BELLSOUTH

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FEDERAL COMMUNICATIONS COMMISSION
OFFICE OF SECRETARY

ExParte

Mr. William F. Caton
Acting Secretary
1919 M Street, NW, Room 222
Washington, D.C. 20554

Re: ExParte CC Docket No. 96-45, Federal-State Joint Board on Universal Service, CC Docket 96-98, Implementation of the Local Competition Provisions in the Telecommunications Act of 1996, Price Caps Performance Review for Local Exchange Carriers, CC Docket 94-1

Dear Mr. Caton:

Today, Robert Blau and the undersigned met at the request of the Bureau Staff with F.K. Franklin, D. Dupont, K.B. Levitz, K. Yee, K.P. Moran, W. Kehoe, J. Morabito, A. Mulitz, T. Machcinski, G. Cooke, T. Quaile and D. Slotten of the Common Carrier Bureau to discuss BellSouth's position regarding Access Reform, Interconnection and Universal Service. The attached document represent the basis for the presentation and discussion.

In accordance with Section 1.1206(a)(1) of the Commission's rules, two (2) copies of this notice are being filed with Secretary of the FCC today.

Sincerely,

Maurice P. Talbot, Jr.

Maurice P. Talbot, Jr.
Executive Director - Federal Regulatory

Attachments

CC: Ms. F.K. Franklin (w/o attachments)
Ms. D. Dupont (w/o attachments)
Ms. K. B. Levitz (w/o attachments)
Ms. K. Yee (w/o attachments)
Mr. K.P. Moran (w/o attachments)
Mr. W. Kehoe (w/o attachments)
Mr. J. Morabito (w/o attachments)
Mr. A. Mulitz (w/o attachments)
Mr. T. Machcinski (w/o attachments)
Mr. G. Cooke (w/o attachments)
Mr. T. Quaile (w/o attachments)
Mr. D.Slotten (w/o attachments)

