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Ex parte Notice

February 20, 1998

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FEB 20 1998

FEDERAL COMMUNICATIONS COMMISSION
OFFICE OF THE SECRETARY

Magalie Roman Salas
Secretary
Federal Communications Commission
1919 M Street, N.W.
Room 222
Washington, DC 20554

**RE: CC Docket No. 96-262, Access Reform
CC Docket No. 96-45, Universal Service**

Dear Ms. Salas:

Enclosed are copies of two letters each with attachments delivered today from Mary McDermott, Vice President - Legal and Regulatory Affairs, of the United States Telephone Association, to James B. Schlichting, Deputy Chief, Common Carrier Bureau. One of the letters has attached the detail supporting Roy Neel's February 11 letter to Mr. Metzger and the FCC Commissioners regarding the customer impact of the new Interexchange Carriers' (IXC) charges. The second letter has attached a revised estimate of the impact of the IXC charges using the most recent summary of the LECs' access reform tariffs effective January 1, 1998, and the Commission's recent release (February 11) of summary information from the universal service worksheets.

An original and four copies of this notice, the letters and attachments are being filed in the Office of the Secretary. Please include a copy of the notice and letters in the public record of both of these proceedings.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Frank McKennedy".

Frank McKennedy
Director - Legal & Regulatory Affairs

cc w/o attach:

Richard Metzger
Jim Schlichting
Jane Jackson
Richard Lerner



February 20, 1998

James D. Schlichting
Deputy Chief, Common Carrier Bureau
Federal Communications Commission
1919 M Street, NW
Room 518
Washington, D.C. 20554

Re: Customer Impact of New IXC Charges

Dear Mr. Schlichting:

Today, I sent more detail on USTA's estimates contained in Roy Neel's February 11 letter to Mr. Metzger and the FCC Commissioners regarding the customer impact of new IXC charges. I also thought that the attached package authored by Bell Atlantic would be helpful in this regard. Frank Gumper graciously agreed to have USTA file it. Please contact me if you need further information or have questions.

Sincerely,

Mary McDermott
Vice President - Legal & Regulatory Affairs

cc: Richard Metzger, Chief - Common Carrier Bureau
Jane Jackson, Chief - Competitive Pricing Division
Richard Lerner - Competitive Pricing Division

BELL ATLANTIC

**INTERSTATE ACCESS REFORM
INDUSTRY IMPACT ANALYSIS**



INTERSTATE ACCESS REFORM INDUSTRY IMPACTS

On January 1, 1998, a series of regulatory changes became effective as the Federal Communications Commission continued its efforts to accelerate competition in all telecommunications markets. The new universal service fund was initiated which requires all telecommunications carriers to contribute to the schools, libraries and rural health care fund, as well as the expanded low income, rural, high cost and insular mechanisms. Additionally, the Commission began a much-needed restructuring of interstate access charges and reduced usage-sensitive interstate access charges.

As part of that restructure, price cap incumbent local exchange carriers (ILECs) increased subscriber line charges to many customers and began charging flat rated per line charges (PICCs) to long distance carriers. At the same time, the local exchange carriers reduced their "per minute" charges to long distance carriers by \$3 billion.

This analysis is intended to quantify the impacts to the industry as a result of these changes. The following charts are included:

- "What happened on January 1st?" (pg. 3) lists the changes that took effect on January 1, 1998 that impacted the LECs' and long distance carriers' costs and rate structures.
- "IXC Impacts" (pg. 4) provides an overview of the impact on the long distance carriers.
- "Access Reform IXC Impacts" (pg. 5) provides an estimate of how the January 1, 1998 changes increased the long distance carriers' costs for Universal Service and for PICCs charged by the LECs and which also resulted in significant reductions in usage charges to the long distance carriers.
- "Universal Service and PICC -- New Charges by IXC's" (pg. 6) provides a summary of the new charges that the IXCs implemented to recover their increased universal service and PICCs costs.
- "Estimated Impacts of IXC New Charges" (pg. 7) provides an estimate of the total annual new revenue the IXCs may collect from these new charges.
- "Access Reform Industry Impacts" (pg. 8) provides a more detailed look at how the January 1, 1998 changes impacted the different industry segments and consumers.

