Before the
Federal Communications Commission
Washington, D.C. 20554

In the Matter of	)	
	)	
JULY 2, 2002 ANNUAL ACCESS CHARGE TARIFF FILINGS	)	WCB/Pricing 02-12

PETITION OF AT&T CORP.

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Pursuant to Section 1.773 of the Commission's Rules, 47 C.F.R. § 1.773, and the Commission's Order, DA 02-970, released April 26, 2002,[1] AT&T Corp. ("AT&T") submits this Petition addressed to the annual interstate access tariffs filed June 17, 2002 by local exchange carriers ("LECs").

INTRODUCTION AND SUMMARY

Prompt action by the Commission is necessary to address the several serious errors underlying the LECs' 2002 Annual Access Charge Tariffs. AT&T's analysis of the LECs' filings indicates that, in aggregate, the LECs have inflated their access rates by more than $70 million. As detailed below, the LECs' access tariffs are, in numerous respects, flatly inconsistent with the Commission's rules, the relevant court decisions, and publicly available data. The resulting overstated access charges undermine the core objectives of the 1996 Telecommunications Act, impede competition and deny consumers the corresponding benefits of competition. Accordingly, AT&T respectfully

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1 *July 2, 2002 Access Charge Tariff Filings,* Order, DA 02-970 (released April 26, 2002).

urges the Commission to suspend and investigate the unsupported and inflated tariff rates detailed below.[2]

Part I of these comments demonstrates that the tariffs filed by several rate-of-return carriers warrant suspension. First, NECA's 2002 annual filing contains local switching and common carrier line ("CCL") rates that are based on substantially understated minutes of use ("MOU") demand projections. This error results in local switching and CCL charges that are overstated by $37.8 million. Second, PRTC, Roseville, and Virgin Islands computed their Cash Working Capital ("CWC") requirements using excessive net lag periods (of 30, 37, and 30 days, respectively). This error inflates the interstate revenue requirements for these LECs by $1.1 million. Third, Alltel, CenturyTel, Puerto Rico, ACS-Anchorage, Illinois Consolidated and Virgin Islands Telephone failed in its Part 69 cost studies to identify – let alone fully describe – the General Support Facilities investments that were required to be removed from access rates to the billing and collection category as required by the *MAG Order*.[3]

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2 A tariff is subject to rejection when it is *prima facia* unlawful, in that it demonstrably conflicts with the Communications Act or a Commission rule, regulation or order. *See, e.g., American Broadcasting Companies, Inc.* v. *AT&T*, 663 F.2d 133, 138 (D.C. Cir. 1980); *MCI* v. *AT&T*, 94 F.C.C.2d 332, 340-41 (1983). Suspension and investigation are appropriate where a tariff raises substantial issues of lawfulness. *See AT&T* (Transmittal No. 148), Memorandum Opinion and Order, 56 RR2d 1503 (1984); *ITT* (Transmittal No. 2191), 73 F.C.C.2d 709, 716 n.5 (1979) (citing *AT&T*, 46 F.C.C.2d 81, 86 (1974)). Appendix A identifies the companies whose tariffs should be suspended and investigated and whose rates should be remedied.

3 *Multi-Association Group (MAG) Plan for Regulation of Interstate Services of Non-Price Cap Incumbent Local Exchange Carriers and Interexchange Carriers*, Second Report and Order and Further Notice of Proposed Rulemaking, CC Docket Nos. 00-256, 96-45, 98-77, 98-166, FCC 01-304, ¶ 116 (released November 8, 2001) ("*MAG Order*").

Part II of these Comments demonstrates that the 2002 annual filings submitted by a handful of price-cap carriers contain serious errors that substantially inflate access rates. First, Valor Telecommunications Enterprises, LLC's ("Valor's") filing contains a lower formula adjustment ("LFA") that is overstated by at least 40%. That overstated LFA adjustment is caused by Valor's overstated revenue rate base: Whereas Valor reports to this Commission that its revenue rate base s $106.8 million, Valor has conceded to the Texas Public Utilities Commission that its revenue rate base is only $76.4 million. Based on the revenue base Valor reported to the Texas Commission, Valor is eligible for only a $4.9 million LFA, not the $9.6 million LFA contained in its 2002 annual filing. Second, Valor has failed to properly remove its 2001 LFA. This error overstates Valor's revenue requirement by an additional $404,201. Third, the 2002 annual filings of Frontier Telephone of Rochester and Citizens Telecommunications contain an administrative error that substantially inflates the multi-line business ("MLB") primary interexchange carrier charge ("PICC") rates and the MLB end-user common line ("EUCL") rates contained in those LECs' tariffs. These administrative errors overstate the MLB PICC and EUCL charges for these LECs by nearly $14 million. Fourth, SBC-Southwestern's annual tariff seeks bogus exogenous cost adjustment for an investment tax credit ("ITC"). As demonstrated by AT&T, SBC-Southwestern's ARMIS 43-01 Report data shows that, based on the ITC exogenous cost adjustments taken by SBC-Southwestern in its annual filings from 1991-2001, SBC-Southwestern's ITC account is fully depleted. Thus, there is no justification for the ITC exogenous cost adjustment in SBC-Southwestern's current annual filing.

ARGUMENT

I. TARIFFS FILED BY SEVERAL RATE-OF-RETURN CARRIERS RAISE ISSUES THAT WARRANT SUSPENSION.

AT&T's inspection and analysis of rate-of-return LEC filings revealed numerous errors and abuses warranting suspension and investigation.

A. NECA Substantially Under-Forecasts Its Minutes Of Use Demand Projections, Resulting In Overstated Access Revenue Requirements.

