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Washington, DC 20036
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September 18, 1996



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

Re: Ex Parte CC Docket: 96-45 - Federal-State Joint Board On Universal Services

Dear Mr. Caton:

On Tuesday, September 17, 1996, Richard Clarke, Fred Hedemark, Maggie Rettig, Paul Malandrakis, Mark Lemler and I of AT&T, and Michael Pelcovits, Mary Sisak, Amy Zirkle, Chris Frentrup, and Kim Kirby, Mark Bryant of MCI, met with the Universal Service Joint Board Staff members and FCC representatives Whitey Thayer, David Krech, Bob Loube, Doron Fertig, Anthony Bush and Brad Wimmer to discuss the attached material.

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

Sincerely,

Brian W. Masterson

Brian W. Masterson
Government Affairs Director

Attachment

cc: Mr. Anthony Bush
Mr. Doron Fertig
Mr. David Krech
Mr. Bob Loube
Mr. Whitey Thayer
Mr. Brad Wimmer
Ms. Sandra Makeeff
Ms. Deonne Bruning
Mr. Lee Palagyi
Mr. M. Barry Payne
Ms. Debra Kriete
Mr. Mark Long
Mr. Brian Roberts
Mr. Sam Loudenslager
Ms. Lorraine Kenyon
Mr. Terry Monroe
Mr. Paul Pederson

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# AT&T PROPOSAL

# FOR UNIVERSAL SERVICE and ACCESS REFORM

September 17, 1996

## UNIVERSAL SERVICE and ACCESS REFORM ARE INTEGRALLY LINKED

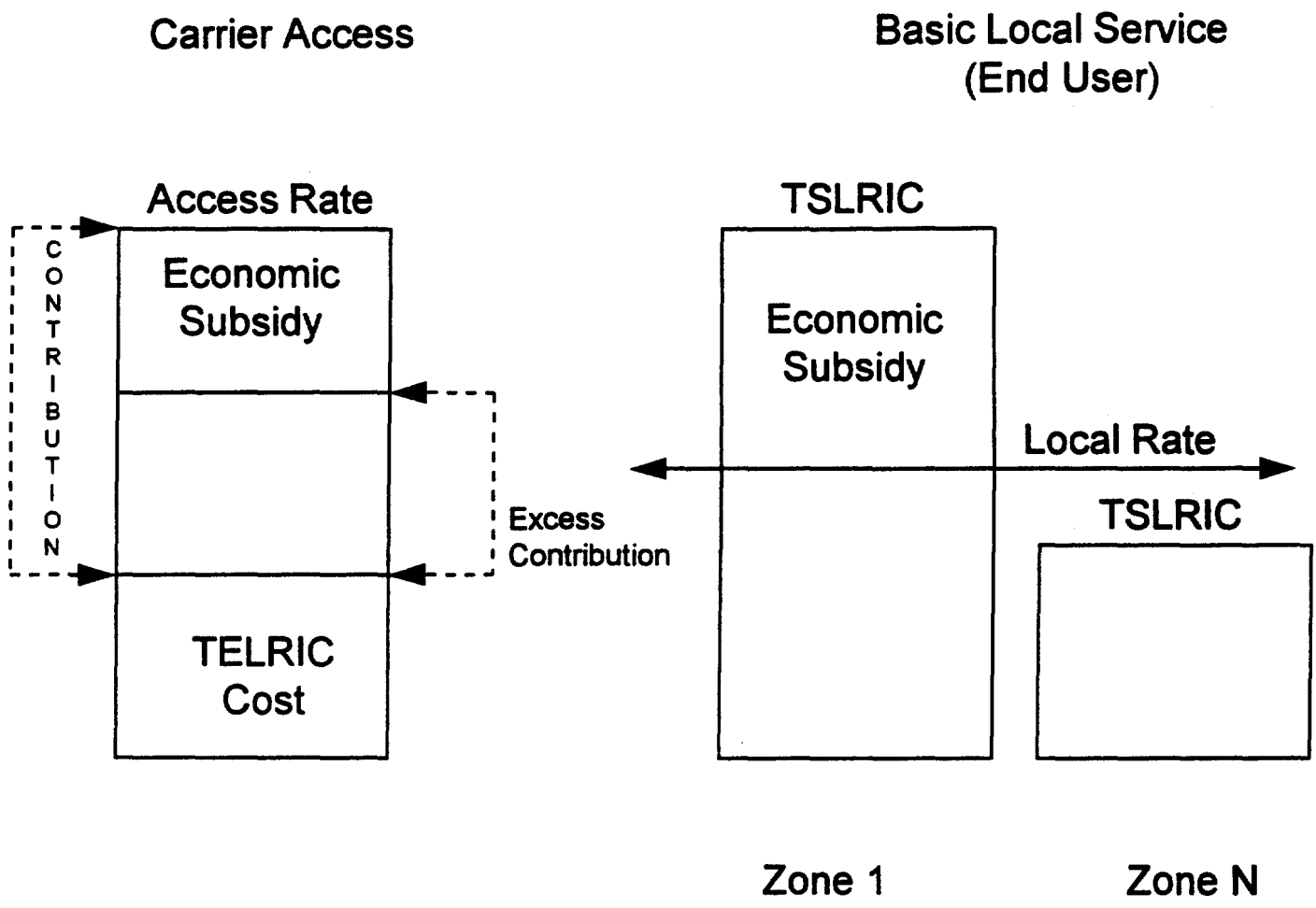
**Universal Service Principles *(Section 254)***