Following the charts are appendices with additional explanations and details about the data included in these charts. Appendix 1, attachments A - D, provides detailed explanations of the "Access Reform Industry Impacts" chart. Appendix 2, attachments E - E1, provides data in support of the "Estimated Impacts of IXC New Charges" chart. Appendix 3 includes copies of information on AT&T's Home Page on the world wide web, from mid-February, 1998, that was designed to explain AT&T's new charges.

What happened on January 1st?

- New Universal Service Fund
 - » Schools and Libraries
 - » Rural Healthcare
 - » Expanded Lifeline
 - » Expanded High Cost
 - » All carriers contribute
- Increased SLCs
 - » Multiline Business
 - » Residence Additional Line
- Access Reform for Price Cap LECs Implemented
 - » New flat rated access charges - PICCs
 - » Usage rate reductions
- New IXC charges to end users

IXC Impacts

- Increased costs - \$ 265M
 - » Estimate of total annual cost increase as result of both Access Reform and Universal Service changes implemented 1/1/98.
- Increased revenue - \$2,300M
 - » Estimate of annual additional revenue as result of new end user charges

Access Reform IXC Impacts

January 1998
Current Estimate

IXC Industry Impacts

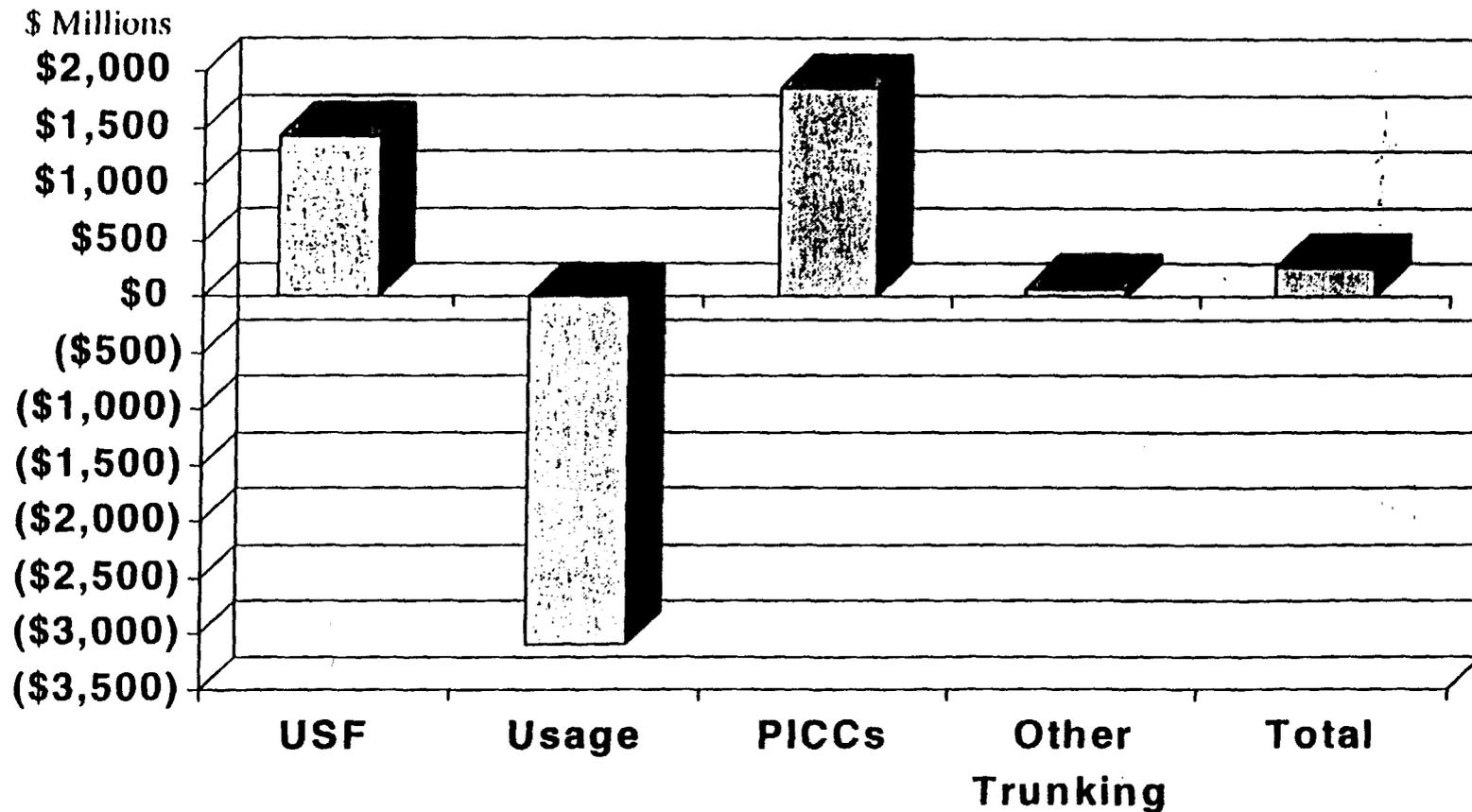


Chart 1

Universal Service and PICC - - New Charges by IXC's

- Universal Service

For Business Customers --

ATT & Sprint: 4.9% charge applied to total Interstate and International billed amounts

MCI: 4.6 to 5% surcharge

- Access Restructure

- » For ATT Business Customers (Commercial Service)

- PICC pass through of \$.53 per billed location

- » For ATT Business Customers (Business Service)

- PICC pass through of \$5.50 per billed location

- » MCI: Surcharge of 13% - 30% for business customers

- » Other IXC's:

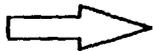
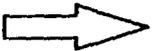
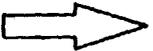
- Expect pass through of \$.53 and \$2.75 PICC rates for business, but not for residence

- » For Residence Additional Lines

- ATT PICC pass through of \$1.50 per additional line

