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May 2, 1996

Mr. William F. Caton
Acting Secretary
Federal Communications Commission
1919 M Street, N.W. Room 222
Washington, D.C. 20554

RECEIVED
MAY 3 1996
FEDERAL COMMUNICATIONS COMMISSION
OFFICE OF SECRETARY

Re: Ex Parte CC Docket 96-45, Federal-State Joint Board on Universal Service

Dear Mr. Caton:

On May 2, 1996, B. Cox, M. Lemler, F. Simone, and I met at the request of the Bureau Staff with D. Dupont, J. Poltronieri, M. Nadel, J. Reel, G. Seigel, P. Seymezak, and W. Thayer of the Common Carrier Bureau and D. Krech of the Wireless Telecommunications Bureau, to discuss AT&T's position regarding Universal Service reform. The enclosed attachments formed the basis of our discussion.

Due to the late adjournment of the meeting, two(2) copies of this notice are being submitted to the Secretary of the FCC on the following business day, in accordance with Section 1.1206(a)(1) of the Commission's rules.

Sincerely yours,

Brian W. Masterson

Attachment

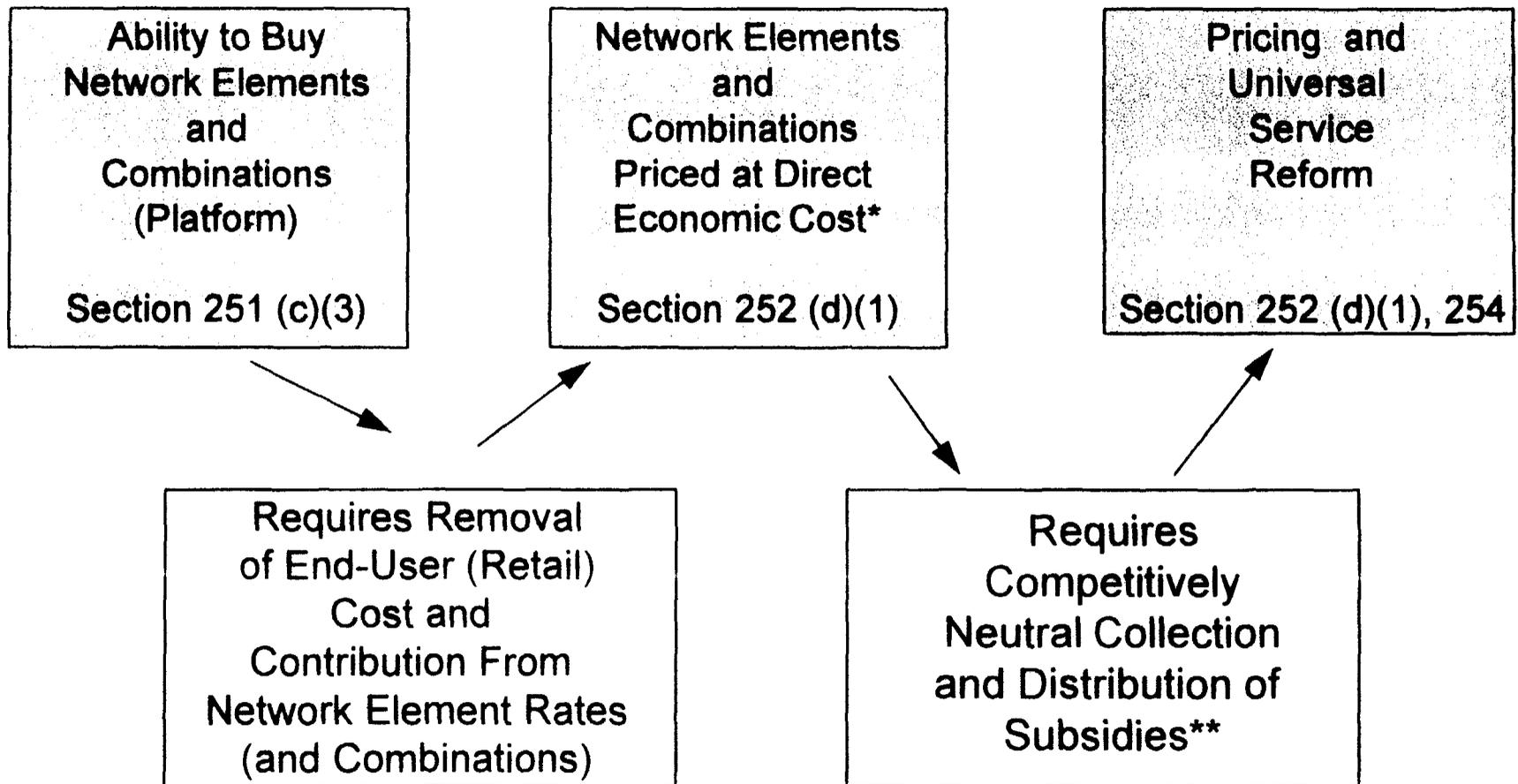
cc: D. Dupont
D. Krech
J. Poltronieri
M. Nadel
J. Reel
G. Seigel
P. Seymezak
W. Thayer

