance companies for the recovery of these costs is the primary reason why access charges in Texas (and most other states that made similar decisions) have been higher than the interstate switched access charges.

Changes Over Time

The disparity between interstate and intrastate switched access rates, as well as long distance rates, has been exacerbated by the fact that federal rates have been adjusted at least annually to reflect additional calling volume and reduced costs. Texas switched access rates have been adjusted in company specific rate cases,²⁹ and in an industry-wide access reform rulemaking that eliminated the ICAC, shifting that revenue requirement to the CCL and other charges for individual local telephone companies.³⁰ The Texas USF proceedings in 1999 and 2000, and the reduction to Southwestern Bell Telephone’s switched access rates required by Senate Bill 560, also substantially reduced switched access rates. However, even with the most recent state actions, some state access rates, specifically those of the larger telephone companies, have continued to be in excess of interstate levels, particularly for the Originating and Terminating Carrier Common Line Charges.

As previously discussed, the primary difference between the federal and state jurisdiction in establishing a switched access rate structure was the creation of the SLC by the FCC to allow for the reduction to its usage sensitive switched access charges. The SLC is placed on each customer’s local bill, whether the customer uses long distance or not. Thus the FCC chose to split recovery of common line costs between wholesale (long distance companies, etc.) and retail (residential and business telephone service) customers. In states such as Texas that do not include a SLC in their rate design, long distance customers pay part of the common line costs in higher per minute of use rates, passed on by the long distance companies to their end users to compensate for the wholesale switched access rates that absorbed this cost.

The recurring usage-sensitive switched access rate elements employed for the recovery of local network costs are generally the same in both the federal and state jurisdictions. They consist of five major elements calculated to recover specific network costs and are delineated further through the designations “originating” and “terminating.”

²⁹ Cases concluded in 1986 and 1990 for Southwestern Bell, and less frequently for other ILECs.

³⁰ Rulemaking Project No. 7205.

The components of the usage-sensitive switched access rates are:

- **Originating and Terminating Carrier Common Line (CCL)** – recovering a portion of the cost of the local loop (common line).
- **Originating and Terminating Local Switching (LS)** - recovering the cost of local switching at the LEC end office.
- **Originating and Terminating Switched Transport (TR)** - recovering the cost of the network between the LEC end office and the point of presence (POP) of the long distance company. This element is used by telephone companies that have not adopted local transport restructuring, in lieu of the following two charges.
- **Originating and Terminating Tandem Switching (TS)** – recovering the cost of the tandem switches that route the calls between the LEC end office and the POP.
- **Originating and Terminating Tandem Switched Transport (TST)** - recovering the cost of the network between the tandem switch and the long distance company POP.

The application of the specific components depends upon the route the call takes for completion and is arranged by agreement between the long distance company and the LECs. As noted above, a telephone company charges either the TR or the TS/TST, but not all of these.

APPENDIX B

SWITCHED ACCESS CHARGES IN SELECTED OTHER STATES

Chart B-1: Interstate Switched Access Rates (After CALLS)
(Cents per minute of use)

	Originating	Terminating	Total
NY - Verizon	\$ 0.022477	\$ 0.008267	\$ 0.030744
NY - State Average	0.029492	0.031026	0.060518
CA - State Average	0.006167	0.005101	0.011268
TX - State Average	0.008209	0.007783	0.013309
Ameritech - Illinois	\$ 0.004978	\$ 0.004978	\$ 0.009956
Ameritech - Indiana	0.004978	0.004978	0.009956
Ameritech - Michigan	0.004978	0.004978	0.009956
Ameritech - Ohio	0.004978	0.004978	0.009956
Ameritech - Wisconsin	0.004978	0.004978	0.009956
Pacific Bell - California	0.003452	0.003452	0.006904
Nevada Bell - Nevada	0.004514	0.004514	0.009028
SWBT - Arkansas	0.004802	0.004802	0.009604
SWBT - Kansas	0.004802	0.004802	0.009604
SWBT - Missouri	0.004802	0.004802	0.009604
SWBT - Oklahoma	0.004802	0.004802	0.009604
SWBT - Texas	0.004802	0.004802	0.009604
SNET - Connecticut	0.015583	0.009461	0.025044

