

Appendix 3

**AT&T Home Page
Consumer and Business Alert
New Charges
(www.att.com)**

Attached are two documents copied off the AT&T Home Page.

These documents were placed on the web by AT&T to provide customer's with information regarding new charges they may see their bills.

The first document, the "Carrier Line Charge," is targeted to consumers and provides information regarding this new charge.

The second document, "Access Reform and The Telecommunications Act," is targeted to business customers and provides information regarding a number of new charges.

Both documents are misleading. The Carrier Line Charge document states that, "The money collected from this charge will be given to local telephone companies and will not provide any profit to AT&T." In fact, if AT&T has not reduced its toll rates to reflect the LEC's reduction in their switched access usage rates, AT&T is obtaining a significant profit from this new charge.

In the document on Access Reform and The Telecommunications Act, AT&T states, "To date, access reform has resulted in only a small decrease in the switched access charges IXCs pay to local phone companies." In fact the IXCs have obtained over \$2.7B in switched access usage charge reductions. Any reasonable person would agree that a \$2.7B reduction is anything but a small decrease.

Carrier Line Charge

We understand that you have questions, and hope this explanation will help you see why the Carrier Line Charge is on your bill.

This charge is the result of a new policy. This policy permits local telephone companies to charge flat fees to long distance companies based on the number of telephone lines subscribed to for long distance service. For the additional telephone lines in your house, AT&T is covering its cost for these lines through the Carrier Line Charge. This charge will be shown monthly at one dollar and fifty cents for each additional line that you have.

Please note that if you do not have additional lines in your household you will not see this charge on your bill.

The money collected from this charge will be given to local telephone companies and will not provide any profit to AT&T.

Thank you. We hope you now have a better understanding of this charge. Please note that this charge will not be waived.

Terms and conditions.

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“Access Reform and The Telecommunications Act of 1996.”

And thank you for allowing AT&T to serve you on the web. If after reviewing the information below, you still have questions on changes to your AT&T bill in connection with Access Reform and the Telecommunications Act of 1996, please

In 1998, the entire telecommunications industry will experience “access reform.” This reform is a result of the Telecommunications Act of 1996, through which Congress gave the FCC the responsibility of implementing access reform. In May 1997, the FCC issued two companion orders:

The Universal Service Order: Expanded the Universal Service Fund (USF) which will support telecommunications services for schools, libraries, low-income consumers, rural healthcare providers and high-cost, rural and insular areas.

The Access Charge Reform Order: Restructured the way access charges are collected, and established Presubscribed Interexchange Carrier Charge (PICC), a charge that Interexchange Carriers will pay Local Exchange Carriers.

Access reform will affect every Interexchange Carrier (IXC) in the industry, including AT&T. To date, access reform has resulted in only a small decrease in the switched access charges IXCs pay to local phone companies. Meanwhile, the new expenses that IXCs will incur are substantial. The Universal Service Fund, which is projected to be \$4.4 billion in 1998, is three times the size it was before the order. (AT&T expects to pay nearly \$1.3 billion into the Universal Service Fund in 1998.) AT&T further expects its 1998 PICC expense to be \$1.0B.

To recover these expenses, AT&T will begin to bill two new charges in January, 1998:

The Universal Connectivity Charge, which recovers costs associated with the Universal Service Fund; and

The Carrier Line Charge, which recovers costs associated with PICC.

AT&T is implementing these charges to recover its costs, and does not expect to recover more than the costs it is incurring.

On December 18, 1997, AT&T filed tariff revisions with the FCC to implement new charges first appearing on business services bills dated January 26, 1998. The charges will be clearly identified as separate line items:

The Universal Connectivity Charge will recover a portion of AT&T’s Universal Service Fund assessment. It will appear as a 4.9% charge applied to total interstate and international voice and data billing.

The Carrier Line Charge will recover a portion of the restructured access charges. It will appear as a fixed monthly charge, and initially will be set at 53 cents per bill for Commercial Long Distance and Option S, and \$5.50 per bill for CustomNet and Small Business Advantage Plus (SBA+).

What is Access Reform?

On May 7, 1997, the Federal Communications Commission issued two companion orders, the Universal Service Order and the Access Charge Reform Order, that grew from the framework of the Telecommunications Act of 1996. Both fall under the heading of "access reform," and both increase expenses of long-distance companies, including AT&T.

What is the Universal Service Order?

In its Universal Service Order, the FCC expanded universal service support mechanisms for (1) high cost, rural and insular areas and low-income consumers; and (2) schools, libraries and rural health care providers. To enable these support mechanisms, the FCC created the Universal Service Fund (USF) to pay the cost of programs envisioned by the order. It is projected that the USF will generate and disburse in the neighborhood of \$4.4 billion annually.

How will Universal Service Order programs be funded?

The USF is to be funded by an assessment on telecommunications companies that provide interstate service. Long-distance providers are assessed on the basis of their total end user revenues; for AT&T the bill in 1998 is projected to be about \$1.3 billion, based on 1997 revenues.

What is the Access Charge Reform Order and Why was it created?

The Access Charge Reform Order restructures the fees which interexchange carriers like AT&T pay to local phone companies for use of their network. The FCC believes that a fee structure based on subscribed lines versus minutes of use will reduce the high level of subsidization that is inherent in the old minute-based rates.

What is AT&T doing?

AT&T is implementing two new charges for business customers to recover the expenses associated with these government programs.

The Universal Connectivity Charge, which recovers costs associated with USF, will appear as a 4.9% charge applied to total interstate and international voice and data billing

The Carrier Line Charge, which recovers costs associated with PICC, will be implemented as follows:

- 53-cents monthly per billed location for subscribers to Commercial Long Distance and Option S

- \$5.50 monthly per billed location for subscribers to CustomNet and Small Business Advantage Plus (SBA+).