- MCI PICC of \$1.07 for residence accounts

Estimated Impacts of IXC New Charges

- Universal Service "Connectivity" Charge
4.9% of Business Interstate and
International Revenues  \$1,400M Annually
- PICC for Single Line Business
\$.53/line/month for  \$ 31M Annually
- PICC for Multi Line Business
\$2.75/line/month for
50% of lines  \$ 706M Annually
- PICC for Residence Additional Lines
\$1.50/line/month for  \$ 152M Annually

- **Total** **\$2,300M Annually**

See attachment E for supporting detail.

Access Reform Industry Impacts

January 1998

Current Estimate

	LECs	IXCs	Other	Consumers	Total
Univ. Svc Funding					
Education & Healthcare	(570)	(588)	(192)		(1,350)
Life Line & High Cost	(311)	(1,837)	(90)		(2,238)
Eliminate Old Fund		993			993
Sub Total	(881)	(1,432)	(282)		(2,595)
SLC Increases	783			(783)	
Access Rates					
Usage:					
LTS & DEM	(904)	904			
Access Reform	(2,261)	2,261			
USF Flow through	785	(785)			
PICCs:					
Access Reform	1134	(1134)			
Other Trunking:					
Access Reform	34	(34)			
USF Flow through	67	(45)	---	(22)	
LEC Toll Rates:					
USF Flow through	29	---	---	(29)	
Sub Total	(1116)	1167		(51)	
TOTAL	(1214)*	(265)	(282)	(834)	(2595)

* This decrease is offset by \$904M received from USF. Therefore, the net decrease is \$310M (\$1214-\$904) which is a result of the FCC Orders in November 1997 and due to some LECs not raising their SLCs to the cap.

Chart 2

Appendices and Attachments

Appendix 1

ACCESS REFORM INDUSTRY IMPACTS

New Universal Service Funding

Background

Prior to January 1, 1998, the interexchange carriers (IXCs) supported the Universal Service Fund through an assessment of 53¢ per presubscribed customer. The Fund consisted of \$826 million in high cost support and \$167 million in low income/lifeline support. On January 1, 1998 the fund size increased due to the addition of new programs (schools, libraries and rural health care) and the expansion of existing low income and high cost programs. In addition, funding shifted to all telecommunication carriers with contributions based on retail revenues.

