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November 6, 1996

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

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

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Federal Communications Commission
Office of Secretary

Dear Mr. Caton:

In response to requests from the Commission for information on the effect of lowering the subscriber line charge (SLC), AT&T submits for inclusion in the above referenced record this correspondence detailing AT&T's views on the implications of such a reduction.

The federal Subscriber Line Charge (SLC) should not be reduced as part of universal service reform. Specifically, a lower SLC is not necessary for promoting local exchange competition, and a lower SLC would almost certainly increase the size and scope of universal service funding requirements.

SLC reductions are not necessary:

AT&T believes that specific universal service subsidies should be identified, separately by geographic serving area, by comparing the cost of the core services entitled to universal service support with the revenues (including SLC revenues) collected from end user customers. In those serving areas where rates for the core services are already compensatory, i.e., the revenues exceed the costs, the margin on the core services will provide incentives for new entrants to compete in those serving areas. It is the competitive marketplace that will drive rates (including the SLC) down to cost. It is neither necessary nor desirable for the regulator to do so.

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SLC reductions will increase the size and scope of the fund:

For those serving areas where the costs of providing the core services are greater than the revenues, AT&T believes the difference should be made up by a competitively neutral universal service fund. Such a fund should be portable to carriers serving the subsidized subscribers. With access to the universal service support fund, new entrants would have the incentive to compete in the subsidized high cost areas as well as the low cost areas, and the benefits of competition would reach all subscribers, regardless of where they live.

Lowering the SLC only increases the spread between costs and rates in high cost areas and could make some areas that are compensatory today noncompensatory. In both of these circumstances the result would be a need for increased universal service support. AT&T estimates that for every \$1.00 reduction in SLC, universal service funding requirements increase by over \$500M. Such increased universal service support requirements would provide no incremental benefit to competition in the affected areas, while increasing the burden of universal service support.

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

Sincerely,

Bruce K. Cox

cc: Mr. James Casserly
Mr. Daniel Gonzalez
Mr. John Nakahata
Mr. John Morabito