No. of Copies rec'd 0+2
List ABCDE

Public Policy Goals of the 1996 Telecommunications Act

- ◆ Expand Consumer Choices and Encourage Economic Growth by Fostering Local Competition
- ◆ Maintain and Enhance Existing Long Distance Competition As Local and Long Distance Markets Merge
- ◆ Protect Consumers Against Rate Shock As Current Universal Service Funding Mechanisms Are Reformed to Permit Competition

There Are Three Issues That Are Critical and Linked Together



* Direct economic costs are the forward looking, most efficient direct costs of providing service (TSLRIC). It excludes all subsidies.

** Would apply to Tier 1 LECs. Non-Tier 1 LECs may require different solution.

FCC Inter-Related Dockets

Interconnection and Unbundling (Sections 251, 252)

- ◆ NPRM Issued **April 19, 1996**
- ◆ Order Due **August 8, 1996**

Access Charges

- ◆ 94-1 LEC Price Cap
- ◆ Annual Filings Examination
- ◆ Part 69 Reform

Universal Service (Section 254)

- ◆ NPRM Issued **March 8, 1996**
- ◆ Joint Board Recommendation Due **November, 1996**
- ◆ Final Order Due **May, 1997**
- ◆ Implementation **July, 1997**

Calculating the New Universal Service Fund

Tier 1 LECs

- ◆ Economic Subsidy
- ◆ Optional State Economic Subsidy
- ◆ Low Income Subsidy
- ◆ Recovery of Subsidy

Economic Subsidy (Tier 1)

= TSLRIC minus the higher of the Nationwide Affordable Rate or the Current Residence Basic Local Service Rate

**Economic Subsidy
(Tier 1)**

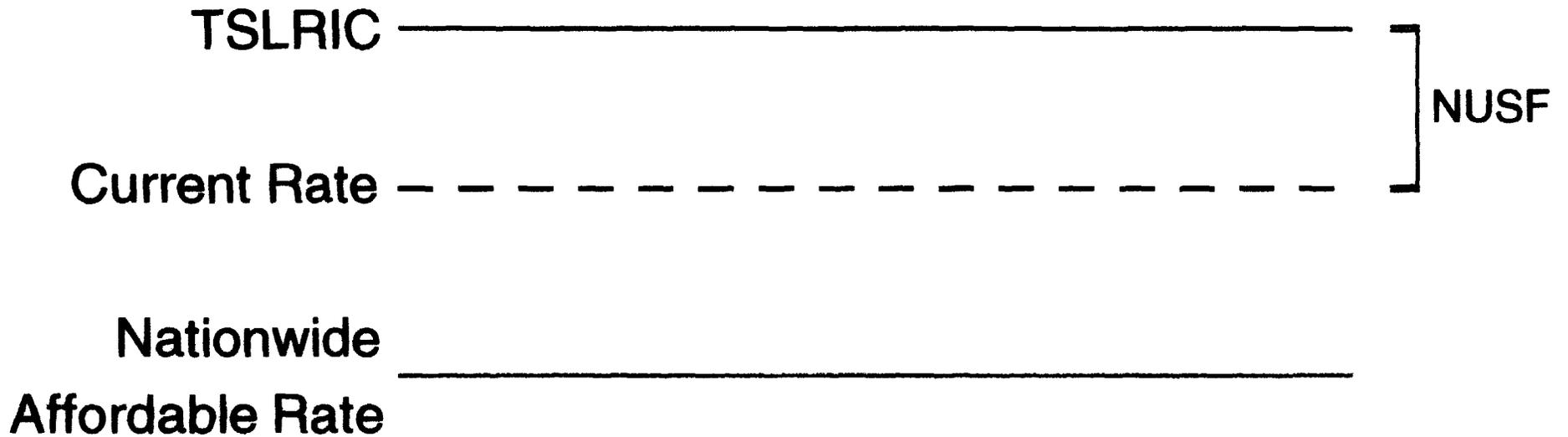
No subsidy

Current Rate - - - - -

TSLRIC _____

Economic Subsidy (Tier 1)