- Universal service subsidies should be based on same TELRIC standard as unbundled network elements
- All telecommunications service providers contribute to universal service support in an equitable and nondiscriminatory manner
- Universal service support should be explicit and sufficient for intended purpose
- Any carrier designated as eligible would be entitled to universal service support
  - Competitive LECs (CLECs) who buy/lease unbundled network elements from Incumbent LECs (ILECs) should be eligible

**Access Reform Principles**

- Access Charge and Section 251 structures must converge
- Contributions must be removed from all carrier-to-carrier payments
  - Access charge is another form of carrier-to-carrier payments

# Paradigm Change



## ELEMENTS OF THE NEW UNIVERSAL SERVICE FUND

- Large Local Exchange Companies:
  - National Universal Service Fund (NUSF)
  - State Universal Service Fund (SUSF)
- Small Rural Local Exchange Companies:
  - NUSF
- Low Income/LifeLine Assistance Subsidy:
  - NUSF
- Schools, Libraries and Rural Healthcare:
  - NUSF
- Competitively Neutral Collection and Distribution of the Fund

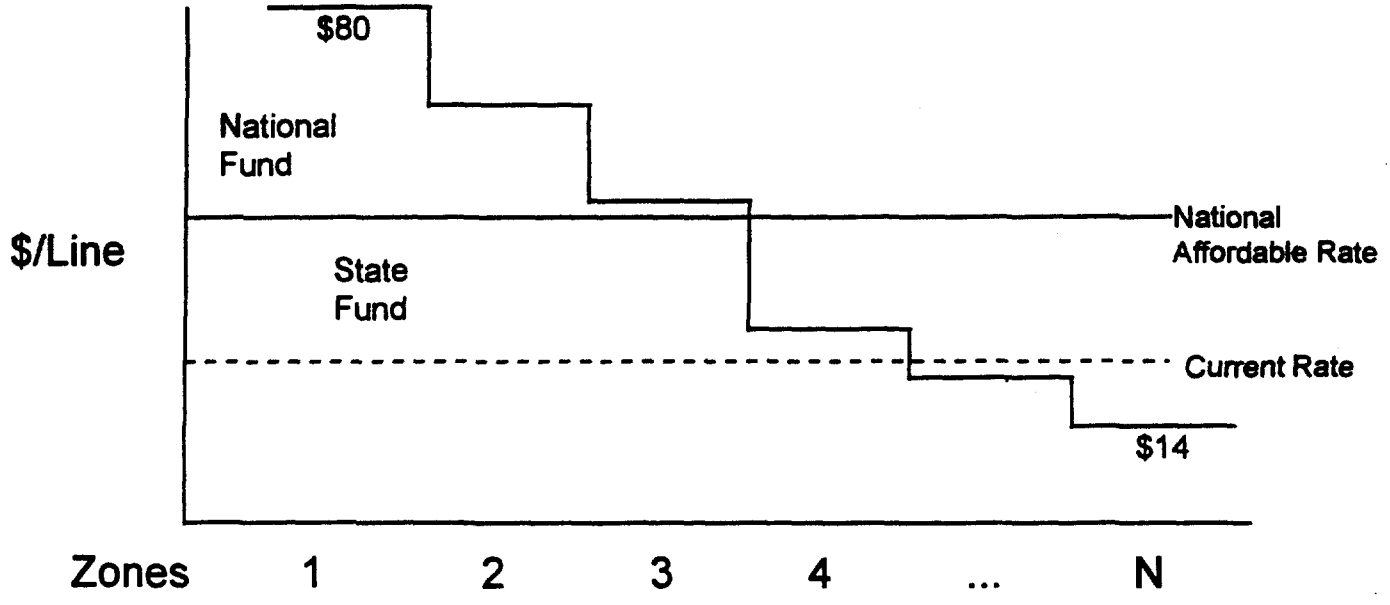
# There is a direct linkage between the TELRIC prices of the unbundled network elements and the subsidy per line which determines the size of the fund. (Illustrative)

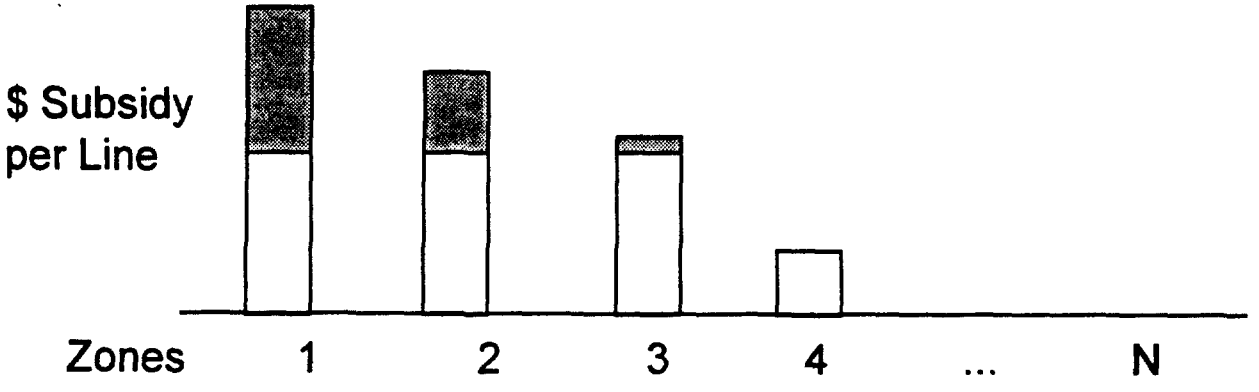
| UNE*: | LOOP (Zones) 1 to N | SWITCH End Office | TRANSMISSION | SWITCH Tandem |
|---|---|---|---|---|
| TELRIC | $75....$9 | .2 ¢ - .4 ¢ | .25 ¢ | .15 ¢ |

| TSLRIC of Local Service = | zone 1 | ...zone N |
|---|---|---|
| Line: | $75. | $ 9. |
| Port: | | |
| Switch Usage: | $ 3. | $ 3. |
| Transmission: | | |
| Signaling: | | |
| SUBTOTAL | $78. | $ 12. |
| Retail End User Cost | 2. | 2. |
| TOTAL | $80. | $14. |

