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AT&T

Suite 1000
1120 20th Street, N.W.
Washington, DC 20036
202 457-3810

September 25, 1996

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FEDERAL COMMUNICATIONS COMMISSION
OFFICE OF SECRETARY

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 September 24, 1996, Mr. S. Weber and Mr. M. Lemler, AT&T, met with Commissioner K. McClure, Universal Service Joint Board member to discuss AT&T's position relative to Universal Service. The attached material was used as part of the discussion.

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: Commissioner K. McCLure

No. of Copies rec'd 0+2
List A B C D E

# AT&T PROPOSAL

# FOR UNIVERSAL SERVICE and ACCESS REFORM

September 24, 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

## ELEMENTS OF THE NEW UNIVERSAL SERVICE FUND

- Large Local Exchange Companies:
  - National Universal Service Fund (NUSF)
  - State Universal Service Fund (SUSF)

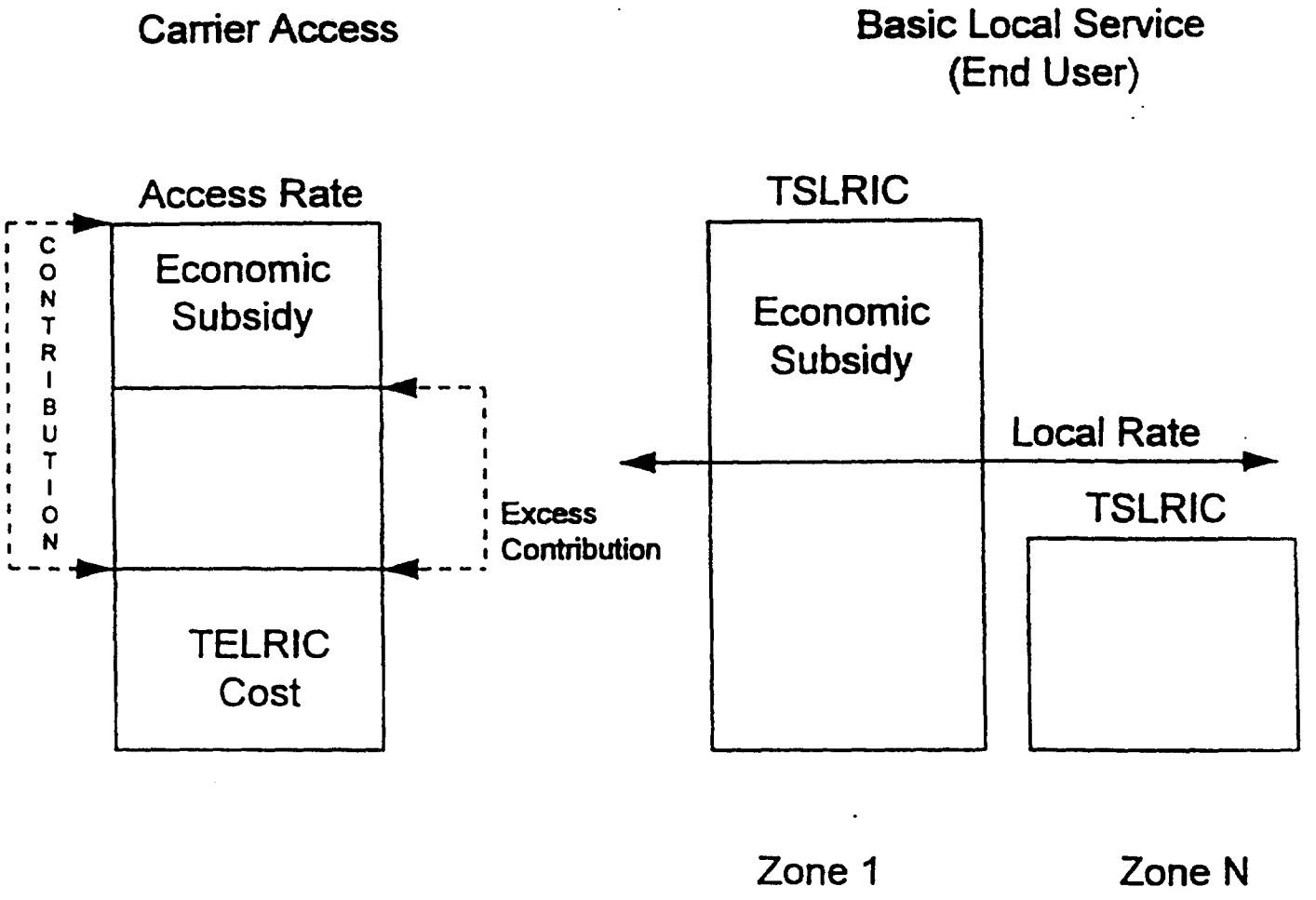
- Small Rural Local Exchange Companies:
  - NUSF