NECA's 2002 annual filing contains local switching and CCL rates that are based on substantially understated MOU demand projections. NECA has historically reported significant growth in local switching and CCL MOU demand from year-to-year. This year, however, NECA is forecasting a massive 11 percent decline from its 2001/2002 projections in MOU demand (which were filed with NECA's 2001 annual filing). There is no legitimate justification for such a large reduction in NECA's MOU demand forecasts. To illustrate the substantial impact of NECA's understated demand, it is notable that if NECA used the same MOU demand projections in its 2002 filing that it used in its 2001 filing, its switching access and CCL charges would decrease by \$37.8 million.[4]

NECA's MOU demand projections in its 2002 annual filing rely on NECA's actual 2001 MOU demand.[5] But NECA's reported actual 2001 MOU demand appears to be suspect. In its 2000 and 2001 annual tariff filings, NECA projected MOU demand that was higher than the purported actual MOU demand reported by NECA. If NECA's actual MOU demand for those years were, in fact, lower than its projections, then NECA would be expected to have earned a rate-or-return lower than the target 11.25%. In

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4 *See* Exhibit 1 (attached).

5 NECA Transmittal No. 939, D&J, Vol. 1, Section A(4).

reality, however, NECA earned a rate-of-return for 2001 of 12.25%.[6] That result is particularly surprising here, because in the past, where there has been little difference between NECA's actual and projected MOU demand, NECA's returns have been very close to the 11.25% target. Thus, where, as here, NECA's 2001 rate-of-return is substantially higher than the target 11.25%, it is not credible that its actual 2001 demand MOUs were substantially lower than its projected MOUs.

NECA provides only two additional justifications for its large MOU demand decreases. Just as it did last year, NECA claims that its MOU demand is negatively affected by poor economic conditions and substitution away from wireline to wireless services.[7] Last year, when NECA made this same argument, NECA stated that a reasonable growth estimate for MOU demand, given these conditions was 5.5%. Thus, based on NECA's own statements, its MOU demand would be expected to grow, not decline, in 2002 and 2003 relative to 2001.

NECA provides no evidence that economic conditions have changed substantially over the past year or that wireless substantiation has increased. For example, as evidence of wireless substitution for wireline, NECA previously has stated that,[8] beginning in 1999, the ratio of terminating to originating minutes for wireline carriers has substantially increased. But by that measure, there is no justification for the decreased MOU demand projections in its 2002 annual filing. As shown in Exhibit 3 (attached), the ratio of

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6 *See* Exhibit 2 (attached).

7 *See 2001 Annual Access Tariff Filings*, NECA Reply Comments, at 3-4 (dated June 29, 2001).

8 *See id.*

terminating to originating minutes has remained nearly constant from 2000 through year-end 2001.

On this record, there is no legitimate justification for NECA's 11% decrease in MOU demand forecasts (and a 2.8% decrease relative to NECA's purported actual 2001 MOU demand). NECA should be required to re-compute its projections. Adjusting NECA's current projections so that those projections are equal to those in NECA's 2001 annual filing results in a $37.8 million reduction in CCL and local switching revenues.[9]

B. PRTC, Roseville, and Virgin Islands Have Filed Excessive Cash Working Capital Requirements.

PRTC, Roseville, and Virgin Islands have employed an excessive net lag period (of 30, 37, and 30 days, respectively) to arrive at inflated CWC[10] revenue requirements totaling $12.2 million.[11] This departure from the Commission's 15-day standard results in a $6.2 million overstatement of CWC revenue requirement for these carriers and a corresponding inflation of interstate revenue requirements of $1.1 million.[12] These

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9 *See* Exhibit 1 (attached).

10 CWC is the amount of investor-supplied funds required to pay operating expenses incurred in providing services prior to the receipt of revenues for such services. CWC is computed by determining the revenue lag and the expense lag and then multiplying the difference by the carrier's average daily operating expenses. Revenue lag is the average number of days between the date a service is provided and the date the associated revenues are collected. Expense lag is the average number of days between the date a service is provisioned and the date the expenses associated with those services are paid. The difference between revenue lag and expense lag is referred to as the net lag.

11 *See* PRTC, Roseville, and Virgin Islands Cost Support, Part 69, July 1, 2002 to June 30, 2003, Cash Working Capital.

12 *See* Exhibit 4 (attached).

figures reflect substantial and unsupported departures from industry averages, warranting suspension and investigation of their lawfulness.[13]

Because these LECs have departed from the 15-day standard, PRTC, Roseville, and Virgin Islands are required to determine their net lag period by conducting a lead-lag study.[14] And the Commission must reject PRTC's, Roseville, and Virgin Islands' studies unless those LECs have supplied accurate data that is representative of current operations and adequately explain and justify its proposed lag periods.[15] Neither PRTC, Roseville, nor Virgin Islands has provided a lag study, nor any other supporting documentation to explain why it should be entitled to a lag that is nearly double the standard 15-day lag. Accordingly, the Commission should investigate PRTC's, Roseville's, and Virgin Islands' current CWC revenue requirements and determine whether they are representative of their current operations and direct those LECs to either justify the excessive CWC amounts or reduce them to appropriate levels.

AT&T computed the impact of these LECs' excess lead lag periods as follows. These LECs' projected total cash expense (excluding depreciation) was divided by 365 days to determine the average daily cash requirements for the LECs. The daily cash figures were then divided into the LECs' projected CWC requirement to compute each LECs' net lag. A comparison of the results of employing the derived net lag versus the

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13 For example, AT&T's survey of Alltel's CWC found a *maximum* lag period of only 18 days. *See* Exhibit 5 (attached).

14 The Commission has recognized this problem in the past. For example, in 1997, the Commission's rejected both the lead-lag study and the expense lag period proposed in PRTC's and Roseville's 1997 Annual Access Tariff Filings – which resulted in similar lag periods to those used here. *See 1997 Annual Access Tariff Filings*, Memorandum Opinion and Order, CC Docket 97-149, 13 FCC Rcd. 3815, ¶¶ 221-224 (released June 27, 1997) ("*1997 Access Tariff Filings*").