Since the contribution base differs between the funds, the funding requirements were determined by first estimating fund size and then applying the respective percentage shares between LECs, IXCs and the Other categories (wireless, CLECs, etc.)

Schools/Libraries/Rural Healthcare

The Schools and Libraries are capped at \$625 million for the first half year while Rural Healthcare is capped at \$50 million. This yields an annual fund of \$1,350 million. This fund is allocated among all carriers by total retail revenues. Preliminary figures allocate this fund by 43.6% to IXCs, 42.2% to LECs and 14.2% to the Other category (See Attachment A).

High Cost/Lifeline

The Lifeline fund is estimated at an annual level of \$501.2 million and the High Cost at \$434.1 million for the first quarter or \$1,736.4 for the year. Thus, the combined Lifeline and High Cost will be approximately \$2,238 million. This fund is allocated using only interstate retail revenues. Preliminary figures allocate this fund by 82.1% to IXCs, 13.9% to LECs and 4.0% to the other category (Also Attachment A). The resulting fund contributions are shown in the Access Reform Industry Impacts chart (Chart 2).

Old Universal Service Fund

To determine the additional impact that occurred on January 1, the IXCs column also shows the offset caused by the elimination of the Old Universal Service Fund of \$993-million. Since Long Term Support and Dial Equipment Minutes (DEM) support were paid to the LECs by the IXCs as part of their access charges those offsets are not shown as part of Universal Service Funding but are included in Access Rates.

ACCESS REFORM INDUSTRY IMPACTS

Subscriber Line Charge (SLC) Increases

Background

On January 1, 1998, Price Cap LECs increased their multiline business SLCs to reflect the new FCC rules that substantially increased the amounts recovered through SLCs. In addition, a new SLC cap for additional residence lines was introduced which increased the \$3.50 cap for residence lines to \$5.00 for additional residence lines. These increases were offset by reductions in the per minute access charges. The \$783 million represents the "roll-up" for the Price Cap LECs (Attachment B). Since not all LECs raised their SLC rates to the maximum allowed by the rules, the actual access charge offset related to SLC increases was approximately \$110 million greater than the \$783 million.

ACCESS REFORM INDUSTRY IMPACTS

Access Rates

Background

On January 1, 1998 the LEC industry implemented major revisions of their access rates to IXCs. For Price Cap LECs, changes included both Universal Service and Access Reform. The revisions contained in the FCC's May Order Access Reform resulted in the introduction of the Presubscribed Interexchange Carrier Charge (PICC), increased SLCs and major reductions in the per minute access rates. For Rate of Return LECs, the only revisions were for the Universal Service Fund. To estimate the industry impacts we first looked at the Price Cap LECs.

Analysis

The table in Attachment B indicates that the industry "roll-up" of the Price Cap LEC's December filing resulted in usage decreases of \$2,782 million with increases of \$101 million for "other trunking" and \$1,851 in PICC charges, for a net reduction of \$830 million. (The PICC amount of \$1,134M on the following page reflects the total PICC revenues of \$1,851M minus the \$717M in USF flow through noted in the usage category.)

"Other Trunking," Attachment B, which represents primarily Special Access rates and trunking rates between the LECs' switches and IXCs' points of presence (POPs). Since part of the Special Access increase represents a Universal Service Fund (USF) flow through to end user customers, this part must be removed to determine the impact on the IXCs. Attachment C represents a Price Cap LEC "roll-up" of the USF exogenous cost adjustments. This indicates that the USF exogenous adjustment totaled \$813 million, or 92.3% of the total LEC USF contribution (\$881M).

Of the USF exogenous adjustments, about \$67 million affected the Special Access rates. Based upon Bell Atlantic data, approximately one-third of the \$67 million affected end user prices with the remainder flowing to IXC rates. The \$29 million adjustment to the LEC's Interexchange Basket reflected potential increases to the LEC's toll rates and would affect end users not IXCs. This implies that only \$79 million of the Other Trunking increase affected the IXC industry with \$45 million being related to the USF flow through. The remaining \$34 million increase would then be related to access reform. The remaining USF adjustment of \$717 million [813-67-29=717] affected the Common Line Basket and is reflected, for purposes of this analysis, in the usage category.

