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MAR 11 1998

March 11, 1998

Federal Communications Commission
Office of Secretary

Magalie Roman Salas
Secretary
Federal Communications Commission
1919 M Street, NW - Room 222
Washington, DC 20554

Re: CC Docket Nos. 96-262 and 96-45
Customer Impact of New IXC Charges

Dear Ms. Salas:

Yesterday, March 10, 1998, a letter and attachments were sent to A. Richard Metzger, Chief of the Common Carrier Bureau and copies were sent to Jane Jackson, Chief of the Competitive Pricing Division; Richard Lerner, Deputy Chief of the Competitive Pricing Division; and James Schlichting, Deputy Chief of the Common Carrier Bureau. That letter contained a typographical error; the corrected letter and attachments are enclosed.

An original and two copies of this ex parte notice are being filed in the Office of the Secretary. Please include this notice in the public record of these proceedings.

Respectfully submitted,

Mary M. Dermott
Vice President - Legal & Regulatory Affairs

cc: A. Richard Metzger
James Schlichting
Jane Jackson
Richard Lerner

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MAR 11 1998

Federal Communications Commission
Office of Secretary

March 11, 1998

A. Richard Metzger, Jr.
Chief, Common Carrier Bureau
Federal Communications Commission
1919 M Street, N.W.
Room 500
Washington, DC 20554

Re: Revised March 10 Letter

Dear Mr. Metzger:

Yesterday, Mary McDermott sent a letter to you responding to your February 26 letter regarding the customer impact of new IXC charges. Unfortunately, on the second page of the letter, the amounts shown as the impacts of adjusting the IXC Universal Service contribution were misstated due to a clerical error. The increase in the IXC contribution shown in this paragraph should have been \$190 million. The resulting reduction in the IXCs' net costs for access restructure and universal service funding should have been shown as \$150 million.

A revised letter is attached. I apologize for this error and any inconvenience it may have caused.

Yours truly,

A handwritten signature in cursive script, appearing to read "Frank McKennedy".

Frank McKennedy
Director-Legal & Regulatory Affairs

cc: Jane Jackson, Chief, Competitive Pricing Division
Richard Lerner, Competitive Pricing Division
James Schlichting, Deputy Chief, Common Carrier Bureau



UNITED STATES
TELEPHONE
ASSOCIATION



March 11, 1998

A. Richard Metzger, Jr.
Chief, Common Carrier Bureau
Federal Communications Commission
1919 M Street, NW
Room 500
Washington, DC 20554

Re: Customer Impact of New IXC Charges

Dear Mr. Metzger:

I am responding to your February 26 letter to Roy Neel (attached).¹ In that letter, you listed three factors that USTA did not consider in developing the data in our February 20 submission estimating the impact on the long distance industry of recent access reform and universal service changes. Your February 26 letter states that considering the three factors would offset the increase in IXC costs which USTA had calculated. These factors were: the effect of the BFP direct case from the 1997 annual filing for SBC, U S West and the Sprint local exchange companies; an increase in the demand for minutes of use and access lines by six percent and three percent respectively over the 1996 data used by USTA; and reflecting the fact that PICCs for end users who have not presubscribed are billed by the LEC directly to the consumer.

As you can see from the attached two-page analysis, these three factors change the \$70 million net increase in IXC costs contained in our February 20 letter to a \$340 million net cost decrease. The first column of the attached analysis shows USTA's February 20 ex parte. The second column sets out the adjustments. The third column shows the overall results with the adjustments included.

¹USTA applauds Chairman Kennard's quick action to seek verification from the interexchange carriers that they have passed the latest access charge reductions on to consumers. We have received copies of the AT&T, MCI and Sprint responses to the Chairman and are carefully reviewing these. When we have completed our analysis, USTA will submit our findings to you.

Richard Metzger
March 10, 1998
page 2

In calculating this net cost decrease of \$340 million to the IXC industry, USTA utilized only the "IXC" category from the FCC's Universal Service contribution worksheets. I would point out, however, that including the four additional categories of Operator Service Providers, Other Toll Providers, Prepaid Card Providers, and Toll Resellers would increase the IXC universal service costs by only \$190 million. Thus, the net cost reduction to the IXCs as a result of the access restructure and universal service funding would still be approximately \$150 million, even if one takes the most expansive view of which universal service contribution categories apply to the interexchange industry.