15 *See id.*

15-day standard lag shows that the LECs' interstate revenue requirements are inflated by approximately $1.1 million.[16]

C. Alltel, CenturyTel, PRTC, ACS-Anchorage, Illinois Consolidated and Virgin Islands Telephone Do Not Assign A Portion Of General Support Facilities Investment To The Billing And Collection Category As Required By The *MAG Order*.

The *MAG Order*[17] requires rate-of-return carriers to remove the costs of general purpose computer equipment associated with other billing and collection from their access rates. *MAG Order* ¶ 116 (requiring rate-of-return carriers "to determine the cost of their investment in general purpose computers" and then to "apply the modified Big Three Expense Factor used by price cap carriers to their general purpose computer investment to determine the amount to be allocated to the billing collection category").[18] The Commission's *Tariff Review Order* (¶ 11) instructs LECs to "identify any General Support Facilities investments that were reapportioned as a result of the [*MAG Order*] . . . in the description and justification accompanying their filings." These descriptions should "describe the procedures used and indicate the revenue requirement amounts that were reallocated to the appropriate access categories." *Id.* Several carriers have failed to comply with this requirement. In particular, the Part 69 cost studies provided by Alltel, CenturyTel, Puerto Rico, ACS-Anchorage, Illinois Consolidated[19] and Virgin Islands fail

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16 *See* Exhibit 4 (attached). These amounts were derived by multiplying the overstated CWC by the permitted 11.25% interstate rate-of-return to determine the effect on interstate income and then adjusting for the 35% corporate income tax rate.

17 *MAG Order* ¶ 116.

18 *July 2, 2002 Annual Access Charge Tariff Filings*, WCB/Pricing 02-13, Tariff Review Plans for Carriers Subject to Rate of Return Regulation, DA 02-1308, ¶ 11 (released June 3, 2002).

19 Illinois Consolidated does mention the removal of the "OB&C" costs in the description and justification portion in its filing. However, there is no evidence in

to identify – let alone fully describe – the general purpose computer investments that were removed from access rates to the billing and collection category pursuant to the *MAG Order*. It is critical that LECs show this reallocation in the Part 69 cost study to ensure that this Commission and interested parties can verify that the LEC has properly removed these costs from access. The LECs that have failed to do so should be required to provide that information in the Part 69 cost studies, and if those carriers have not properly removed those General Support Facilities investments from their access rates, they should be required to do so.

II. TARIFFS FILED BY MULTIPLE PRICE-CAP CARRIERS RAISE ISSUES THAT WARRANT SUSPENSION.

AT&T's analysis of price-cap LEC filings also revealed numerous errors and abuses warranting suspension and investigation.

A. Valor's Claimed Lower Formula Exogenous Cost Adjustments Are Clearly Overstated.

The annual tariff filing submitted by Valor Telecommunications Enterprises, LLC ("Valor") includes an LFA of $9.6 million dollars.[20] That LFA, on its face, is highly suspect. Indeed, Valor is seeking an LFA that is equal to almost *20% of its total revenues*

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its Part 69 cost studies that these costs have been properly apportioned to the billing and collection category. *See* Transmittal No. 115, Filed June 17, 2002, Description and Justification.

20 *See* Valor, Transmittal No. 18, June 17, 2002, TRP, EXG-1, LFA Adjustment. The Commission's rules permit a LEC that earns a rate-of-return lower than 10.25 percent in a given base year to obtain an LFA that increases the price cap index ("PCI") so that the LEC is able to earn a 10.25 percent rate-of-return on a forward-going basis. *See, e.g., See Price Cap Performance Review for Local Exchange Carriers and Access Charge Reform*, CC Docket No. 94-1, Fourth Report and Order, FCC 97-159, ¶ 157 (released May 21, 1997); *Access Charge Reform, Price Cap Performance Review for Local Exchange Carriers, Low-Volume Long Distance Users, Federal-State Joint Board on Universal Service*, CC Docket Nos. 96-262, 94-1, 99-249 and 96-45, FCC 00-193, ¶¶ 145, 181-182 (released July 26, 2000).

for 2001. An analysis of Valor's publicly available data shows that the $9.6 million LFA is, in fact, overstated by 48%.

Valor's public filings show that Valor is reporting different numbers to this Commission than it is reporting to the Texas Public Utilities Commission ("Texas PUC"). In particular, Valor is reporting a substantially higher revenue rate base ($106.8 million)[21] to this Commission than it is reporting to Texas PUC ($76.4 million).[22] That means that the LFA exogenous cost adjustment in Valor's 2002 annual filing is based on its having to recover $106.8 million reported to this Commission rather than the $76.4 million that Valor reported to the Texas PUC. Based on the $106 million revenue rate base that Valor reported to this Commission, Valor's rate-of-return is 4.38%[23] which would allow Valor to seek a $9.6 million LFA exogenous cost adjustment. However, based on the $76.4 million revenue rate base that Valor reported to the Texas PUC its rate-of-return is 6.12%, which would allow Valor to seek only a $4.9 million LFA exogenous cost adjustment.[24] Thus, if Valor has correctly reported its financial results to

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21 *See* Valor FCC Form 492A, Line 4 Rate Base (2001).

22 Valor is required to file an Annual Earnings Report with Texas PUC. That Report shows Valor's Revenue and Expenses and Valor's Invested Capital. Those values are divided into "Total Texas Subject to Separations" and "Intrastate Amounts." From this report AT&T computed the "Interstate Amounts" by calculating the difference between the Total Texas Subject to Separations and the Intrastate Amounts. *See* PUCT, Control No. 25592, 2002 Annual Earnings Report of Valor-TX, Schedule II (filed June 14, 2002) (Interstate revenues equals Line 64 Total Invested Capital, "Total" minus "Intra").