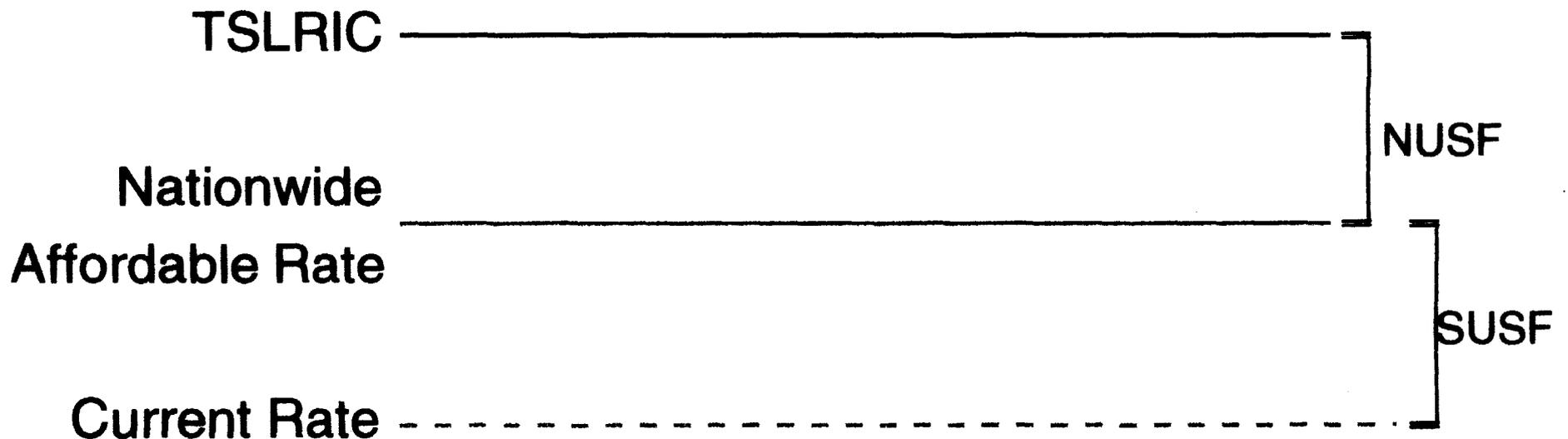
Subsidy



NUSF - Surcharge on Total Retail (State & Interstate) Service

Optional State Economic Subsidy (Tier 1)

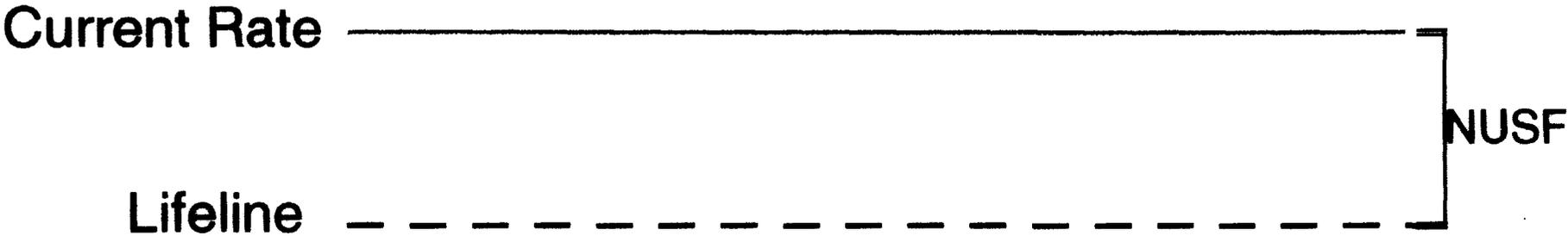
= Nationwide Affordable Rate minus State
Commission specified Basic Local Service Rate



SUSF Funded Through Surcharge on State Services

Low Income Subsidy (Tier 1)

= State Commission specified Basic Local Service Rate minus Low Income Affordable Rate



Calculating The New Universal Service Fund (cont.)

