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MCI Telecommunications Corporation

1801 Pennsylvania Avenue, NW
Washington, DC 20006

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FEDERAL COMMUNICATIONS COMMISSION
OFFICE OF SECRETARY

September 27, 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 Service

Dear Mr. Caton:

On September 26, Michael Pelcovits, Joe Miller, and Gail Garey of MCI met with Chairman Sharon Nelson and Lee Palagyi of the Washington Utitlities and Transportation Commission. The purpose of the meeting was to review MCI's position in this proceeding. The attached document was used during the meeting and lists the topics discussed.

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 the next business day.

Sincerely,

Kimberly M. Kirby

Kimberly M. Kirby

Attachment

cc: Chairman Sharon Nelson
Lee Palagyi

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

UNIVERSAL SERVICE REFORM

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Comprehensive Reform of Universal Service is Required

- Competition is the foundation of universal service
- Section 254 requires a new universal service system
- A unitary fund should be established to meet national universal-service needs

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Universal Service and Access-Charge Reform

- Universal service subsidies must be made explicit and independent of access charges
- Access charges must be reduced to economic cost
- The portion of current access charges that is needed to support universal service must be "moved" to the new universal service fund

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Matrix of Universal Service Issues

	Individuals	High-Cost Places	Institutions
Eligible Services	**MCI** Maintain Lifeline and Linkup	**MCI** -- Single party service to the first point of switching; local usage; -- touch tone; -- white pages listing -- access to 911, E911, operator services, directory assistance and relay service	**MCI** -- Data grade (Internet) service with incentives for broader bandwidth
Eligible Participants	**MCI** Low-Income People	**MCI** All/High-Cost Residents	**MCI** Schools, Libraries with state approved plans
Calculation of Subsidy	**MCI** Lifeline and Linkup would be maintained as targeted subsidy programs for low-income consumers	**MCI** Difference between the TELRIC (Hatfield) cost and the current nationwide average rate for basic service.	**MCI** TELRIC with larger discounts for (I) low income areas (II) greater bandwidth
Competitively Neutral	**MCI** 1. True Competition is the first step. 2. All subsidies are explicit and in fund. 3. The subsidy is recovered from all telecommunications carriers based on their relative revenues, net of payments for the services of other telecommunications carriers 4. Neutral Administrator	**MCI** Same as "individuals" and: A "carrier of last resort" auction would be held for any area that is or becomes unserved	**MCI** Same as "individuals" and: Requirement of competitive bidding
Evolution	(e.g., Call Waiting)	(e.g., Call Waiting)	(e.g., ISDN)

Steps to Implement a Unitary Universal Service Fund

- Define the service to be subsidized
- Determine the amount of subsidy needed
- Generate funding in a competitively-neutral manner
- Distribute funding in a competitively-neutral manner

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Universal Service Costs should be Determined Using Forward - Looking Economic Cost

- The TELRIC methodology, ordered by the FCC in the Interconnection Order, should be extended to universal service
- The Hatfield model yields the right level of subsidy and directs it to where it is needed most

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Hatfield Implements TELRIC to Determine Size of Subsidy

- Determines the cost of basic universal service using existing technology and network design
- Scorched Node" network consistent with the"FCC's Interconnection Order
- Model analyzes density of subscriber lines

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Unitary Universal Service Fund is Approximately $6 Billion for Rural High Cost Areas

- The subsidy is the difference between the nationwide average revenues from residential local service plus the subscriber line charge ($20) and the TELRIC as calculated using the Hatfield model.

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Hatfield Model Includes all Costs

- Capital costs for all network components
  - Loop, switching, interoffice transport and signalling
- Expenses, including joint and common costs
  - Plant specific, non-plant specific, customer operations and corporate operations ("overhead")

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Calculation of Universal Service Costs

- Network costs from Hatfield TELRIC model
  - costs of loop vary significantly by density zone
  - costs of port, usage, signalling and transport
- Customer operations costs
- Cost per line in each density zone multiplied by number of lines in each zone

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COST OF NETWORK ELEMENTS — Maryland — Bell Atlantic - MD

A. Loop elements

	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	Totals
Loop Distribution (including NID)							
Annual Cost	$ 518,339	$ 93,406,722	$ 34,625,726	$ 7,735,321	$ 52,192,747	$ 97,385,423	$ 285,864,278
Unit Cost/month	$ 48.95	$ 17.47	$ 8.61	$ 6.29	$ 5.56	$ 4.72	$ 7.04
Loop Concentration							
Annual Cost	$ 76,687	$ 20,228,769	$ 11,210,665	$ 3,303,838	$ 21,627,884	$ 23,882,910	$ 80,330,753
Unit Cost/month	$ 7.24	$ 3.78	$ 2.79	$ 2.69	$ 2.31	$ 1.16	$ 1.98
Loop Feeder							
Annual Cost	$ 55,282	$ 13,113,038	$ 9,445,157	$ 2,887,918	$ 22,447,956	$ 57,859,919	$ 105,809,271
Unit Cost/month	$ 5.22	$ 2.45	$ 2.35	$ 2.35	$ 2.39	$ 2.80	$ 2.60
Total Loop							
Annual Cost	$ 650,309	$ 126,748,529	$ 55,281,548	$ 13,927,077	$ 96,268,587	$ 179,128,253	$ 472,004,302
Unit Cost/month	$ 61.41	$ 23.71	$ 13.75	$ 11.33	$ 10.26	$ 8.68	$ 11.62
Total lines	883	445,450	334,972	102,463	781,831	1,720,469	3,386,068
Total lines served by D	883	376,626	205,453	59,895	401,418	430,712	1,474,986