23 Valor Annual Access Charge Filing, Exhibit 7. This 4.38% figure reflects an adjustment for 50% of its 2001 annual filing LFA.

24 As shown in Exhibit 6 (attached), replacing the $106 million rate base in Valor's FCC Form 492A with the $76.4 million in Valor's 2001 Annual Earnings Report to the Texas PUC, results in a rate-of-return of 7.97%. Adjusting that amount downward for one-half of Valor's 2001 LFA results in a rate-of-return of 6.12%.

the Texas PUC, its 2002 interstate annual access filing overstates the LFA for which it is eligible by 48%.

Given the substantial discrepancy between the data that Valor reported to this Commission, and that which it reported to the Texas PUC, the Commission should require Valor to re-file its FCC Form 492A Report, and explain and document any discrepancies with verifiable data. Until Valor has taken these steps, Valor must not be permitted to implement any access rate increase based on its $9.6 million LFA exogenous cost adjustment.

B. Valor Incorrectly Computed The LFA That Must Be Removed From Its 2002 Annual Filing.

There also is a second independent error in Valor's 2002 annual filing. Valor's 2001 annual filing included a large LFA exogenous cost adjustment, which Valor must now remove from its 2002 filing.[25] Although Valor attempts to make this adjustment in its 2002 filing, it does so incorrectly.[26]

In particular, Valor incorrectly computed the "R" values used to determine the level of the LFA exogenous cost adjustment that must be removed from its 2002 annual filing.[27] According to Valor, it used "R" values for the change in the Common Line and Special Access baskets "based on the rates which had changed in the 2001 Annual Filing."[28] This methodology is not consistent with the Commission's rules, which plainly require the "R" values to be based on the revenue from the entire Common Line and

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25 *See 1997 Annual Access Tariff Filings*, Memorandum Opinion and Order, FCC 97-403, ¶ 115 (released December 1, 1997) ("*1997 Order*").

26 *See* Valor, Transmittal Nos. 1163 and 1181, Exhibit 10.

27 The "R" value represents the current period revenues for a particular basket. The "R" value is used to compute the level of the LFA cost adjustment that must be removed. *See 1997 Order*, ¶ 115.

Special Access baskets – not on only the rates that had changed.[29] Valor's flawed method of removing its LFA exogenous cost adjustment resulted in adjustments of $5.3 million for Valor's VATX and VCTX study areas rather than $4.9 million for those study areas. Thus, the revenue base in Valor's 2002 annual filing is overstated by an additional $404,201.[30]

C. The Multi-Line Business PICC Rates and Multi-Line Business EUCL Rates Contained In The Tariffs Of Frontier Telephone And Citizens Telecommunications Do Not Match The Corresponding Rates On Those Carriers' Tariff Review Plans.

The 2002 access tariffs filed by Frontier Telephone of Rochester and Citizens Telecommunications contain an administrative error that substantially inflates the MLB PICC rates and the MLB EUCL rates contained in their tariffs. In particular, the MLB PICC and EUCL rates contained in Frontier's and Citizens' 2002 annual access charge *tariff pages* do not match the correctly computed rates in their Tariff Review Plans ("TRPs"). As a result of this error, the MLB PICC and EUCL charges in two of the Frontier Telephone of Rochester study areas (RTNY and RTCS) are overstated by a total of $13.6 million. The MLB PICC charge in two of the Citizens Telecommunications study areas (CTC3 and CTC5) is overstated by $360,000.

Frontier MLB PICC Rates. Frontier's TRP correctly shows the "Proposed Maximum CMT Revenue" to be $28.4 million for its RTNY study area.[31] Frontier's TRP

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28 Valor, Transmittal Nos. 1163 and 1181, D&J, at 6.

29 *See 1997 Order*, ¶ 115.

30 *See* Exhibit 7 (attached).

31 Frontier Telephone of Rochester, Inc., Transmittal No. 60, RTNY study area, CAP-1 TRP chart, page 2 of 2, line 600 correctly shows its Proposed Maximum CMT Revenues of $28,451,340. This was derived by multiplying its Proposed Maximum CMT Revenue per Line of $4.69 (CAP-1, page 1 of 2, line 460) by its Total Local Exchange Lines of 6,065,308 (CAP-1, page 1of 2, line 130).

also correctly identifies the "Maximum Average MLB PRI & Centrex PICC Rate" and the "Total Maximum PICC Revenue Proposed" to be $0.00 in the RTNY study area.[32] However, Frontier's *tariff* does not reflect these amounts. Rather, Frontier's tariff contains a MLB PICC rate of $4.31 (instead of $0.00) for its RTNY study area.[33] The incorrect $4.31 MLB PICC rate reflected in Frontier's RTNY tariff results in CMT revenues that are overstated by $4.2 million.[34]

Frontier's RTCS MLB PICC rate also is overstated by a similar mistake. Although Frontier correctly computes the MLB PICC rate in its CAP-1 TRPs for its RTCS study area to be $.07,[35] Frontier's RTCS tariff contains a MLB PICC rate of $4.31 for its RTCS study area.[36] As a result of this error, Frontier's RTCS CMT revenues are overstated by $2.1 million.[37]

Citizen Telecommunications MLB PICC Rates. The same problem exists in Citizens Telecommunications access tariffs for the CTC3 and CTC5 study areas. For the CTC3 and CTC5 study areas, Citizens correctly computes the MLB PICC rate to be

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32 Frontier Telephone of Rochester, Inc., Transmittal No. 60, RTNY study area, CAP-1 TRP chart, page 2 of 2, lines 830 and 860.

33 Frontier Telephone of Rochester, Inc., Transmittal No. 60, RTNY study area, Tariff FCC No. 1, Eighth Revised Page 4-21.