* UNE: Unbundled Network Element

# Determination of the Universal Service Fund from the TSLRIC of Local Service




From National Fund

From State Fund

# Summary of Results
# (Proxy Estimates)

| | RBOC | Large LECs | Total | Small Rural LECs |
|---|---|---|---|---|
| **Access Difference** | | | | |
| 1 Current Access ø Rate per min. | 2.70 cents | 4.41 cents | 3.06 cents | 6.0 cents+ |
| 2 Proxy Access Rate per min. | .63 cents | .63 cents | .63 cents | .63 cents |
| | Billions | Billions | Billions | Billions |
| 3 Access Contribution: (L1 - L2) X min. | $9.17 | $4.16 | $13.33 | |
| **Economic Subsidy** | | | | |
| 4 National Fund | $2.20 | $1.93 | $4.13 | $1.70* |
| 5 State Fund | $1.17 | $0.88 | $2.05 | |
| 6 Lifeline | $0.12 | $0.02 | $0.14 | |
| 7 Subtotal ** (L4+L5+L6) | $3.49 | $2.83 | $6.32 | $1.70 |
| 8 Excess Contribution*** (L3-L7) | $5.68 | $1.33 | $7.01 | 0 |

ø This represents the average interstate/intrastate access rate.

* This includes the current HCF for small rural LECs.

** Schools/Libraries would require additional funds to the USF.

*** This could be partly offset by applying TELRIC access prices to ESP.

# Summary of Results
# (Hatfield Estimates)

| | RBOC | Large LECs | Total | Small Rural LECs |
|---|---|---|---|---|
| **Access Difference** | | | | |
| 1 Current Access ø Rate per min. | 2.70 cents | 4.41 cents | 3.06 cents | 6.00 cents+ |
| 2 TELRIC Access Rate per min. | .40 cents | .40 cents | .40 cents | .40 cents |
| | Billions | Billions | Billions | Billions |
| 3 Access Contribution: (L1 - L2) X min. | $10.21 | $4.81 | $15. 02 | |
| **Economic Subsidy** | | | | |
| 4 National Fund | $1.84 | $ 1.49 | $3.33 | $1.82* |
| 5 State Fund | $0.95 | $0.84 | $1.79 | |
| 6 Lifeline | $0.12 | $0.02 | $0.14 | |
| 7 Subtotal ** (L4+L5+L6) | $2.91 | $2.35 | $5.26 | $1.82 |
| 8 Excess Contribution*** (L3-L7) | $7.30 | $2.46 | $9.76 | 0 |

ø This represents the average interstate/intrastate access rate.

* This includes the current HCF for small rural LECs.

** Schools/Libraries would require additional funds to the USF.

*** This could be partly offset by applying TELRIC access prices to ESP.

# USE LARGE LEC ACCESS RATES AS BENCHMARKS FOR SETTING RATES FOR SMALL RURAL CARRIERS

When calculating the new universal service fund for small rural LECs...

- Access rates should be based on the rates of the large company in the state or region
- Any incremental subsidy required to meet the rural carrier's revenue needs should be provided through the new NUSF mechanism
- Subsidy need not be portable in small rural company territory initially

# RECOMMENDED COMPETITIVELY NEUTRAL TREATMENT OF ACCESS CONTRIBUTION

*Access contribution** consists of Economic Subsidy and Excess Contribution
*Economic subsidy* = TSLRIC minus Basic Local Service Rate

***Treatment of Economic Subsidy:***

- Let prices match TSLRIC costs
- Subsidize only subscribers who are needy relative to the cost of serving them
  - No need to subsidize subscribers living in Aspen
- Competitively neutral treatment of remaining subsidies
  - Portability to any serving carrier
  - Funded through surcharges on retail revenues

