EX PARTE OR LATE FILED

Jul 29 '96

Washington, D.C.
July 29, 1996

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

Re: CC DOCKET 96-98

Dear Mr. Caton:

The Commission Staff hereby submits for the record in this proceeding, CC DOCKET 96-98, a letter from Bruce Cox, dated September 7, 1995, and including attachments, which is in the record of CC DOCKET No. 91-213. The letter from Bruce Cox, including its attachments, is hereby incorporated into CC Docket 96-98.

DAK

Commission Staff

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September 7, 1995

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

Re: Ex Parte Meeting
RM 6956, Universal Service Fund and Lifeline Assistance
CC Docket 91-213, Residual Interconnection Charge

Dear Mr. Caton:

On, Thursday, September 7, 1995, Mr. F. Hedemark, Mr. M. Lemler and I met with Mr. James D. Schlichting, Chief, Policy and Program Planning Division, Common Carrier Bureau to discuss AT&T's thoughts on the use of Telecommunications Relay Service (TRS) revenues as an potential allocator in the Universal Service Fund/Lifeline Assistance programs and on the Residual Interconnection Charge (RIC). The attachments were used as the basis of our discussions.

In accordance with Section 1.1206(a)(2) of the Commission's Rules, two (2) copies of this Notice are being submitted to the Secretary of the FCC.

Sincerely,

Bruce K. Cox

Attachments

cc: Mr. James D. Schlichting

EX PARTE IN DOCKET 91-213
September 7, 1995

- Interim structure expires on October 31, 1995.

- The RIC should be disaggregated into components and recovered from the appropriate rate elements.

- Significant questions remain as to what constitutes the RIC.

  - Tandem switching costs account for about 20% of the RIC.

  - According to Ameritech, a portion of the costs associated with SS7 signalling are recovered from the RIC.

  - Other LECs have cited multiplexing costs recovered from the RIC.

- Approximately $2 billion is unaccounted for.

ILLUSTRATIVE EXAMPLE

PART 36 ALLOCATIONS

	Total	Interstate	
		25% SPF	0% SPF
Loop investment	$100	$25	$0
Switching investment	$100	$15	$15
Transport investment	$100	$15	$15
Expenses	$100	$18.33	$10
Total	$400	$73.33	$40

PART 69 ALLOCATIONS

	Interstate		Loop		Switching		Transport	
SPF	25%	0%	25%	0%	25%	0%	25%	0%
Loop inv.	$25	$0	$25	$0				
Switching inv.	$15	$15			$15	$15		
Transport inv.	$15	$15					$15	$15
Expenses	$18.3	$10	$8.3	$0	$5	$5	$5	$5
Total	$73.3	$40	$33.3	$0	$20	$20	$20	$20

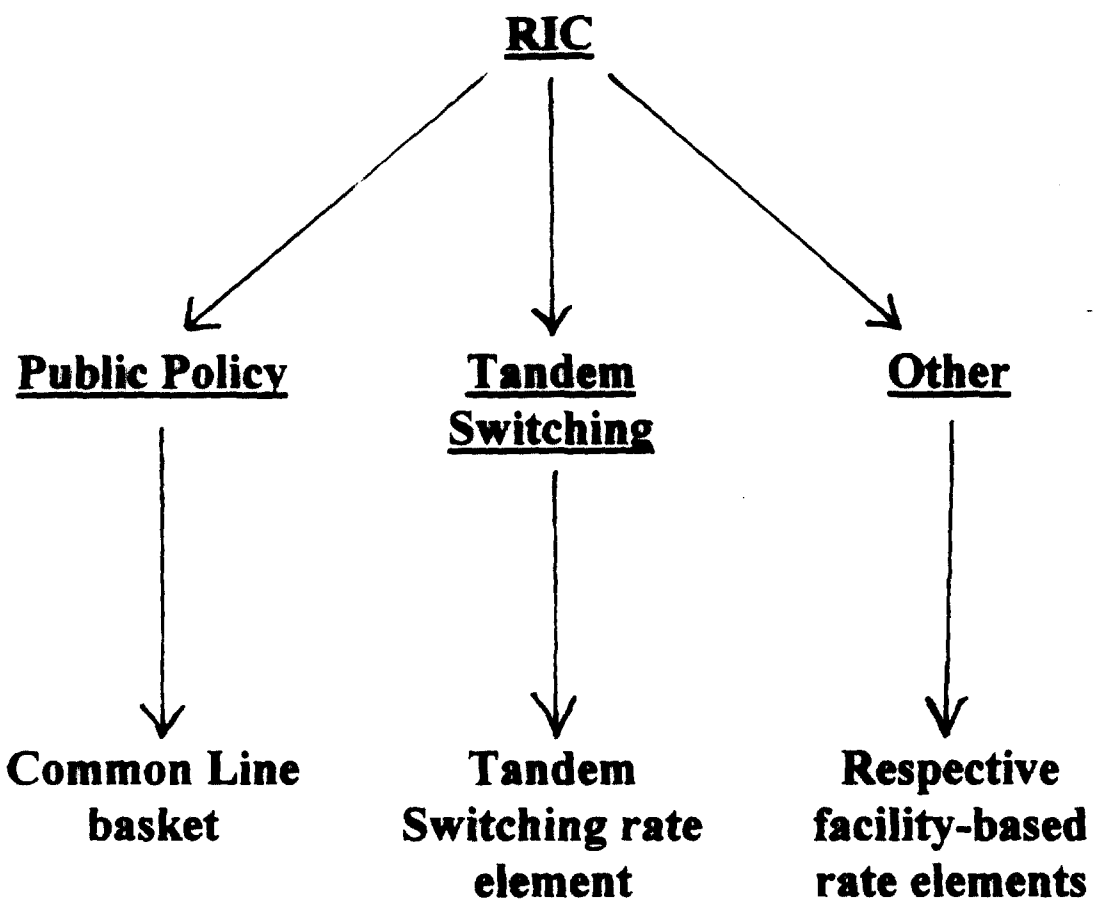
Conclusion: Switching and transport cost allocations are unaffected by loop investment allocation.