34 $4,240,915 = ($4.31 - $0.00) x (915,116 + 573,365/9 + 5,145, *i.e.*, the sum of MLB PICC Lines, CAP-1, Lines 200, 210, 220).

35 Frontier Telephone of Rochester, Inc., Transmittal No. 60, RTCS study area, CAP-1 TRP chart, page 2 of 2, lines 830 and 860.

36 Frontier Telephone of Rochester, Inc., Transmittal No. 60, RTCS study area, Tariff FCC No. 1, Eighth Revised Page 4-21.

37 $2,108,084 = ($4.31 - $0.07) x (470,055 + 103,675/9 + 15,615, *i.e.*, the sum of MLB PICC Lines, CAP-1, Lines 200, 210, 220).

$0.00, but its *tariff* contains a MLB PICC rate of $4.31.[38] These errors result in an over-recovery of MLB PICC charges of $360,000.

Frontier EUCL Rates. The maximum allowable EUCL rates as computed in Frontier's RTNY's Access Charge Tariff Filing show that its "CAP Form containing final EUCL rates" is the CAP-2.[39] The CAP-2 TRP chart correctly shows RTNY's EUCL rate for all classes of lines to be $4.69.[40] However, in the tariff, Frontier incorrectly shows a MLB EUCL rate of $9.20, which results in an over-recovery of $6.8 million.[41] Likewise, the MLB EUCL rate in Frontier's RTCS tariffs ($9.20) does not match the correctly computed rate in its CAP-1 TRP ($8.37).[42] That error results in a $523,000 over-recovery.[43]

These LECs should be required to fix these administrative errors in their 2002 annual filings.

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38 Citizens, Transmittal No. 119, CTC 3 study area, CAP-1 TRP chart, page 2 of 2, line 830 correctly computes $0.00 for MLB Maximum PICC Rate, but Tariff FCC No. 1, 10th revised page 819 shows a MLB PICC rate of $4.31; Citizens Transmittal No. 119, CTC5 study area, CAP-1 TRP chart, page 2 of 2, line 830 correctly computes $0.00 for MLB Maximum PICC Rate, but Tariff FCC No. 1, 4th revised page 963 shows a MLB PICC rate of $4.31.

39 Frontier Telephone of Rochester, Inc., Transmittal No. 60, RTNY study area, CAP-1 TRP chart, page 2 of 2, line 1130.

40 Frontier Telephone of Rochester, Inc., Transmittal No. 60, RTNY study area, CAP-2 TRP chart, page 1 of 1, lines 400, 410 and 420. The accuracy of the $4.69 EUCL rate is easily verifiable. Multiplying that rate times the total number of exchange lines (6,065,308) produces a maximum CMT revenue that matches that in Frontier's RTNY "Proposed Maximum CMT Revenue."

41 $6,820,315 = ($9.20 – $4.69) x 1,512,265, *i.e.*, MLB EUCL Lines, CAP-1, Line 120).

42 Frontier Telephone of Rochester, Inc., Transmittal No. 60, RTCS study area, CAP-2 TRP chart, page 1 of 1, line 420 correctly shows $8.37 for MLB EUCL, however, Frontier Telephone of Rochester, Inc., Transmittal No. 60, RTCS study area, Tariff FCC No. 1, Tenth Revised Page 4-8 shows MLB EUCL of $9.20.

43 $523,826 = ($9.20 – $8.37) x 631,116, *i.e.*, MLB EUCL Lines, CAP-1, Line 120).

D. SBC-Southwestern's Exogenous Cost Claim For Investment Tax Credits Is Incorrect.

SBC's annual tariff filing continues to include a bogus exogenous cost adjustment for an ITC.[44] The Commission permits LECs to include an exogenous cost adjustment to reflect changes in the ITC account balance from year to year. As explained by AT&T in its May 13 TRP Comments,[45] LECs are not permitted to add to the ITC account. Thus, once the ITC account is depleted, LECs may no longer include an ITC exogenous cost adjustment in their annual tariff filings.

As shown in Exhibit 8 SBC-Southwestern has included ITC in its annual access revisions in every tariff filing beginning with its May 1991 access tariff filings. According to SBC-Southwestern's 1990 ARMIS 43-01 Report, its ITC account balance was then $22.4 million. The sum of the ITC account changes reported by SBC-Southwestern in its 1991-2002 annual filings is $23.5 million. That means that SBC-Southwestern has taken ITC exogenous cost adjustments based on more investment than had ever been in that account. In fact, as shown in Exhibit 8, SBC-Southwestern has overstated its ITC exogenous cost adjustments from 1991 through 2001 by $12 million. Thus, SBC-Southwestern's ITC exogenous cost adjustment is not supported by any verifiable costs in that account.

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44 *See SBC*-Southwestern Transmittal No. 2901, June 17, 2002.

45 AT&T, hereby, incorporates by reference that portion of its May 13, 2002 TRP Comments addressing SBC's ITC exogenous cost adjustments.

CONCLUSION

For the reasons stated above, the Commission should suspend for one day and investigate the tariff revisions filed by the LECs as detailed in Appendix A and impose an accounting order.

Respectfully submitted,

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June 24, 2002

CERTIFICATE OF SERVICE

I hereby certify that on this 24th day of June, 2002, I caused true and correct copies of the forgoing Petition of AT&T Corp. to be served on all parties by telecopier and mailing, postage prepaid to their addresses listed on the attached service list.

Dated: June 24, 2002
Washington, D.C.

Patricia A. Bunyasi

Patricia A. Bunyasi

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APPENDIX A

TARIFFS WHICH THE COMMISSION SHOULD SUSPEND AND INVESTIGATE

RATE-OF-RETURN LEC TARIFFS

COMPANY	TARIFF NO.	TRANSMITTAL NO.
ACS-ANCHORAGE	1	11
ALLTEL	1	105
CENTURYTEL	1	22
ILLINOIS CONSOLIDATED	2	115
NECA	5	939
PRTC	1	47
ROSEVILLE	1	92
VIRGIN ISLANDS	1	48

NOTE: The above rate-of-return LEC tariffs should be suspended for one day.