* Access revenues above TELRIC

# DETERMINING THE SIZE OF THE SUBSIDY FOR LOW INCOME SUBSCRIBERS

- To ensure that those truly in need receive assistance, each state should:
  - Establish a maximum income threshold that initially determines eligibility
  - Identify one or more assistance programs that subscribers must currently participate

- Calculating Low Income (LifeLine Assistance) Subsidy:
  - Subsidy is difference between State Commissions determined basic local service rate minus Lifeline Assistance rate

Current Rate ----------

} = NUSF

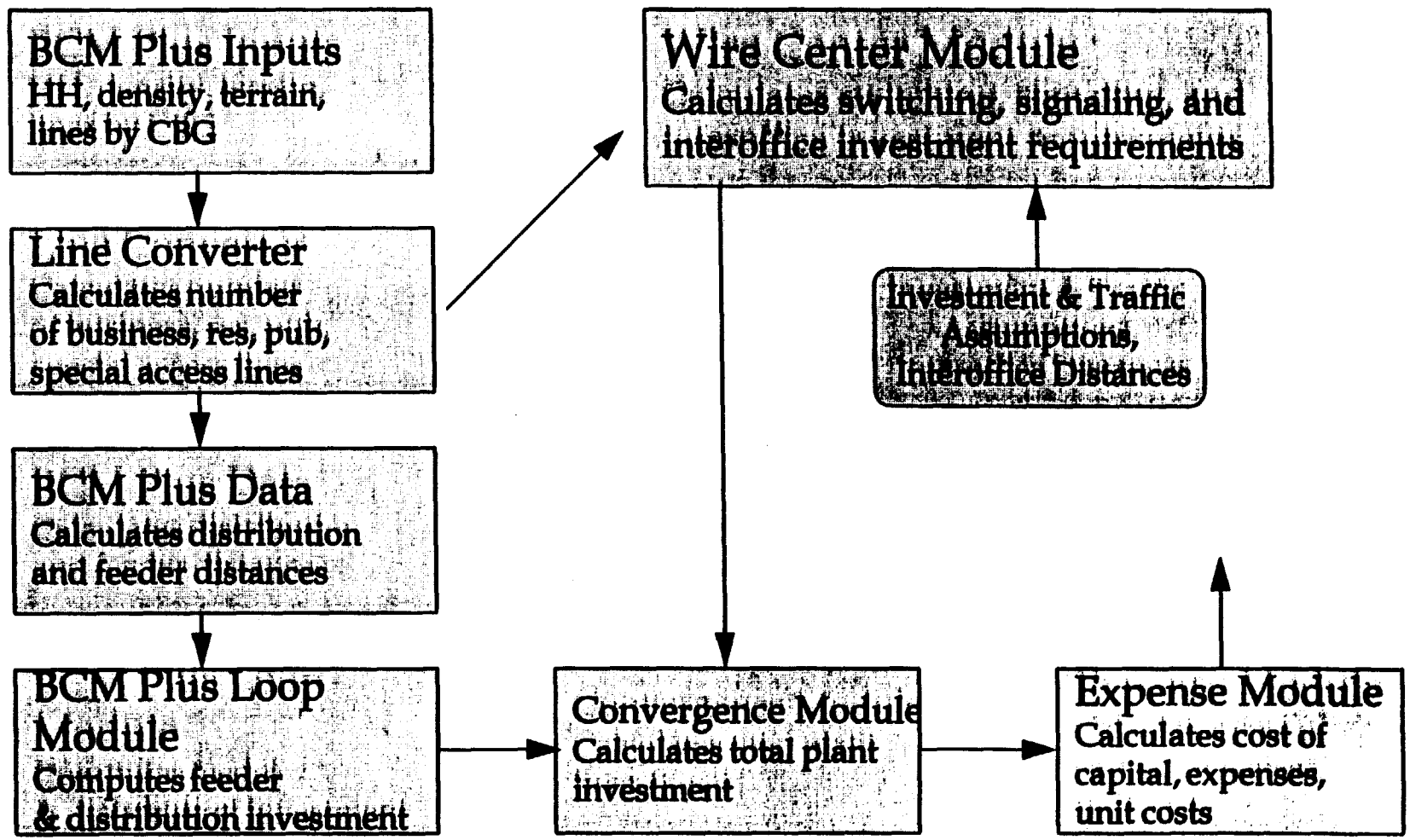
LifeLine Assistance Rate _____

# Hatfield Model, v. 2.2, release 2

# Overview

- Changes in this version
- Conformance with FCC Order
- Comparison with BCM2
- Future Direction

# Hatfield Model - Flowchart



# Changes in this version

- Use of BCM Plus
- Improved User Interface
- Correction of problems in earlier versions
- More sophisticated modeling of some network components

# Changes - BCM Plus

- BCM Plus is an MCI-copyrighted derivative of BCM1
  - Separate acquisition of BCM1 is no longer required to run Hatfield
- Reliance on BCM in this version of Hatfield is minimal
  - Used only to get feeder and distribution lengths, cable sizes
  - NOT used to calculate structure or placement costs

# BCM Plus - Changes to BCM1

- New User Variables
  - Copper/fiber breakpoint
  - Circuit capacity/fiber
  - Number of fibers per DLC remote terminal
  - Maximum cable sizes
- Other refinements
  - Cable investments now include engineering and installation
  - Varying number of distribution cables in CBG by density zone
  - Feeder now extends into CBG
  - Adds input for number of business lines
  - Increased distances for cable in rocky terrain

# Line Converter - Changes

- Actual business lines instead of factors
- Household counts updated to 1995 census data
- Density ranges expressed as lines per square mile instead of HH per square mile

# Wire Center Module - Changes

- LERG data now incoporated in model
