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Bruce K. Cox
Government Affairs Director

Suite 1000
1120 20th Street, N.W.
Washington, DC 20036
202 457-3686
FAX 202 457-2545
ATTMAIL !bkcox

November 4, 1996

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

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FEDERAL COMMUNICATIONS COMMISSION
OFFICE OF SECRETARY

Re: Ex Parte - CC Docket 96-45
Federal - State Joint Board on Universal Service

Dear Mr. Caton:

In response to direct questioning from Staff, I provided the attached paper - Competitively Neutral Funding of Universal Service - to Mr. John Morabito of the Common Carrier Bureau's Accounting and Audits Division, via facsimile on Saturday, November 2, 1996.

Although in the paper AT&T does not draw a distinction between funding Universal Service through (i) a surcharge that would appear as a separate line item on the retail customer bill or as (ii) a surcharge on carrier revenues, the surcharge on the retail bill would be far preferable for the consumer. An end user surcharge would ensure that consumers would realize an immediate reduction on their toll bills whenever the level of the surcharge decreases because the support for universal service would not be part of the carrier's cost structure. This approach would also relieve regulators of the burden of determining whether updates to the surcharge are appropriately reflected in the charges for telecommunications services. By contrast, with a surcharge on carrier revenues, the possibility would exist that a carrier could strategically allocate the cost of the subsidy among its various services to the disadvantage of consumers.

In accordance with Section 1.1206(a)(1) of the Commission's Rules, two (2) copies of this Notice are being filed with the Secretary of the FCC on the next business day.

Sincerely,

Bruce K. Cox

Attachment

cc: Mr. Morabito

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Competitively Neutral Funding of Universal Service Funds

State Versus Interstate Revenues

AT&T's policy for funding universal service subsidies is to surcharge retail telecommunications services[1]. Specifically, the National Universal Service Fund (NUSF) would be funded by surcharges to total (state and interstate) retail telecommunications services. The justification for including intrastate revenues as part of the support for the NUSF is based on the fact that the subsidy itself is quantified by comparing unseparated costs (TSLRIC) with current local service rates, including the basic residential local service rate and the interstate SLC.[2] Thus, as the subsidy in the NUSF is not jurisdictionally separated, the funding should not be jurisdictionally separated.[3] Operationally, this does not present a problem. As the NUSF is just one fund, the surcharge is applied uniformly to all retail services, without regard to jurisdiction or, in the case of interstate traffic, where the traffic originated, terminated, or was billed.

Questions have been raised as to whether reciprocity requires that the SUSF should also be funded by interstate as well as intrastate revenues[4]. Section 254 (f) states that every telecommunications carrier that provides intrastate telecommunications services shall contribute to the State's universal service.[5] From a practical standpoint, this suggestion has some merit. In a competitive environment where state and interstate services will be bundled together in a unified offering, discerning state from interstate revenues will become exceedingly difficult. Thus, under this proposal, the same revenues that are surcharged in a state to support the NUSF may be used to support an optional SUSF. In addition, expanding the base of revenues used to support the SUSF minimizes the size of the surcharge, and the burden on consumers that use primarily intrastate services. From an operational standpoint, the application of the surcharge to interstate services must be limited to the interstate services that are *billed to accounts* in that state.[6] Billing data is

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[1] Services is meant to include all local, toll, and wireless services provided by all telecommunications service providers including IXCs, LECs, CLECs, cellular and wireless carriers, resellers, and anyone else providing telephone service.

[2] The subsidy would represent the difference between the TSLRIC and a Joint Board recommended nationwide benchmark rate for those Residential Primary Lines where the TSLRIC exceeds the benchmark rate. For those states where the nationwide bencmark rate exceeds the current rate (aggregated over basic local service and interstate SLC), State Commissions can authorize the creation of an optional State Universal Service Fund (SUSF).

[3] Including intrastate revenues in the surcharge is not prohibited by the Act. While Section 254 (d) requires that every telecommunications carrier that provides interstate telecommunications services should contribute to universal service support, it does not limit such support to the carriers' interstate services.

[4] Indeed, Vermont is funding its state program by surcharges to state revenues and interstate revenues billed in Vermont.

[5] The corollary to Section 254 (d) would suggest that Section 254 (f) does not preclude surcharges to interstate revenues billed in the state.

[6] Thus, for example, an interstate telephone call that originates in State A, terminates in State B, but is billed in State C (i.e., calling card, 3rd number call, or consolidated billing of multi-state businesses) would be subject to a SUSF surcharge from State C.

the only data that service providers maintain and are readily available to a neutral administrator for application of a surcharge.

The implementation of the separate NUSF and SUSF surcharges can be illustrated in the following example:

- Suppose the NUSF is approximately $5B.
- Suppose nationwide retail revenues (interstate & intrastate) total $148B.
- Then, the NUSF surcharge is $5 ÷ $148 = 3.4%

- Suppose South Dakota SUSF is approximately $1.8M[7]
- Suppose $312M of the $148B nationwide retail revenues are billed in South Dakota.
- Then, South Dakota SUSF surcharge is $1.8 ÷ $312 = 0.6%

- Thus, total surcharges on retail revenues in South Dakota = 4.0% (3.4 + 0.6 = 4.0)

[7] This represents an average difference of $2.35 between a nationwide benchmark rate of $20 and current local rates in South Dakota of $17.65 for the 63,000 households in South Dakota where the basic local service rate is not compensatory. ($2.35 × 63,000 × 12 = $1,776,600)