I hope that this additional information will be helpful to you. If you or your staff wish to discuss this further, please call me at (202) 326-7247, or Frank McKennedy at (202) 326-7266.

Yours truly,



Mary McDermott
Vice President - Legal & Regulatory Affairs

cc: Jane Jackson, Chief - Competitive Pricing Division
Richard Lerner - Competitive Pricing Division
James Schlichting - Deputy Chief, Common Carrier Bureau

attachments

**UNITED STATES TELEPHONE ASSOCIATION
ESTIMATED IMPACTS OF IXC CHARGES**

<u>ILEC CHANGES</u>	<u>USTA 2/20/98 EX PARTE</u>	<u>ADJUSTMENTS</u>	<u>REVISED</u>
ILEC Rate Increases:			
SLCs (to consumers)	\$ 0.78 Billion	\$ Billion	\$ Billion
BFP Direct Case - SBC, Sprint Local		0.03 ¹	
Growth		0.05 ²	
SLC Subtotal			0.86
Total PICCs - 2/20 /98 ex parte	1.84		
PICCs Billed to IXC (\$1.75 Billion)		0.10 ²	1.85
PICCs Billed to End User (\$0.09 Billion)			0.09 ³
Special Access/Trunking	<u>0.10</u>		<u>0.10</u>
Total Increases	<u>\$ 2.72 Billion</u>	<u>\$ 0.18 Billion</u>	<u>\$ 2.90 Billion</u>
ILEC Usage Rate Reductions:			
Price Cap LECs:			
CCL	\$(1.74) Billion	\$ Billion	\$ Billion
BFP Direct Case - SBC, Sprint Local		(0.03) ¹	
Growth		(0.22) ²	
CCL Subtotal			(1.99)
Traffic Sensitive Switching	(0.54)	(0.07) ²	(0.61)
TIC MOU Charges	(0.62)	(0.08) ²	(0.70)
Marketing Expenses	<u>0.13</u>	<u>0.02</u> ²	<u>0.15</u>
Total Price Cap	<u>\$(2.77) Billion</u>	<u>\$(0.38) Billion</u>	<u>\$(3.15) Billion</u>
Rate of Return LECs	(0.30)	(0.04) ²	(0.34)
Total Access Usage Rate Reductions	<u>\$(3.07) Billion</u>	<u>\$(0.42) Billion</u>	<u>\$(3.49) Billion</u>

Description of Adjustments:

- Adj. 1. **BFP Direct Case Adjustment to SLC and CCL:** Impact of the Sprint local exchange companies and SBC adjustments as a result of the Commission's order on December 1, 1997 regarding the 1997 Annual Access Tariffs. The effect was a net increase in SLC of \$30 million and a decrease CCL by \$30 million. US West information was not available.
- Adj. 2. **Demand Growth:** Adjust for demand growth from the 1996 base year used in the access reform tariff filing through the year 1998. An annual growth rate of 3% was used for lines. An annual growth rate of 6% was used for usage sensitive categories. Adjustments were made for growth to SLC and PICC for ILEC Rate Increases, all ILEC Usage Rate Reductions, PICCs for IXC Increase Costs, and PICCs for IXC Rate Increases. The total adjustment for growth included in the IXC Net Cost Change was a reduction of \$290 million
- Adj. 3. **Non-Pre subscribed Customer PICC Charge (NPSC):** Reduction of \$90 million in charges to the IXCs for PICCs billed by the LEC to customers not pre subscribed to an IXC for toll services. The estimate is based on the non-pre subscribed customers at 5% of total access lines.