- Low Income/LifeLine Assistance Subsidy:
  - NUSF

- Schools, Libraries and Rural Healthcare:
  - NUSF

- Competitively Neutral Collection and Distribution of the Fund

# Paradigm Change



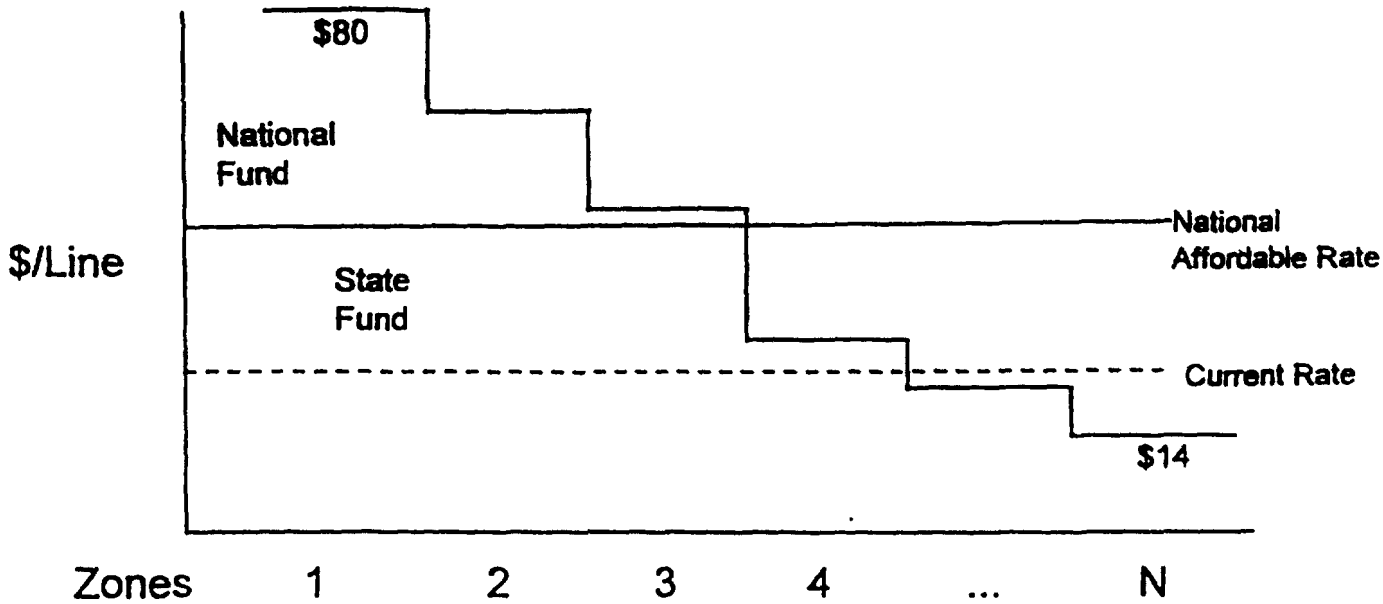
# There is a direct linkage between the TELRIC prices of the unbundled network elements and the subsidy per line which determines the size of the fund. (Illustrative)

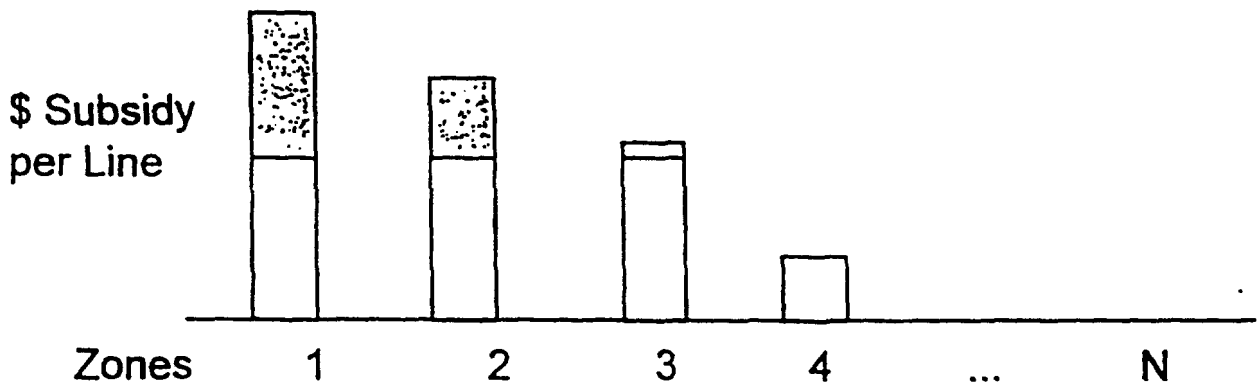
| UNE*: | LOOP (Zones) 1 to N | SWITCH End Office | TRANSMISSION | SWITCH Tandem |
|---|---|---|---|---|
| TELRIC | $75....$9 | .2 ¢ - .4 ¢ | .25 ¢ | .15 ¢ |

| 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

## 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

## 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 _____

## 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

# 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.

# 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.