PRICE CAP LEC TARIFFS

COMPANY	TARIFF NO.	TRANSMITTAL NO.
CENTURYTEL	1	22
FRONTIER	1	60
SBC	73	2901
VALOR	1	18

NOTE: The above price cap LEC tariff should be suspended for one day.

EXHIBITS 1 - 8

EXHIBIT 1

NECA

Illustrative Revenue Impact

(based on 2001/2002 Demand Forecast)

	Prospective Tariff Period	Local Switching Chargeable MOUs	Carrier Common Line Chargeable MOUs	Total Revenue Impact
	2001/2002	19,852,781,974	35,986,574,152	
	2002/2003	17,737,622,409	32,022,303,505	
Rate Setting Revenue Requirement		$ 251,443,960	$ 63,448,733	
Proposed 2002/2003 Rates		$ 0.0142	$ 0.0020	
Illustrative 2002/2003 Rates		$ 0.0127	$ 0.0018	
Difference		$ (0.0015)	$ (0.0002)	
Revenue Impact		$ (29,983,956)	$ (7,854,774)	$ (37,838,730)

Source: NECA Annual Filings:

RORDMD-1, Page 2 of 3 & Page 3 of 3

Trans 901, 6/18/01	2001/2002
Trans 938, 6/17/02	2002/2003

NECA

Comparison of CCL Actual Demand to Forecast and Rate-of-Return

	Actuals Calendar Year	Total CCL	FCC Monitoring Period	FCC Form 492 CCL ROR
	1995	20,976,197,782		
	1996	23,167,857,953	95/96	10.78%
	1997	25,373,743,248		
	1998	27,708,431,838	97/98	11.30%
	1999	30,315,895,340		
	2000	33,229,575,745	99/00	11.76%
as filed 6/17/02	2001	33,396,405,600	2001	12.25%

	Tariff Period	Actuals	As Filed Prospective	Difference	Percent Difference
	1995/1996	22,072,027,868	22,648,845,895	576,818,028	2.61%
	1996/1997	24,270,800,601	24,326,316,553	55,515,953	0.23%
	1997/1998	26,541,087,543	26,884,331,281	343,243,738	1.29%
	1998/1999	29,012,163,589	28,768,675,533	(243,488,056)	-0.84%
	1999/2000	31,772,735,543	31,808,584,963	35,849,421	0.11%
	2000/2001	33,312,990,673	35,895,572,346	2,582,581,674	7.75%
	2001/2002		35,986,574,152		
as filed 6/17/02	2002/2003		32,022,303,505		

Source: NECA Annual Filings:
RORDMD-1, Page 2 of 3

Trans 663, 4/2/95	1995/1996
Trans 707, 4/2/96	1996/1997
Trans 758, 6/16/97	1997/1998
Trans 800, 6/16/98	1998/1999
Trans 833, 6/16/97	1999/2000
Trans 864, 6/16/00	2000/2001
Trans 901, 6/18/01	2001/2002
Trans 938, 6/17/02	2002/2003

Rate of Return Report, FCC Form 492:

Date Filed	Monitoring Period
September 30, 1997	1/1/95-12/31/96
September 30, 1999	1/1/97-12/31/98
March 31, 2001	1/1/99-12/31/00
March 29, 2002	1/1/01-12/31/01

NECA Demand
Comparison of T/O Ratios

Actuals Calendar Year	Actuals CCL-O MOUs	Actuals CCL-T MOUs	T/O Ratio
1995	9,683,852,919	11,292,344,863	1.17
1996	10,886,581,844	12,281,276,109	1.13
1997	11,751,247,680	13,622,495,568	1.16
1998	12,920,391,489	14,788,040,349	1.14
1999	14,094,936,772	16,220,958,568	1.15
2000	11,905,245,051	21,324,330,694	1.79
Dec 2000			1.85 *
2001	11,751,451,044	21,644,954,556	1.84
Projected 2002/2003	10,719,528,981	21,302,774,524	1.99

*NECA Reply Comments, In the Matter of 2001 Annual Access Tariff Filings, Filed June 29, 2001, page 4

Source: NECA Annual Filings:
RORDMD-1, Page 2 of 3

Trans 707, 4/2/96	1995
Trans 758, 6/16/97	1996
Trans 800, 6/16/98	1997
Trans 833, 6/16/97	1998
Trans 864, 6/16/00	1999
Trans 901, 6/18/01	2000
Trans 938, 6/17/02	2001

EXHIBIT 4

2002 AT&T CALCULATION OF REVENUE REQUIREMENT OVERSTATEMENT DUE TO OVERSTATEMENT OF CASH WORKING CAPITAL (CWC) REQUIREMENTS

A	B	C	D	E	F	G	H	I	J
COMPANY	TOTAL INTERSTATE EXPENSES(1)	DEPRECIATION & AMORTIZATION (2)	DAILY EXPENSES (3) (B - C) / 365	PRTC FILED CWC (4)	COMPUTED LAG DAYS (5) E / D	AT&T CALCULATED CWC @ 15 DAYS (6) D x 15	EXCESS CWC E - G	EFFECT ON INTERSTATE INCOME (7) H x .1125	EFFECT ON INTERSTATE REV. REQ. (8) I x 1.538462 (9)
PRTC (Combined)	$201,781,573	$80,733,899	$331,637	$9,905,279	30	$4,974,562	$4,930,717	$554,706	$853,394
Roseville CWC	$25,250,967	$8,670,254	$45,427	$1,688,437	37	$681,399	$1,007,038	$113,292	$174,295
Virgin Islands Telepho	$13,226,609	$5,858,398	$20,187	$611,257	30	$302,803	$308,454	$34,701	$53,386
								Total =	$1,081,075