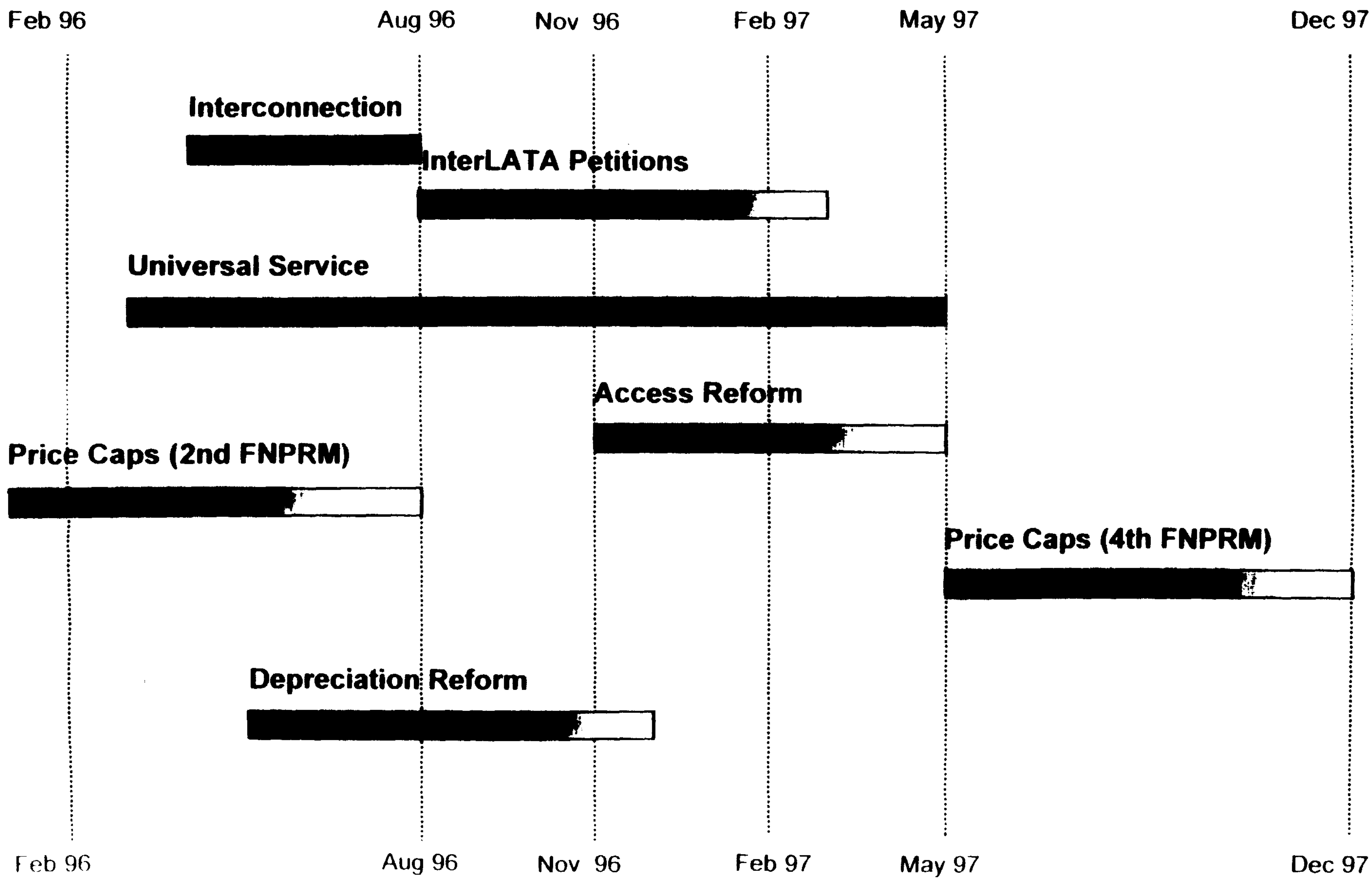
INTERRELATIONSHIP OF PROCEEDINGS

- *LOCAL INTERCONNECTION PROCEEDING*
- *LONG DISTANCE ENTRY*
- *PRICE CAPS (2ND FURTHER NOTICE)*
- *UNIVERSAL SERVICE PROCEEDING*
- *ACCESS REFORM PROCEEDING*
- *PRICE CAPS (4TH FURTHER NOTICE)*
- *DEPRECIATION*

KEY CROSS CUTTING CONCERNS

- *FCC's local interconnection requirements must not undermine exchange access rules*
  - *IXCs must not be permitted to use unbundled network elements to avoid exchange access charges and related contribution to universal service*
- *Commission should not allow the IXCs to use the Sec. 251 proceeding to block Bell company entry into in-region long distance market*
  - *The more detailed the Commission's Sec. 251 guidelines become the greater the opportunities to game the regulatory process*
- *FCC's Sec. 251 guidelines should facilitate, not prevent, negotiated local interconnection agreements*
  - *Entry into in-region long distance market is a powerful incentive for Bell Companies to negotiate reasonable interconnection agreements*
- *Commission must understand that opening local phone markets to competition will increase risk of investment in local network facilities*
  - *Current LEC price cap plan should not be changed until new rules of the game are clarified*

TIMELINE OF MAJOR INTERRELATED PROCEEDINGS



KEY CROSS CUTTING ISSUES

- *Cost of Service*
- *Pricing*
- *Cost Recovery*

HOW FCC PROCEEDINGS RELATE TO ONE ANOTHER
COST OF SERVICE

- *In a declining cost industry will rates based on "forward looking" economic costs be compensatory?*
- *How would non-compensatory interconnection rates effect network investment?*
- *Would reductions in LEC network investment be offset by CLECs?*
- *Will local interconnection,access reform,universal service, and price cap proceedings impact network investment in ways that create disparities in service quality and diversity in different parts of the country?*