Chart B-2: Intrastate Switched Access Rates (After CALLS)
(Cents per minute of use)

	Originating	Terminating	Total
NY - Verizon	0.021606	0.014948	0.036554
NY - State-wide Average	0.022643	0.016339	0.038982
CA - Pacific Bell	0.014742	0.014742	0.029484
CA - State-wide Average	0.014719	0.010506	0.025225
TX - SWBT	0.023958	0.034385	0.058343
TX - State-wide Average	0.036785	0.040049	0.076834
Ameritech - Illinois	0.004551	0.004551	0.009102
Ameritech - Indiana	0.005680	0.005680	0.011360
Ameritech - Michigan	0.004978	0.004978	0.009956
Ameritech - Ohio	0.006023	0.006023	0.012046
Ameritech - Wisconsin	0.004978	0.004978	0.009956
Pacific Bell - California	0.014742	0.014742	0.029484
Nevada Bell - Nevada	0.013103	0.013103	0.026206
SWBT - Arkansas	0.024103	0.024103	0.048206
SWBT - Kansas	0.020807	0.020132	0.040939
SWBT - Missouri	0.031917	0.038777	0.070694
SWBT - Oklahoma	0.013624	0.010264	0.023888
SWBT - Texas	0.023958	0.034385	0.058343
SNET - Connecticut	0.024629	0.009474	0.034103

ASSUMPTIONS:

INTRASTATE - AR, KS, MO, OK, & TX - Used average unit cost for transport based on 1999 actual billed transport expenses plus 1 month of current dedicated expenses which are then annualized, totaled and then divided by the total local switched minutes (transport + dedicated / total LS MOUs). With the exception to transport, other rates shown are based on each companies current filed tariff as of 10/23/2000.

INTERSTATE & INTRASTATE - Ameritech, CA, & NV rates are for an Long Distance Residence (LDR) call, Transport 10 miles. Methodology used FCC Docket 96-98 suggestion of 100% utilization of DS3 Entrance Facility, 100%utilization of DS1 Interoffice Channel at 9000 minutes per DSO, 80% direct trunked , 20% tandem trunked.

Ameritech - in addition applicable rates assume: LDR type call, 10 mile transport and Zone 1.

Connecticut and New York - Average unit cost calculation based on the 2nd quarter actual billing includes, PICC and Dedicated Transport.

APPENDIX C
COMPARISON OF INTERSTATE AND
INTRASTATE ACCESS CHARGES FOR
INCUMBENT AND COMPETITIVE CARRIERS

- Chart C-1 Incumbent and Competitive Local Telephone Companies – Highest Interstate Rate Compared to Highest Intrastate Rate for Specific Access Charge Elements
- Chart C-2 Incumbent Local Telephone Companies Only – Highest Interstate Rate Compared to Highest Intrastate Rate for Specific Access Charge Elements
- Chart C-3 Competitive Local Telephone Companies Only – Highest Interstate Rate Compared to Highest Intrastate Rate for Specific Access Charge Elements

APPENDIX D

INTRASTATE SWITCHED ACCESS RATES FOR SPECIFIC INCUMBENT AND COMPETITIVE CARRIERS

Table D-1	Intrastate Switched Access Charges for Incumbent and Competitive Local Telephone Companies
Chart D-1	Intrastate Originating Carrier Common Line (CCL) Charges – Incumbent and Competitive Local Telephone Companies
Chart D-2	Intrastate Terminating Carrier Common Line (CCL) Charges – Incumbent and Competitive Local Telephone Companies
Chart D-3	Intrastate Originating Local Switching (LS) Charges – Incumbent and Competitive Local Telephone Companies
Chart D-4	Intrastate Terminating Local Switching (LS) Charges – Incumbent and Competitive Local Telephone Companies
Chart D-5	Intrastate Originating Switched Transport (TR) Charges – Incumbent and Competitive Local Telephone Companies
Chart D-6	Intrastate Terminating Switched Transport (TR) Charges – Incumbent and Competitive Local Telephone Companies