NOTES:
(1) See Col. B - TRP, COS(P), Column E, Line 300, ROR Regulated IXS Access
(2) See Col. C - TRP, COS(P), Column E, Line 190, ROR Regulated IXS Access
(3) Daily Expenses = (Total Interstate Expenses - Depreciation and Amortization) / 365 Days
(4) See Cost Support, Part 69 (Prospective), Cash Working Capital, Total Interstate
(5) Company Filed CWC / Daily Expenses = LEC's Proposed Lead/Lag
(6) Standard Cash Working Capital Allowance = Daily Expenses * 15 Days
(7) Effect on Interstate Income = Excess CWC * LEC's Return at 11.25% rate of return
(8) Effect on Interstate Revenue Requirement = LEC's Return * Gross Up Factor for Federal Income Taxes (35%)
(9) Gross Up Factor = 1 + (0.35 / (1 - 0.35))

SOURCES:
Col. B - TRP, COS(P), Col E, Line 300, ROR Regulated I/S Access
Col. C - TRP, COS(P), Col E, Line 190, ROR Regulated I/S Access
Col. E - Cost Support, Part 69 (Prospective), Cash Working Capital, Total Interstate

EXHIBIT 5

2002 AT&T CALCULATION OF RATE OF RETURN REVENUE REQUIREMENT OVERSTATEMENT DUE TO OVERSTATEMENT OF CASH WORKING CAPITAL (CWC) REQUIREMENTS

	A	B	C	D	E	F
	COMPANY	TOTAL INTERSTATE EXPENSES(1)	DEPRECIATION & AMORTIZATION (2)	DAILY EXPENSES (3) (B - C) / 365	COMPANY FILED CWC (4)	COMP LAG DAYS (5) E / D
1	PRTC (Combined)	$201,781,573	$80,733,899	$331,637	$9,905,279	30
2	Roseville CWC	$25,250,967	$8,670,254	$45,427	$1,688,437	37
3	Virgin Islands Telephone	$13,226,609	$5,858,398	$20,187	$611,257	30
4	Alltel Sugarland	$12,827,245	$3,804,182	$24,721	$243,131	10
5	Alltel Texas	$4,132,432	$1,642,308	$6,822	$124,850	18
6	Alltel Western Reserve	$27,375,571	$9,430,779	$49,164	$558,554	11
7	Alltel AK	$16,755,486	$5,963,593	$29,567	$441,334	15

NOTES:
(1) See Col. B - TRP, COS(P), Column E, Line 300, ROR Regulated IXS Access
(2) See Col. C - TRP, COS(P), Column E, Line 190, ROR Regulated IXS Access
(3) Daily Expenses = (Total Interstate Expenses - Depreciation and Amortization) / 365 Days
(4) See Cost Support, Part 69 (Prospective), Cash Working Capital, Total Interstate
(5) Company Filed CWC / Daily Expenses = LEC's Proposed Lead/Lag

SOURCES:
Col. B - TRP, COS(P), Col E, Line 300, ROR Regulated I/S Access
Col. C - TRP, COS(P), Col E, Line 190, ROR Regulated I/S Access
Col. E - Cost Support, Part 69 (Prospective), Cash Working Capital, Total Interstate

AT&T's Calculation of Valor Telecommunications of Texas
2001 FCC 492A, Rate Base and Rate of Return

Line	PUCT Earnings Report *	Total Texas Subject to Separartions (e) A	Intrastate Amounts (g) B	Calculated Interstate Amounts C = A - B
40	TELECOMMUNICATIONS PLANT			
41	Plant in Service	$ 1,022,649,382	$ 745,279,459	$ 277,369,923
42				
43				
44	Plant Under Construction	$ 10,274,816	$ 7,487,290	$ 2,787,526
45	Plant Held For Future Use	$ -	$ -	$ -
46	Telephone Plant Acquisition	$ -	$ -	$ -
47				
48	TOTAL PROPERTY	$ 1,032,924,198	$ 752,766,749	$ 280,157,449
49				
50	Materials and Supplies	$ 90,787	$ 64,738	$ 26,049
51	Prepayments	$ -	$ -	$ -
52	Rural Telephone Bank Stock	$ -	$ -	$ -
53	Other Invested Capital Additions (Attach Detail SS-2)	$ -	$ -	$ -
54	LESS: (these items should be entered as NEGATIVE)			
55	Accumulated Depreciation and Amortization	$ (736,800,939)	$ (533,222,103)	$ (203,578,836)
56	Accumulated Amortization Plant Acquisition	$ -	$ -	$ -
57	Accum. Amort. Plant Held for Future Use	$ -	$ -	$ -
58	Accumulated DFIT-Accelerated Depreciation **	$ -	$ -	$ -
59	Accumulated DFIT-Capital Benefits, Other **	$ -	$ -	$ -
60	Pre 1971 Investment Tax Credit	$ -	$ -	$ -
61	Contributions in Aid of Construction	$ -	$ -	$ -
62	Customer Deposits	$ (694,672)	$ (506,210)	$ (188,462)
63	Other Invested Capital Deductions (Attach Detail)	$ -	$ -	$ -
64	TOTAL INVESTED CAPITAL ***	$ 295,519,374	$ 219,103,174	**$ 76,416,200**

FCC 492A ****		($000)
1. Total Revenue (Valor's filed 492A)	$	53,580
2. Total Expenses and Taxes (Valor's filed 492A)	$	47,486
3. Oper. Inc. (Net Return)(1-2)	$	6,094
4. Rate Base (Avg. Net Invest.) *****	**$**	**76,416**
5. Rate of Return (Ln3/Ln4)		**7.97%**
6. Low End Adjustment (50% Valor's 2001 filed LFA)	$	2,175
7. FIT Impact of Low End Adjustment	$	761
8. Low End Adj Adjusted Rate of Return (Ln3-Ln6+7a)/Ln4		**6.12%**
9. LFA Amount (10.25% - Ln7b)*Ln4	$	3,152
10. Federal Tax (Ln8*(35%/(1-35%)))	$	1,697
11. Total Annual LFA (Ln8 + Ln9)	**$**	**4,850**

Note:

* - Public Utility Commission of Texas, Control No. 25592, 2001 Annual Earnings Report of Valor-TX, Schedule II - Invested Capital.