HOW FCC PROCEEDINGS RELATE TO ONE ANOTHER
PRICING

- *Given that the FCC historically has rejected use of forward looking cost models for ratemaking purposes, why are you considering incremental cost standard equivalent to the price?*
- *At what point will FCC cost/pricing guidelines abrogate incentives for LECs and CLECs to negotiate interconnection agreements?*
- *Will threat of arbitrage force access charges and local interconnection rates to converge?*
- *Will FCC's Sec. 251 cost/pricing guidelines effectively preempt state regulation?*
- *By adopting detailed cost/pricing guidelines will FCC--rather than market place--dictate how the local phone market is eventually divided up among competing carriers?*

HOW FCC PROCEEDINGS RELATE TO ONE ANOTHER
COST RECOVERY

- *What portion of end user loop costs will be recouped through the interstate SLC if FCC prescribes significant reductions in interconnection rates and access charges?*
- *What other pricing mechanisms might be used to recover universal service costs?*
- *How should universal subsidies be administered and by whom?*
- *How will capital formation and service quality be affected if LECs are forced to write off significant portion of their net plant?*

1. LOCAL INTERCONNECTION PROCEEDING

- *Interconnection Proceeding must not undermine exchange access charges and related contributions to universal service*
- *IXCs must still pay access charges for use of LEC facilities to originate and terminate interstate calls*
- *Over time access charge and Sec. 251 structures must converge*
- *Entry into InterLATA market will create powerful incentive for RHCs to negotiate reasonable interconnection agreements quickly*
- *Rates based on TSLRIC will prove to be arbitrary and confiscatory*
- *The Act requires that local switching be unbundled from local transport and local loops*

2. LONG DISTANCE ENTRY

- *Other LECs such as GTE, Sprint , Frontier, and SNET, already provide long distance service*
- *Long distance entry by RHCs will insure that on-going access charge reductions are flowed through to residential long distance customers*
- *Mandatory detariffing and facilities based competition are needed to end tacit collusion in the long distance market*
- *No need for structural separations or additional safeguards*

3. PRICE CAPS (2ND FURTHER NOTICE)

- *When interconnection proceeding is completed, LEC should be given added flexibility to price competitively*
- *Any pricing flexibility issues not dealt with in 2nd Further Notice can be addressed in Access Reform*

4. UNIVERSAL SERVICE PROCEEDING

- *SLC increase is key to access reform*
- *Increase in SLC will permit decrease in CCLC and RIC over transition period*
  - *USTA proposed increase to $6.00*
  - *AT&T proposed increase to $7.00*
  - *Commission initially proposed $6.00*
- *Objective is to reduce CCLC and RIC to zero*
- *Any residual amount of CCLC and RIC after SLC increase will be included in NUSF*

5. *ACCESS REFORM PROCEEDING*

- *Can proceed in parallel with Universal Service Proceeding*
- *Over time access charges will need to converge with local interconnection rates to avoid arbitrage*
- *Any remaining issues related to access reform can be completed concurrently with Universal Service Proceeding, e.g., if SLC is increased over 4 year transition period, CCLC and RIC can also be reduced*
- *Any remaining access reform and pricing flexibility issues can also be handled*
- *If access charges and interconnection rates set too low, FCC guidelines could eliminate incentives to invest in competitive network facilities*

6. PRICE CAPS (4TH FURTHER NOTICE)

- Opening local phone markets to competition will increase risks of investing in local network facilities
- Competition also could suppress productivity growth among price caps LECs
- Defer 4th Further Notice until after Local Interconnection, Universal Service, Access Reform, and 2nd Further Notice Price Caps Proceedings are completed

7. DEPRECIATION

- *Inadequate depreciation rates have aggravated the cost recovery issue while adding to universal service*
- *Use of accounting rate of return sends false signals on overall level of price cap LEC earnings*
- *Appropriate depreciation rates will decrease size of subsidy and size of NUSF*
- *The Commission should deregulate depreciation now*