APPENDIX E

INTRASTATE SWITCHED ACCESS RATES SHOWN BY ELECTING INCUMBENT CARRIERS, RATE OF RETURN INCUMBENTS, AND COMPETITIVE CARRIERS

Table E-1	Intrastate Switched Access Charges for Chapter 58/59 Electing Incumbent Local Telephone Companies
Chart E-1	Intrastate Originating CCL Charges – Electing Incumbent Local Telephone Companies
Chart E-2	Intrastate Terminating CCL Charges – Electing Incumbent Local Telephone Companies
Chart E-3	Intrastate Originating LS Charges – Electing Incumbent Local Telephone Companies
Chart E-4	Intrastate Terminating LS Charges – Electing Incumbent Local Telephone Companies
Chart E-5	Intrastate Originating TR Charges – Electing Incumbent Local Telephone Companies
Chart E-6	Intrastate Terminating TR Charges – Electing Incumbent Local Telephone Companies
Chart E-7	Intrastate Originating Tandem Switching (TS) Charges – Electing Incumbent Local Telephone Companies
Chart E-8	Intrastate Terminating TS Charges – Electing Incumbent Local Telephone Companies
Chart E-9	Intrastate Originating Tandem Switched Transport (TST) Charges – Electing Incumbent Local Telephone Companies
Chart E-10	Intrastate Terminating TST Charges – Electing Incumbent Local Telephone Companies
Table E-2	Intrastate Switched Access Charges for Rate of Return (ROR) Incumbent Local Telephone Companies
Chart E-11	Intrastate Originating CCL Charges – ROR Incumbent Local Telephone Companies
Chart E-12	Intrastate Terminating CCL Charges – ROR Incumbent Local Telephone Companies
Chart E-13	Intrastate Originating LS Charges – ROR Incumbent Local Telephone Companies
Chart E-14	Intrastate Terminating LS Charges – ROR Incumbent Local Telephone Companies
Chart E-15	Intrastate Originating TR Charges – ROR Incumbent Local Telephone Companies
Chart E-16	Intrastate Terminating TR Charges – ROR Incumbent Local Telephone Companies
Table E-3	Intrastate Switched Access Charges for Competitive Local Telephone Companies
Chart E-17	Intrastate Originating CCL Charges – Competitive Local Telephone Companies
Chart E-18	Intrastate Terminating CCL Charges – Competitive Local Telephone Companies
Chart E-19	Intrastate Originating LS Charges – Competitive Local Telephone Companies
Chart E-20	Intrastate Terminating LS Charges – Competitive Local Telephone Companies
Chart E-21	Intrastate Originating TR Charges – Competitive Local Telephone Companies
Chart E-22	Intrastate Terminating TR Charges – Competitive Local Telephone Companies

APPENDIX F
REVIEW OF EARNINGS REPORTS FOR THE
YEAR ENDING 12/31/99

Table F-1 Review of Earnings Reports for the Year Ending 12/31/99;
Summary of Staff Findings

Table F-2 Review of Earnings Reports for the Year Ending 12/31/99;
Key Financial Ratios and Staff Conclusions –
Telephone Cooperatives

**TABLE F-1: REVIEW OF EARNINGS REPORTS FOR THE YEAR ENDING 12/31/99
SUMMARY OF STAFF FINDINGS
INVESTOR-OWNED TELEPHONE UTILITIES**