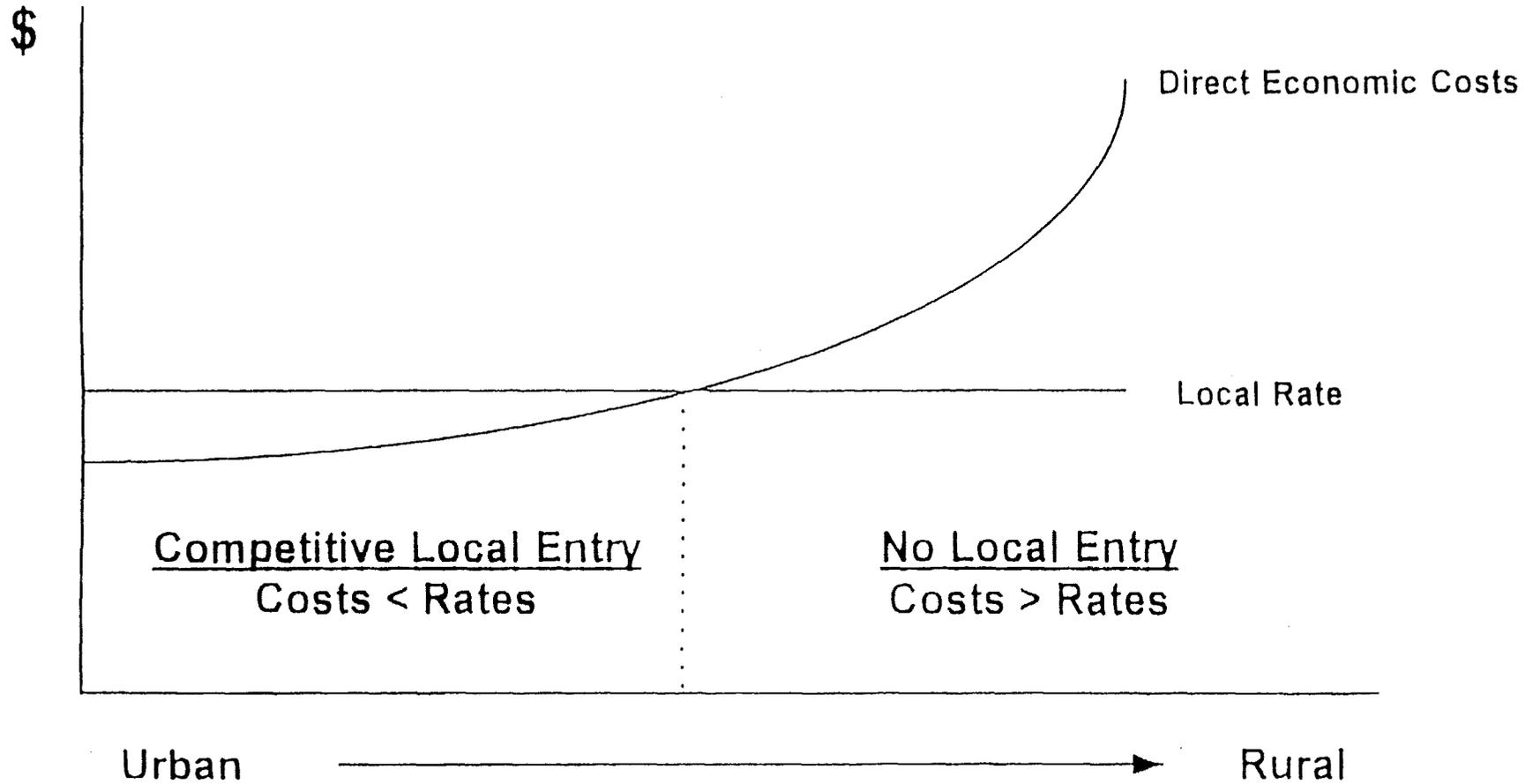
Small Rural LECs

- Access Rates Should Be Based on the Tier 1 Company's Rates in the State or Region
- Any Incremental Subsidy Required to Meet the Rural Carrier's Revenue Needs Should Be Provided Through the New USF Mechanism
- Subsidy Need Not Be Portable in Non-Tier 1 Territory Initially
- The Lifeline Assistance Program Should Continue to Be the Low Income Subsidy Program for Customers of Non-Tier 1 Lecs