BellSouth's Position on Universal Service

DEFINITION OF UNIVERSAL SERVICE

- *BellSouth concurs with the Commission's proposal:*
  - *1. voice grade access to the public switched network;*
  - *2. touch-tone capability;*
  - *3. single party service;*
  - *4. access to emergency service (911);*
  - *5. access to operator services*
- *Items that should not be included:*
  - *1. toll restriction service*
  - *2. "privacy" type features such as call block*
  - *3. single line buisness service*

BELLSOUTH ESTIMATE OF UNIVERSAL SERVICE SUPPORT

■ *State and Interstate Total*	*$4,816M*
■ *Revenues Received from Basic Residential Service and SLC*	*$2,817M*
Total Level of Support	*$1,999M*
Interstate Contribution	*$1,036M*
Interstate Contribution includes:	
■ *Carrier Common Line Charges (CCLC)*	*$ 712M*
■ *Interconnection Charge*	*$ 282M*
■ *High Cost Fund*	*$ 42M*

- *The first two elements are implicit support to universal service*
- *The CCLC and IC relate to the support derived from interstate toll charges*

THE NEW UNIVERSAL SERVICE FUND (NUSF)

- *The Act mandates that universal service support be made explicit*
- *BellSouth recommends a single Federal fund with different components to fund core services and a separate identifiable fund for education.*
- *The decision on whether there should be a State universal fund should be left to the individual States*

SIZING OF THE NUSF

- *The size of the NUSF depends on whether SLC is increased*
- *BellSouth recommends that the SLC be increased*
- *USTA recommended an increase of $2.50 to a cap of $6.00*
- *AT&T recommended that SLC be increased to $7.00*
- *Commission initially proposed a $6.00 SLC*
- *Drs. Gordon & Taylor show that a modest increase in SLC over several years would not make telephone service unaffordable.*
- *Any increase in SLC will result in decrease in access charges*
- *Interexchnage carriers (IXCs) should have obligation to flow through the entire reduction in their access costs to all their customers*
- *Bell company entry into in-region long distance market is key to insuring that access charge reductions are permanetly flowed through*

COMPONENTS OF THE NEW UNIVERSAL SERVICE FUND (NUSF)

- Any residual CCLC and IC amounts not offset by increase in SLC
- Long Term Support mechanism
- Amount from the present high cost fund
- DEM weighting amount
- Interstate portion of Lifeline and Link-Up programs

BASIS FOR CALCULATING AMOUNT OF SUPPORT

- *Costs should be based on embedded costs*
- *TSLRIC and BCM are inappropriate*
- *BellSouth recommends that wire center groups based on access line density be used to determine the amount of support*
- *The size of the SLC should also vary according to wire center groupings.*

WHO CONTRIBUTES TO THE NUSF

- *The Act requires that "every telecommunications carrier that provides telecommunications services shall contribute, on an equitable and nondiscriminatory basis"*
- *BellSouth recommends that telecommunications carriers be required to contribute to the Federal fund based on a percentage of their interstate retail revenues*
- *Percentage would be calculated by determining the percent the total Federal fund amount is of total interstate retail revenues*

WHO RECEIVES SUPPORT

- *Any carrier designated as eligible would be entitled to universal service support*
- *The support per residence line would be fully portable (except for recovery tied to underdepreciated plant)*

BELLSOUTH'S EDUCATION UNIVERSAL SERVICE PROPOSAL

- *A "Flexible Discount" credit mechanism would meet requirements of Act*
  - *How flexible discounts would work:*
    - *FCC establishes fixed fund size based on reliable model of connecting all schools at up to DS-1 speeds (i.e., KickStart Partial Classroom)*
    - *Fund divided among states using allocation methodology that achieves policy goals*
    - *Designated entity within each state allots specific dollar amount to each school/library*
    - *School/library uses funds to purchase available universal telecommunications services that it needs from carrier offering best price and quality.*