TELEPHONE COMPANY	ACCESS LINES	REPORTED ROR	COST OF CAPITAL(ROR)		EXCESS EARNINGS		AVERAGE EXCESS EARNINGS/ACCESS LINE	COMMENTS
			HIGH	LOW	HIGH ROR	LOW ROR		
Alenco	1,746	5.10%	10.85%	10.25%	(576,482)	(517,245)	(313)	
Big Bend	5,398	8.76%	10.71%	10.12%	(783,803)	(546,601)	(123)	
Blossom	1,421	-15.67%	12.52%	11.87%	(430,158)	(420,241)	(299)	
Border to Border	83	15.15%	11.23%	10.63%	58,044	66,921	753	
Brazoria	6,524	12.32%	10.48%	9.97%	373,065	476,259	65	
Brazos Telecom	4,325	17.10%	11.68%	11.08%	251,942	279,813	61	
Cameron	1,261	1.54%	11.62%	10.94%	(283,379)	(264,268)	(217)	
Century Lake Dallas	11,516	22.61%	11.33%	10.78%	1,531,172	1,605,862	136	
Century Port Aransas	4,702	24.78%	12.20%	11.55%	456,323	480,671	100	
Century San Marcos	31,926	32.42%	12.76%	12.11%	6,525,267	6,741,036	208	Chapter 59 Election
Central Telephone	227,387	9.00%	10.38%	9.81%	(3,347,788)	(1,965,318)	(12)	Chapter 59 Election
Comanche County	5,535	-1.53%	11.84%	11.24%	(607,981)	(580,693)	(107)	
Community	1,862	9.21%	10.44%	9.98%	(41,655)	(26,101)	(18)	
Electra	1,973	-3.46%	12.52%	11.87%	(621,869)	(596,575)	(309)	
Fort Bend	40,688	-7.05%	10.29%	9.92%	(10,540,817)	(10,315,932)	(256)	See Note 1 below
GTE (Verizon)	2,514,573	6.36%	10.33%	9.82%	(85,095,560)	(74,165,332)	(32)	Chapter 58 Election
Ganado	3,031	6.17%	10.00%	9.55%	(464,936)	(410,374)	(144)	
Industry	2,189	3.01%	12.36%	11.71%	(459,606)	(427,644)	(203)	
Kerrville	24,659	13.65%	12.22%	11.57%	571,585	831,013	28	
La Ward	1,197	12.55%	10.29%	9.72%	74,656	93,454	70	
Lake Livingston	1,169	18.78%	11.16%	10.69%	185,637	197,082	164	
Lipan	1,375	23.14%	12.36%	11.71%	217,866	231,002	163	
Livingston	6,990	21.48%	12.36%	11.71%	507,432	543,601	75	
Muenster	3,830	20.91%	10.90%	10.29%	894,595	949,129	241	
North Texas	821	-6.26%	12.52%	11.87%	(222,581)	(214,879)	(266)	
Riviera	1,249	16.27%	11.17%	10.51%	145,513	164,350	124	
Southwest Texas	3,958	18.15%	12.20%	11.55%	640,677	710,717	171	
Southwestern Bell	10,236,332	12.84%	9.84%	9.36%	271,193,418	314,522,099	29	Chapter 58 Election
Sugarland	76,769	24.47%	11.70%	11.11%	9,817,842	10,271,428	131	Chapter 59 Election
Tatum	1,098	5.79%	12.36%	11.71%	(139,328)	(125,539)	(121)	
Texas ALLTELL	30,235	8.91%	12.22%	11.55%	(1,448,219)	(1,155,419)	(43)	
TXU Communications	113,276	20.85%	12.08%	11.43%	11,892,198	12,773,495	109	Chapter 59 Election
United	163,151	12.68%	10.77%	10.20%	4,065,073	5,280,919	29	Chapter 59 Election
West Plains	5,863	18.81%	11.00%	10.40%	362,794	390,652	64	

Note 1: Company reported extraordinary long-term incentive pay related to sale of company of \$7,826,299 (intrastate) accrued

at 12/31/99. Removing impacts of this item, ROR = 5.85%, excess earnings range is (2,664,519) to (2,439,633).