AT&T'S ANALYSIS OF THE RIC

- BASED ON PART 36/69 ALLOCATIONS PER ARMIS 43-04 REPORTS
- ALL TIER 1 LECS, CALENDAR YEAR 1994 DATA
- SPF ALLOCATOR CHANGED FROM 25% TO 0%
- THE RESULTS:

	REV REQ @ 11.25% ($000)	
	TOTAL INTERSTATE	SWITCHED TRANSPORT
REPORTED (SPF=25%)	$20,774,773	$3,646,921
CALCULATED AT 0%	$13,212,388	$2,963,761
DIFFERENCE	$7,562,385	$683,160

PROPOSED 91-213 FNPRM



USF allocator based on Interstate Revenues benefits Consumers

- IXCs will more vigorously compete for 80 million customers after the allocator change (due to lower costs that will make them more attractive to IXCs)
- As competition heats up for low volume ($1-$10) customers, IXCs will have to develop innovative service offerings to attract and keep these customers, and competition will drive lower prices
- Significant consumer savings will be achieved
- A mechanism is already in place that will achieve these consumer benefits --- Telecommunications Relay Service (TRS) revenue allocator
- A revenue allocator is the most equitable method of funding USF and eliminates the government picking winners and losers

Low User Customers will be more Attractive to IXCs

- Reduces cost on all customers below $25 revenue per month
- Raises more than a million customers above break even point for profitability
- More profitable customers will attract additional competition

Innovative Service Offerings will be more Attractive for all IXCs

- Pricing plans that stimulate infrequent users to call more often will be offered in the marketplace
- More service offerings that appeal to and attract low volume users can be brought to market
- Targeted marketing of low user segments increases as they become more desirable to serve
- Reducing the price misperceptions of the lower user segments through new pricing offers and customer awareness advertising becomes viable
- Retention programs that acknowledge loyalty to carriers can become feasible for lower user customers

Significant Consumer Savings will be Achieved

- By changing the USF/LA allocator the PCI in Basket 1 will be reduced by $150 Million in 1996
- Without a change in the USF/LA Allocator and with an extension of the USF cap, it is estimated that Basket 1 PCI will increase by about $26 million
- Without a change in the USF/LA Allocator and with no extension of the USF cap, it is estimated that Basket 1 PCI will increase by about $71 million
- Competition for the more attractive customers will drive innovation and lower prices

A Mechanism is Already in Place that will Achieve these Consumer Benefits

- Telecommunications Relay Services (TRS) Interstate Revenues are now being used to allocate the subsidy for TRS among service providers
- TRS Interstate Revenues can be used as the basis for allocating the Universal Service Fund and Lifeline Assistance expenses among the IXCs
- NECA has support for continued TRS Administration
- NPRM focusing on size, targeting and mechanism of USF. Since the method of funding is as important as the level and targeting of the USF, and there is industry support for a revenue-based allocator, it is time for the FCC to implement a revenue allocator

A Revenue Allocator is the most equitable method of funding USF and eliminates the government picking winners and losers

- Telecommunications industry supports revenue allocation
- USF NOI Comments and Reply Comments support a competitively neutral revenue allocator
- FCC Fee Comments and Reply Comments request a revenue allocator as being competitively neutral
- Revenues reported by IXCs work well in TRS. There are growing concerns with PSLs.