Basic local service monthly costs per 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	Weighted Average	NECA
Network costs								
Loop	$ 62.03	$ 24.07	$ 14.00	$ 11.53	$ 10.40	$ 8.74	$ 11.76	$ 17.62
Port	$ 1.15	$ 1.15	$ 1.15	$ 1.15	$ 1.15	$ 1.15	$ 1.15	
End office usage	$ 1.77	$ 1.77	$ 1.77	$ 1.77	$ 1.77	$ 1.77	$ 1.77	
Signaling	$ 0.04	$ 0.04	$ 0.04	$ 0.04	$ 0.04	$ 0.04	$ 0.04	
Transport	$ 0.08	$ 0.08	$ 0.08	$ 0.08	$ 0.08	$ 0.08	$ 0.08	
Billing/bill inquiries	$ 1.43	$ 1.43	$ 1.43	$ 1.43	$ 1.43	$ 1.43	$ 1.43	
Directory listing	$ 0.18	$ 0.18	$ 0.18	$ 0.18	$ 0.18	$ 0.18	$ 0.18	
LNP expense (when avai	$ 0.29	$ 0.29	$ 0.29	$ 0.29	$ 0.29	$ 0.29	$ 0.29	
Total monthly cost per (assumes LNP available)	$ 66.98	$ 29.01	$ 18.95	$ 16.48	$ 15.35	$ 13.69	$ 17.17 wtd by hh	
Total lines	883	445,450	334,972	102,463	781,831	1,720,469	3,386,068	3,109,314
Total households	676	287,193	192,189	55,870	445,496	840,124	1,821,548	
Annual Subsidy @								$ -
$20.00	$ 381,084	$ 31,065,317	0	0	0	0	$ 31,446,401	
$30.00	$ 299,964	0	0	0	0	0	$ 299,964	
$40.00	$ 218,844	0	0	0	0	0	$ 218,844	

Hatfield is Superior to other Models

- BCM2 was an attempt by the LECs to "catch up" with the innovations contained in the Hatfield Model
- Hatfield 2.2.2 goes well beyond the improvements introduced by the ILECs in BCM2
- BCM2 and PacBell models are much more closed, proprietary models than HM2.2.2

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Universal Service Computed by Hatfield will Protect Consumers

- Consumers would fund universal service only to the extent it is needed
- Consumers would not fund the LECs' inefficiencies reflected in their embedded costs
- Carriers would have the incentive and funds needed to support infrastructure development and to maintain service quality

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Administration of Fund

- States given a block grant of the total state subsidy for allocation among carriers
- Carriers contribute to the fund based on their relative total revenues, net of payments for services of other telecommunications carriers
- A neutral third party administrator collects payments from carriers and remits subsidy to the states

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Universal Service for Low-Income Consumers

- Lifeline and Link-up should be maintained and could be expanded
- States that have not implemented Lifeline and Link-up should do so
- There must be eligibility criteria to receive support

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Universal Service for Schools and Libraries

- Internet links at TELRIC
- Tiered, below-cost discounts for small, remote areas and low-income neighborhood schools and libraries
- Targeted discounts to encourage high-bandwidth connectivity
- Schools and libraries to develop plans for funding and implementing necessary infrastructure
- Competition among service providers

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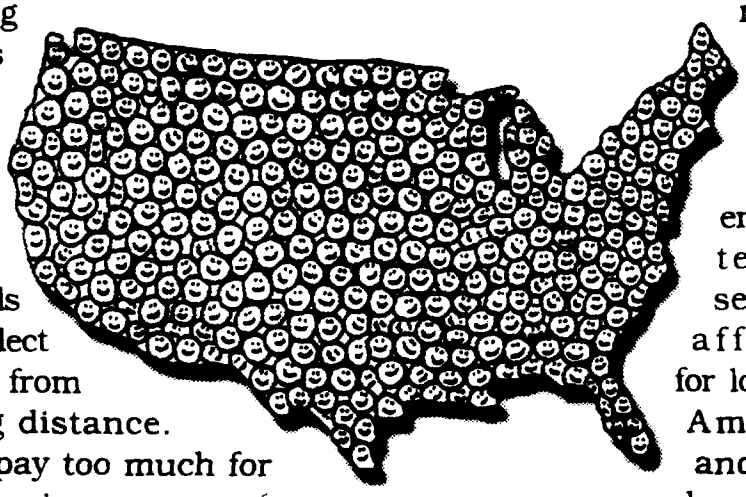
SUPPORT PEOPLE, NOT MONOPOLIES

To make sure that telephone service is affordable for all Americans, universal service funding was established many years ago.

Where does all the money go?

Right now the cost of providing universal service is between four and six billion dollars. But, to provide universal service, the monopoly Regional Bell Operating Companies collect $14 billion from people who make interstate telephone calls and they collect even more from in-state long distance.



And you pay too much for telephone service.

Where does the excess money go? Right. To the profits of local telephone companies.

The new Federal Telecommunications Act can change all that as federal and state officials work to reform universal service. They can change all that by adopting these principles of universal service.

Principles of universal service

First, encourage competition. Vibrant competition is the first step to ensuring that prices are low and that service is broadly available.

Then establish a separate fund, outside the control of the monopoly telephone companies, that is the amount needed to ensure access — no more, but no less.

Third, use the fund to ensure that telephone service is affordable for low income Americans and people who need it in rural America. Use it also to provide our schools, public hospitals and libraries with the technology they need.

Finally, reject the idea that fixing universal service requires you to pay more.

Then the people will be served, not the monopolies.

Competition. Just Make it Work.

SOURCE: Universal Service Price Tag, Hatfield Study of 1994 and Benchmark Cost Model; Collection from Interstate Access Charges of the RBOCs, FCC, Statistics of Communications Common Carriers

http://competition.mci.com

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