** - No Accumulated Deferred Federal Income Tax listed. Inflates the rate base.

*** - Slightly lower than the rate base due to omission of Cash Working Capital (CWC). Based on PUCT Earnings Report, Schedule I, Summary of Revenues and Expenses, Valor-TX CWC is about $449K. ((Total Expense & Taxes - Depreciation)/365*15).

**** - Valor-TX 2001 FCC 492A, filed (no date), except for Lines 7 to 11 and **BOLD** values.

***** - Substituded with TOTAL INVESTED CAPITAL. Value inflated by omission of Acc DFIT reduction, and deflated by omission of CWC.

EXHIBIT 7

AT&T's Calculation of Valor Telecommunications of Texas
2002 Annual Filing Removal of Low End Adjustment

	A	B	C = (B - A)/A	D	E = D * (1+C)	F	G = E - F
	2001 Annual Filing "R" Value	2002 Annual Filing "R" Value	% Change in "R" Value	2001 Annual Filing Low End Adjust.	AT&T Calculated Removal of Low End Adjust.	Valor Filed Removal of Low End Adjust.	Difference
VATX							
CL	$ 16,085,934	$ 18,472,925	14.84%	$ 1,353,462	$ (1,554,302)	$ (1,461,670)	$ (92,632)
SP	$ 5,815,108	$ 11,592,072	99.34%	$ 517,845	$ (1,032,293)	$ (952,142)	$ (80,151)
Total	$ 21,901,042	$ 30,064,997		$ 1,871,307	$ (2,586,595)	$ (2,413,812)	$ (172,783)
VCTX							
CL	$ 15,181,032	$ 15,588,850	2.69%	$ 1,987,468	$ (2,040,859)	$ (1,853,327)	$ (187,532)
SP	$ 3,682,562	$ 4,901,559	33.10%	$ 491,279	$ (653,902)	$ (610,016)	$ (43,886)
Total	$ 18,863,594	$ 20,490,409		$ 2,478,747	$ (2,694,760)	$ (2,463,343)	$ (231,417)
Total Valor Texas				$ 4,350,054	**$ (5,281,356)**	**$ (4,877,155)**	**$ (404,201)**

Exhibit 8

AT&T ANALYSIS OF SBC-SOUTHWESTERN EXOGENOUS COST CLAIM ITC

YEAR/NOTES	ARMIS 1540 Total SWB	ARMIS 1540 Interstate SWB	As Filed Interstate Amortization of ITC	As Filed Exogenous cost
1990	$86,961	**$22,391**		
1991 (1)	$84,519	$20,939	$1,406	$2,803
1992 (2)	$72,281	$18,446	$2,240	$3,484
1993 (3)	$63,649	$16,575	$2,527	$3,932
1994 (4)	$58,095	$15,140	$3,410	$5,378
1995 (5)	$49,984	$13,337	$3,750	$5,879
1996 (6)	$41,663	$11,315	$2,636	$4,221
1997 (7)	$35,096	$9,572	$1,752	$2,772
1998 (8)	$30,705	$9,126	$1,198	$1,841
1999 (9)	$25,099	$7,120	$816	$1,255
2000 (10)	$26,603	$7,288	$1,779	$2,737
2001 (11)	$25,558	$7,374	$710	$1,124
2002 (12)	Estimated	$7,019	$1,326	$2,094
Total			**$23,550**	**$37,520**
Correct Amortization*		**$14,646**		
Excess Exogenous Cost**				**$12,080**

* The total change in the balance that entered price caps and the current balance is estimated as the change between the average 1990 and 1991 ARMIS ITC balance and the estimate
** The excess exogenous cost impact is estimated as the difference between the exogenous cost cla and the exogenous cost calculated based on the corrected amortization.

(1) Filed data is per Southwestern Bell, Transmittal No. 2097. See Figure 2h1.1, p. 2 of 2, lines 77 &
(2) Filed data is per Southwestern Bell, Transmittal No. 2187. See Figure 2G1.1 lines 77& 85.
(3) Filed data is per Southwestern Bell Transmittal No. 2271. See Figure 2F1.1 lines 77& 85.
(4) Filed data is per Southwestern Bell Transmittal No. 2344. See Figure 2F1.1 lines 77& 85.
(5) Filed data is per Southwestern Bell Transmittal No. 2458. See Figure 2C1.1 lines 77& 85.
(6) Filed data is per Southwestern Bell Transmittal No. 2544. See Figure 2C1.1 lines 77& 85.
(7) Filed data is per Southwestern Bell Transmittal No. 2640. See Figure 2C1.1 lines 77& 85.
(8) Filed data is per Southwestern Bell Transmittal No. 2705. See Figure 2C, Page 1 of 1, lines 7 & 1
(9) Filed data is per Southwestern Bell Transmittal No. 2763. See Figure ITC, lines 5 & 8.
(10) Filed data is per Southwestern Bell Transmittal No. 2831.See Figure 12.2, lines 5 & 8.
(11) Filed data is per Southwestern Bell Transmittal No. 2865, Exhibit 2.1-SWBT, lines 5 & 8.
(12) Filed data is per SBC-Southwestern Bell Transmittal No. 2901, Exhibit 2, lines 5 & 8.
The 2002 Interstate ARMIS data is estimated.