Having accounted for the USF flow through, the remaining issue is to look at the access reform impact on the Price Cap LECs usage rates. The overall reduction of \$2,782 million includes both access reform and the elimination of Long Term Support (LTS) and Dial Equipment Minute Support (DEM). Total LTS was estimated at \$471 million and total DEM at \$433 million. Although a small part of LTS is related to Non-Price Cap LECs, for simplicity we will assume the total LTS was removed from the Price Cap LEC's rates. Approximately \$50 million of DEM should have been removed from Price Cap LECs for those study areas less than 50,000 lines.

This results in the following for Price Cap LECs:

Price Cap LECs Access Charges to IXCs - 1/1/98
\$ Millions

Usage	
LTS & DEM	(521)
Access Reform	(2261)
USF Flow through	717
PICCs	
Access Reform	1134
Other Trunking	
Access Reform	34
USF Flow through	45
TOTAL	(852)

(See Attachment D for further supporting documentation on USF flow through.)

Expanding these numbers to reflect the total LEC industry can be accomplished with a few additions. Since the rate of return LECs did not implement access reform, they do not have PICCs and therefore PICC numbers represent the LEC industry. The LTS and DEM reduction needs to be increased from \$521 million to \$904 million. Since DEM was in the local switching rate, this reflects usage reductions.

The total USF LEC contribution of \$881 million consisted of \$813 million from Price Cap LECs (previously identified as the USF exogenous cost adjustment) and \$68 million from rate of return LECs. A conservative assumption is that 100% of the rate of return LECs' amount was recovered from the IXCs in usage rates. The results of these additions are shown in the "LECs" column of the Access Reform Industry Impacts and imply that on January 1, 1998 the LECs reduced their access charges a total of \$1,167 million to the IXCs. (The USF flow through of \$68M from the rate of return LECs is combined with the \$717M from the price cap LECs and shown on Chart 2 in the usage category.)

Netting this reduction against the IXCs increased USF costs results in a total cost increase of \$265 million to the IXCs.

UNIVERSAL SERVICE FUND OBLIGATIONS
INDUSTRY DISTRIBUTION
(\$M)

	<u>Total</u>	<u>LECs</u>	<u>IXCs</u>	<u>Other</u>
Schools & Libraries	1350.0	569.7 (42.2%)	588.6 (43.6%)	191.7 (14.2%)
High Cost & Lifeline	2237.6	311.0 (13.9%)	1837.1 (82.1%)	89.5 (4.0%)
Sub Total	<u>3587.6</u>	<u>880.7</u>	<u>2425.7</u>	<u>281.2</u>
Eliminate Old Fund	<u>-993</u>		<u>-993</u>	
Net Impact	2364.6	880.7	1432.7	281.2

Attachment A

Summary of Access Reform Price Cap Revenue Impacts by Customer Type

Interstate Access (for filings through 12/30/97)

For All Price Cap LECs

Line		Current	Proposed	Revenue Delta	% Change
	End User Charges				
1	EUCL	\$7,535,437,700	\$7,723,680,612	\$188,244,912	2.5
2	(+) Marketing CL	\$0	\$595,148,998	\$595,148,998	N/A
3	(=) Total	\$7,535,437,700	\$8,318,829,610	\$783,393,910	10.4
	Carrier Charges				
4	CL PICC	\$0	\$1,753,266,887	\$1,753,266,887	N/A
5	(+) CL MOU	\$3,300,767,566	\$1,563,109,059	(\$1,737,658,507)	-52.64
6	(+) TS Switched	\$4,581,919,760	\$4,044,895,206	(\$537,024,554)	-11.72
7	(+) TIC PICC	\$0	\$91,071,237	\$91,071,237	N/A
8	(+) TIC MOU	\$1,738,709,527	\$1,099,209,974	(\$639,499,553)	-36.78
9	(+) Other Trkng	\$4,399,952,980	\$4,500,502,201	\$100,549,221	2.29
10	(+) Marketing PICC	\$0	\$6,784,840	\$6,784,840	N/A
11	(+) Marketing MOU	\$0	\$132,572,801	\$132,572,801	N/A
	(=) Total	\$14,021,349,833	\$13,191,412,205	(\$829,937,628)	-5.92
12	Total	\$21,556,785,532	\$21,510,241,815	(\$46,543,717)	-0.22
	Summary of Carrier Charges				
13	Total Usage	\$9,621,396,853	\$6,839,787,040	(\$2,781,609,813)	
14	Total PICC		\$1,851,122,964	\$1,851,122,964	
15	Other Trunking	\$4,399,952,980	\$4,500,502,201	\$100,549,221	
16	Total	\$14,021,349,833	\$13,191,412,205	(\$829,937,628)	