REVIEW OF EARNINGS REPORT FOR THE YEAR ENDING 12/31/99
KEY FINANCIAL RATIOS AND STAFF CONCLUSIONS
TELEPHONE COOPERATIVES

COMPANY NAME	UTILITY				GENERAL	NET CASH			REPORTED	STAFF CONCLUSION
	CUSTOMERS	TIER	DSC	EQUITY	FUNDS	FLOW TO CAP.	OPERATING	RATE OF		
	(TEXAS)			RATIO	RATIO	OUTLAYS	MARGIN	RETURN		
BRAZOS	1,260	4.18	1.38	66.49%	18.34%	222.20%	6.64%	20.28%	NO FURTHER REVIEW (NFR)	
CAP ROCK	4,590	5.56	4.08	74.41%	18.47%	156.55%	13.62%	11.53%	(NFR)	
CENTRAL TEXAS	7,618	4.16	3.79	57.21%	5.67%	82.31%	20.10%	4.78%	(NFR)	
COLEMAN COUNTY	2,234	1.45	1.86	47.65%	5.03%	0.00%	0.41%	-0.81%	(NFR)	
COLORADO VALLEY	6,587	2.43	3.81	69.50%	2.27%	73.16%	6.31%	1.75%	(NFR)	
CUMBY	888	0.00	0.00	100.00%	23.08%	-12.93%	-7.79%	5.90%	(NFR)	
DELL	713	2.26	2.46	36.82%	3.55%	68.83%	20.31%	6.45%	(NFR)	
E.N.M.R	885	8.10	4.80	49.92%	15.75%	0.00%	31.07%	34.00%	(NFR)	
EASTEX	30,476	12.67	9.90	83.23%	10.42%	139.10%	23.97%	10.27%	EXCESS EARNINGS	
ETEX	14,749	5.67	5.17	65.35%	7.35%	54.69%	18.71%	13.17%	(NFR)	
FIVE AREA	1,489	15.94	2.34	79.35%	2.93%	344.06%	21.21%	19.52%	EXCESS EARNINGS	
GUADALUPE VALLEY	34,971	12.64	11.62	85.23%	8.98%	251.88%	32.29%	22.64%	EXCESS EARNINGS	
HILL COUNTRY	15,104	8.74	8.16	84.29%	17.17%	138.52%	25.28%	17.06%	EXCESS EARNINGS	
MID-PLAINS RURAL	3,302	35.83	9.13	98.03%	10.10%	163.27%	28.26%	14.22%	EXCESS EARNINGS	
PEOPLES	12,374	2.99	1.78	52.92%	0.41%	307.64%	18.60%	7.60%	(NFR)	
POKA-LAMBRO RURAL	3,878	-6.45	-2.51	37.49%	3.80%	400.68%	9.42%	2.04%	(NFR)	
SANTA ROSA	2,375	3.39	3.03	68.80%	23.69%	31.80%	4.92%	9.20%	(NFR)	
SOUTH PLAINS	5,286	-1.52	1.89	75.79%	13.17%	167.95%	15.01%	7.55%	(NFR)	
SW ARKANSAS	547	4.19	3.22	52.66%	21.78%	0.00%	21.87%	19.93%	(NFR)	
TAYLOR	7,187	2.59	2.93	64.16%	15.08%	250.07%	18.18%	6.16%	(NFR)	
VALLEY	6,232	12.15	8.56	68.81%	8.72%	143.77%	31.32%	15.63%	EXCESS EARNINGS	
WES-TEX	3,381	0.00	0.00	100.00%	30.93%	0.00%	12.75%	20.87%	(NFR)	
WEST TEXAS RURAL	2,053	2.25	2.96	60.93%	14.65%	172.08%	0.53%	-11.77%	(NFR)	
XIT RURAL	1,337	3.42	2.78	52.99%	5.71%	212.18%	19.06%	5.73%	(NFR)	
Median		3.79	2.99	67.65%	10.26%	141.43%	18.66%	9.73%		
Mean		5.94	3.88	68.00%	11.96%	140.33%	16.34%	10.99%		