  - No longer necessary to separately obtain LERG from Bellcore
- Double-counting eliminated
  - Cost of trunk ports
  - Shared structure for interoffice and feeder
- Refinements to signaling calculations
  - STP capacity now sized correctly
  - All types of links are now calculated

# Wire Center Module - Changes

- New user inputs
  - More than can be listed here
  - Includes mix of plant types for interoffice, numerous investment and installation costs
- More detailed transport calculations
  - Five different types of interoffice channels separately calculated
- End office switches are now usage-limited as well as line-limited

# Convergence Module - Changes

- Separate calculation of Aerial, Buried and Underground
  - Previously, buried & underground were lumped together
- DLC investment now computed from the ground up
- Retail costs for carrier-to-carrier services now computed
  - Based on cost of serving IXCs

# Convergence Module - Changes

- Separate expense factors for buried cable, poles, manholes, conduit, in addition to aerial and underground
- Separate uncollectibles rates for retail and carrier-to-carrier
- Universal Service module added, with costs built up from network element costs
- Structure now shared between telephony and other entities (*i.e.*, electric, cable)

# New User Interface

- Model is now completely self-contained on a CD-ROM; no other data or models required
- Model is now completely automated; once inputs are set, a click of a button causes the model to run
- Excel is "hidden" from the user

# Hatfield 2.2.2 & BCM2

## Michigan
## BCM2 & Hatfield 2.2.2 Investment/Line

| | 0-5 lines/sq mi | 5-200 lines/sq mi | 200-650 lines/sq mi | 650-850 lines/sq mi | 850-2550 lines/sq mi | >2550 lines/sq mi |
|---|---|---|---|---|---|---|
| H2 Investment/Line | $ 2,942 | $ 1,027 | $ 486 | $ 378 | $ 408 | $ 526 |
| BCM2 Investment/Line | $ 4,541 | $ 1,780 | $ 791 | $ 839 | $ 750 | $ 824 |
| H2 % of BCM2 | 64.8% | 57.7% | 61.4% | 45.0% | 54.4% | 63.9% |