Source: Bellcore rerelease of rollup of price cap revenue deltas from 12/17/97 midyear filing, dated January 14, 1998.

Attachment B

PRICE CAP LEC UNIVERSAL SERVICE DISTRIBUTION

	Source	AMTR	BATR	BSTR	CBTC	CTTC	GCTC	LTNE	NXTR	TOTAL
Common Line	TRP EXG- 1 LN160	\$85,800,183	\$81,688,953	\$105,056,102	\$4,454,856	\$1,460,411	\$101,778,582	\$913,692	\$83,766,975	\$464,919,754
Trunking	TRP EXG- 1 LN560	\$245,903	\$14,283,762	\$6,377,630	\$0	\$625,751	\$1,201,323	\$301,654	\$14,696,550	\$37,732,573
Interexchange	TRP EXG- 1 LN760	\$8,169,427	\$8,306,835	\$1,690,430	\$180,790	\$628,761	\$2,650,875	\$2,228	\$1,725,748	<u>\$23,355,094</u>
Total		\$94,215,513	\$104,279,550	\$113,124,162	\$4,635,646	\$2,714,923	\$105,630,780	\$1,217,574	\$100,189,273	\$526,007,421

	Source	PA--CA	PA--NV	RTCS	RTNY	SNCT	SWTR	USTR		
Common Line	TRP EXG- 1 LN160	\$77,048,107	\$1,399,385	\$776,260	\$1,623,038	\$9,321,705	\$79,691,534	\$51,968,194	\$29,895,406	\$251,723,629
Trunking	TRP EXG- 1 LN560	\$6,021,018	\$146,423	\$35,357	\$118,893	\$560,536	\$14,204,564	\$5,834,961	\$1,601,897	\$28,523,649
Interexchange	TRP EXG- 1	\$0	\$4,832	\$0	\$0	\$0	\$2,876,271	\$2,914,445	\$647,275	<u>\$6,442,823</u>
Total		\$83,069,125	\$1,550,640	\$811,617	\$1,741,931	\$9,882,241	\$96,772,369	\$60,717,600	\$32,144,578	<u>\$286,690,101</u>

Total All Companies

\$812,697,522

<u>Totals</u>	<u>% of Total</u>	<u>% to IXC's</u>
Common Line	\$716,643,383	88.2 88
Trunking	\$66,256,222	8.2 5.5 (2/3)
Inter - exchange	<u>\$29,797,917</u>	3.6
\$812,697,522		93.7%

Source: Bellecore roll-up 12/23/97

Attachment C

UNIVERSAL SERVICE FLOW THROUGH

<u>Line</u>	<u>Item</u>	<u>Reference</u>	<u>Amount</u>
1	LEC USF	USF Obligation (Attachment A)	\$ 881M
2	Price Cap USF	Price Cap LEC USF Roll-Up (Attachment C)	\$ 813M
3	Non Price Cap LEC USF	L1 - L2	\$ 68M
4	% LEC USF to IXCs	Attachment C	93.70%
5	LEC USF to IXCs	L4 * L2	\$ 762M
6	% LEC USF to Common Line	Attachment C	88.20%
7	LEC USF to Common Line	L6 * L2	\$ 717M
8	% LEC USF to Other Trunking	Attachment C	8.20%
9	LEC USF to Other Trunking	L8 * L2	\$ 67M
9a	LEC USF in Spec. Access to IXCs	L9 * 2/3	\$ 45M
9B	LEC USF in Spec. Access to Consumers	L9 * 1/3	\$ 22M
10	% LEC USF to Toll Rates (Interexchange)	Attachment C	3.60%
11	LEC USF to Toll Rates	L10 * L2	\$ 29M
12	Total USF Flow Through to IXCs	L3 + L7 + L9A	\$830M
13	Total USF Flow Through to Consumers	L9B + L11	\$51M