Are you assessing business customer only?

For the present, AT&T does not plan to assess a Universal Connectivity Charge for consumers. Through the first six months of 1998, costs associated with USF allocated to our consumer services division will be offset by lower access fees that AT&T pays local phone companies.

When can I expect to see these new charges on my bill?

For most customers, the charges will appear on bills beginning on or about January 26, 1998.

Are other long-distance companies handling these new expenses in the same manner as AT&T?

On January 1, both MCI and Sprint also implemented charges to recover costs associated with access reform.

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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:

In response to your request for further information regarding USTA's estimates of the impact of the new charges which are appearing on major interexchange carrier (IXC) customer bills, I am providing the attached material. The material includes a description of the cost changes experienced by the IXCs as a result of the changes in universal service and in the restructure of access charges which became effective January 1, 1998. The data on LEC rate increases and decreases are based on the updated roll-up of the access reform tariffs which was provided to you on February 18. The attached material also includes a chart describing the new universal service obligations for the IXCs. Those data are based upon the universal service worksheet released by the FCC on February 11. USTA did not have the benefit of this worksheet when we made our initial estimates of the IXC net cost increase. Based upon the FCC worksheet, the IXCs' net cost increase was actually less than our initial estimate. Finally, the last three pages explain the basis for USTA's assumptions regarding the IXCs' rate changes.

As USTA explained in Roy Neel's February 11 letter on this subject, the major IXCs are pocketing approximately \$2 billion over and above their net cost increase.

Please let me know if I can provide any further information.

Sincerely,

A handwritten signature in cursive script that reads "Mary McDermott".

Mary McDermott
Vice President, Legal and Regulatory Affairs

Attachment

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

UNITED STATES TELEPHONE ASSOCIATION ESTIMATED IMPACTS OF IXC CHARGES

ILEC CHANGES

ILEC Rate Increases

SLCs (to consumers)	\$ 0.78 Billion
PICC	\$ 1.84
Special Access/Trunking	<u>\$.10</u>
Total Increases	<u>\$ 2.72 Billion</u>

ILEC Rate Reductions

Price Cap LECs

CCL	\$(1.74) Billion
Traffic Sensitive Switching	(.54)
TIC MOU Charges	(.62)
Marketing Expenses	<u>.13</u>
Total Price Cap	\$(2.77) Billion
Rate of Return LECs ¹	<u>\$(.30)</u>
Total Access Usage Charge Reduction	<u>\$(3.07) Billion</u>

IXC COST CHANGES

Increased Costs to IXCs:

Universal Service ²	\$ 1.22 Billion
PICCs	\$ 1.84
Special Access/Trunking	<u>\$.08</u>
Total IXC Cost Increases	<u>\$ 3.14 Billion</u>

Decreased Costs to IXCs:

Access Usage Charge Reduction	<u>\$(3.07) Billion</u>
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Net IXC Cost Increase: \$.07 Billion

IXC RATE CHANGES (i.e., "pass through")³

IXC Rate Increases:

Universal Service Surcharge	\$ 1.22 Billion
PICCs Charged Directly to Consumers	<u>.89</u>
Total IXC Rate Increases to Consumers	<u>\$ 2.11 Billion</u>

¹ Estimate provided by NECA.

² See Page 2 of Attachment.

³ See Pages 3-5 of Attachment.

**UNITED STATES TELEPHONE ASSOCIATION
UNIVERSAL SERVICE FUND OBLIGATIONS
INDUSTRY DISTRIBUTION
(\$M)**

	<u>TOTAL</u>	<u>LECS</u>	<u>IXCS</u>	<u>OTHER</u>
Schools & Libraries	\$ 1,350.0	\$ 555.1	\$ 523.0	\$ 271.9
High Cost & Lifeline	<u>2,237.6</u>	<u>306.1</u>	<u>1,688.9</u>	<u>242.6</u>
Subtotal	\$ 3,587.6	\$ 861.2	\$ 2,211.9	\$ 514.5
Eliminate Old Fund	<u>(993.0)</u>	_____	<u>(993.0)</u>	_____
Net Impact	<u>\$ 2,594.6</u>	<u>\$ 861.2</u>	<u>\$ 1,218.9</u>	<u>\$ 514.5</u>

Per cent distribution among contributors based on FCC's report on "Revenues reported on FCC Form 457 Universal Service Worksheet" released February 11, 1998.

Schools and Libraries:

LECs	41.12%
IXCs	38.74%
All Others	20.14%

High Cost and Lifeline:

LECs	13.68%
IXCs	75.48%
All Others	10.84%

UNIVERSAL SERVICE and PICC -- NEW CHANGES 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 All Residence Lines

IXC Impacts of Access Reform Estimated IXC Revenue from Pass Through Charges

Page 6 of this Attachment estimates the potential revenues the IXCs could obtain from the new IXC pass through charges that we are aware of today.

Based on AT&T's and MCI's explanations on their Internet web pages regarding the new customer charges for PICCs, the assumption was made that the IXCs intended to recover their full cost of PICCs from their end user customers.

The SLC annual demand data were obtained from a roll-up of the price cap LECs' 1998 filings. Since only the price cap LECs' 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 multi line 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.

**IXC IMPACTS OF ACCESS REFORM
ESTIMATED REVENUE FROM PASS THROUGH CHARGES**

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 of Assumption	50% of Lines	256,858,787	\$2.75	\$706,361,664
Total PICC Pass Through				\$889,924,132
Business Surcharge	Estimate of 1997 IXC USF Interstate/International Retail Revenue	IXC % Business Revenues	Surcharge	Revenue
	\$52 Billion	50%	4.9%	\$1.2 Billion

* Obtained from USTA roll-up 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.