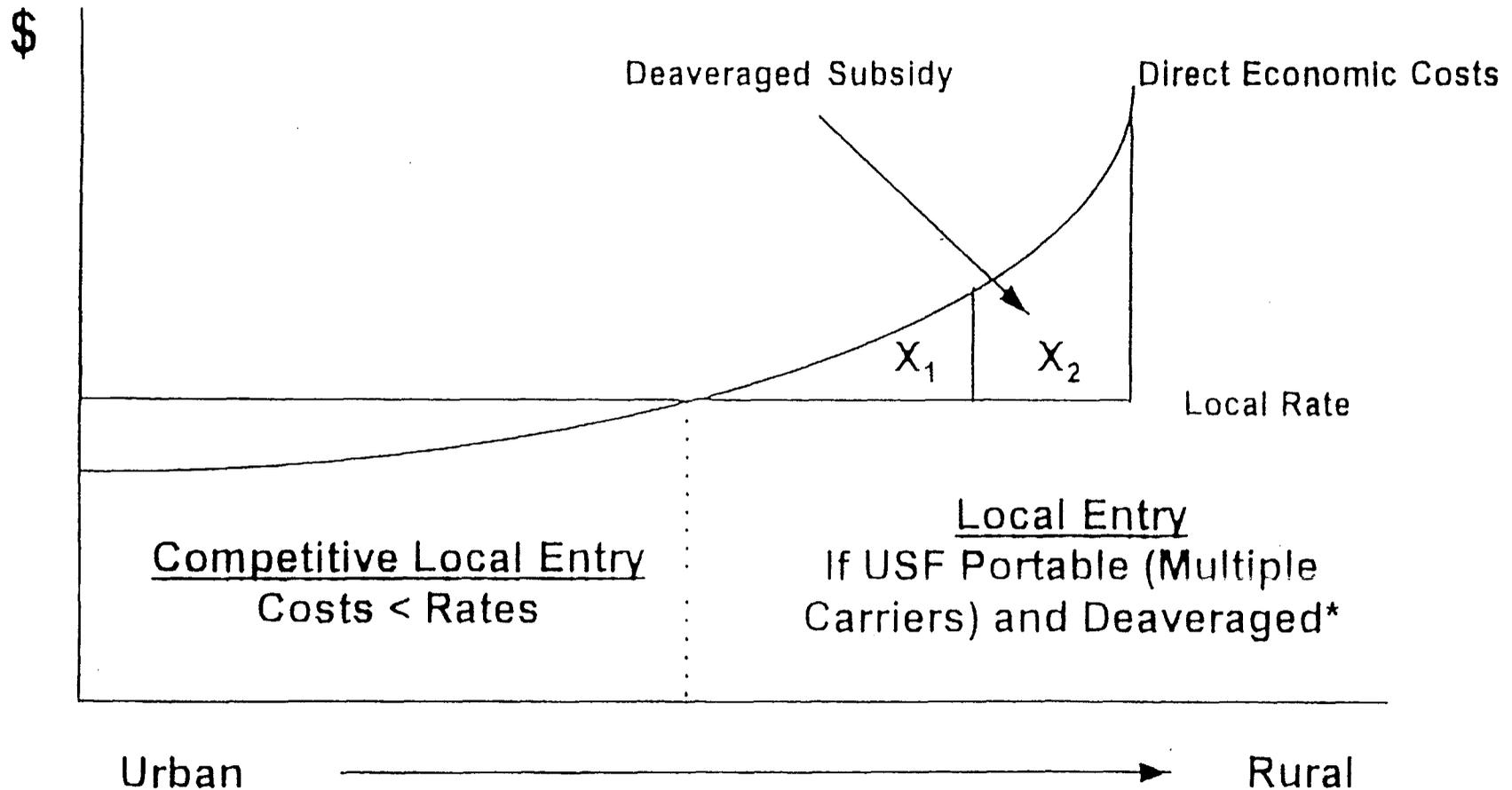
USF Mechanism

- Subsidy can be deaveraged to cover different price/cost deficiencies in urban versus rural areas while maintaining averaged local rates

Local Competition and No USF



USF and Local Competition Subsidy Deaveraged



* Tier 1 only (92% of lines)