Attachment D

Appendix 2

Estimated Impacts of IXC New Charges

- Universal Service “Connectivity” Charge
4.9% of Business Interstate and
International Revenues → \$1,400M Annually
- PICC for Single Line Business
\$.53/line/month for → \$ 31M Annually
- PICC for Multi Line Business
\$2.75/line/month for
50% of lines → \$ 706M Annually
- PICC for Residence Additional Lines
\$1.50/line/month for → \$ 152M Annually

- **Total** **\$2,300M Annually**

See attachment E for supporting detail.

IXC Impacts of Access Reform

Estimated IXC Revenue From Pass Through Charges

Attachment E attempts to estimate the potential revenues the IXCs could obtain from the new IXC pass through charges that we are aware of today.

The SLC annual demand data were obtained from a roll up of the price cap LECs' 1998 filings. Since only the price cap LEC's demand is included, this is a conservative demand count.* The price cap LECs represent about 93% of total LEC demand.

The number of single line business lines was estimated as approximately 5% of total single lines.

We also made a conservative estimate that only about 50% of multiline business lines would be billed the new per line charges, since some IXC tariffs indicated this charge would be applied per location rather than per line.

By using these assumptions and per line rates, the annual revenue the IXCs could obtain by multiplying the rate times the demand was calculated.

The IXCs have also tariffed new Universal Service Surcharges of between 4.4% to 5.0% applied to total billed revenue of only business customers. To determine the amount of revenue the IXCs may obtain from this charge we first estimated the amount of interstate and international retail revenue the IXCs earned in 1997 from the Telecommunications Relay Service report. And then we estimated the percentage of this revenue that was earned from business customers, by using a factor (about 50%) obtained from the last price cap tariff filing made by AT&T in 1988.

The Universal Service Surcharge revenue was then estimated by multiplying total revenue by 50% then by the 4.9% surcharge.

* The total revenue potential from the IXC pass through charges, including the rate of return LECs' demand, is shown on attachment E1.

<p>IXC Impacts of Access Reform Estimated Revenue From Pass Through Charges to Price Cap LEC End Users</p>

PICC Pass Through		Annual SLC Demand*	IXC Line Charge	Revenue
Non Primary Residence	(Includes BRI-ISDN)	101,409,367	\$1.50	\$152,114,051
SL Business	(Estimated 5% Primary SL)	59,336,636	\$0.53	\$31,448,417
ML Business	(Includes PRI-ISDN)	513,717,574		
Application Assumption	50% of Lines	256,858,787	\$2.75	\$706,361,664

Business Surcharge	Estimate of 1997 IXC USF Interstate/International Retail Revenue	IXC % Business Revenues**	Surcharge	Revenue
	\$57,700,000,000	50%	4.9%	\$1,413,650,000

* Obtained from USTA rollup of Price Cap LEC 1/1/98 Tariffs

***Estimate of IXC retail revenue earned from business customers based on AT&T's last price cap filing in 1988. Obtained from USTA rollup of Price Cap LEC 1/1/98 Tariffs

<p>IXC Impacts of Access Reform Estimated Revenue From Pass Through Charges to Total LEC Industry End Users</p>
--

PICC Pass Through		Annual SLC Demand*	IXC Line Charge	Revenue
Non Primary Residence	(Includes BRI-ISDN)	110,865,367	\$1.50	\$166,298,051
SL Business	(Estimated 5% Primary SL)	71,180,636	\$0.53	\$37,725,737
ML Business	(Includes PRI-ISDN)	530,433,574		
Application Assumption	50% of Lines	265,216,787	\$2.75	\$729,346,164

* Obtained from USTA estimate of total LEC industry demand

Attachment E1