**UNITED STATES TELEPHONE ASSOCIATION
ESTIMATED IMPACTS OF IXC CHARGES**

<u>IXC CHANGES</u>	<u>NETA 2/28/98 EX PARTE</u>	<u>ADJUSTMENTS</u>	<u>REVISED</u>
Increased Costs to IXCs:			
Universal Service	\$ 1.22 Billion	\$ Billion	\$ 1.22 Billion
PICCs	1.84		
Less NPSC		(0.09) ²	
Plus Line Growth		0.10 ²	
IXC PICC Subtotal			1.85
Special Access/Trunking	0.08		0.08
Total IXC Cost Increases	<u>\$ 3.14 Billion</u>	<u>\$ 0.01 Billion</u>	<u>\$ 3.15 Billion</u>
Decreased Costs to IXCs:			
Access Usage Charge Reduction (from Page 1)	<u>\$(3.07) Billion</u>	<u>\$(0.42) Billion</u>	<u>\$(3.49) Billion</u>
Net IXC Cost Change:	<u>\$ 0.07 Billion</u>	<u>\$(0.41) Billion</u>	<u>\$(0.34) Billion</u>
<u>IXC RATE CHANGES</u> (i.e., "pass through")			
IXC Rate Increases:			
Universal Service Surcharge	\$ 1.22 Billion	\$ Billion	\$ 1.22 Billion
PICCs Charged to Consumers By IXC	0.93	0.05 ²	0.93
Total IXC Rate Increases to Consumers	<u>\$ 2.10 Billion</u>	<u>\$ 0.05 Billion</u>	<u>\$ 2.15 Billion</u>

Description of Adjustments:

- Adj. 1. **BFP Direct Case Adjustment to SLC and CCL:** Impact of the Sprint local exchange companies and SBC adjustments as a result of the Commission's order on December 1, 1997 regarding the 1997 Annual Access Tariffs. The effect was a net increase in SLC of \$30 million and a decrease in CCL by \$30 million. US West information was not available.
- Adj. 2. **Demand Growth:** Adjust for demand growth from the 1996 base year used in the access reform tariff filing through the year 1998. An annual growth rate of 3% was used for lines. An annual growth rate of 6% was used for usage sensitive categories. Adjustments were made for growth to SLC and PICC for ILEC Rate Increases, all ILEC Usage Rate Reductions, PICCs for IXC Increased Costs, and PICCs for IXC Rate Increases. The total adjustment for growth included in the IXC Net Cost Change was a reduction of \$290 million.
- Adj. 3. **Non-Pre-subscribed Customer PICC Charge (NPSC):** Reduction of \$90 million in charges to the IXCs for PICCs billed by the LEC to customers not pre-subscribed to an IXC for toll services. The estimate is based the non-pre-subscribed customers at 5% of total access lines.



Federal Communications Commission
Washington, D.C. 20554

February 26, 1998

Roy Neel
President and CEO
United States Telephone Association
1401 H Street, N.W., Suite 600
Washington, DC 20005-2164

Dear Mr. Neel:

Thank you for your letter of February 11, 1998 concerning the customer impact of the changes in the Commission's interstate access and universal service rules that took effect on January 1, 1998. We certainly agree with a basic point of your letter that long distance consumers should reap the benefits of reductions in interstate access charges paid by long distance carriers. Chairman Kennard has asked the largest long distance carriers to respond to the allegations made in your letter, as supplemented, at the Common Carrier Bureau's request, with supporting materials filed by the United States Telephone Association (USTA) on February 20, 1998.

The Common Carrier Bureau, however, disagrees with the assertion in your February 11, 1998 letter that the rule changes will cause interexchange carriers as a whole to experience in 1998 a net increase in the charges they pay for interstate access service and their contribution to federal universal service support. I recognize that although your letter indicates that this increase amounts to \$265 million, the material submitted by USTA on February 20, 1998 revised that estimate downward by \$195 million, to \$70 million. We believe that this estimate is also incorrect. The Bureau has identified three factors that we believe USTA did not take into account when making its estimate and which, at a minimum, would offset the increase USTA estimated.

Those factors are:

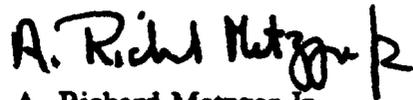
- USTA's analysis does not take into account reductions in interstate access charges that Sprint, U S West and SBC were required to implement on January 1, 1998, pursuant to the Commission's December 1, 1997 order in its investigation of the 1997 Annual Access Charge Tariff Filings.
- USTA's analysis assumes demand for access lines and interstate access minutes in 1998 will be no greater than demand in 1996. The Bureau believes that a more accurate estimate of the impact of changes in the Commission's interstate access and universal service rules would be obtained by using 1998 projected demand, because these amounts more accurately measure what interexchange carriers will actually pay in 1998 and what they would have paid

if the FCC's rules did not change. Based on historical demand growth rate, the Bureau projects that 1998 interstate minutes of use will have increased annually by six percent over 1996 levels and the number of lines will have increased annually by three percent over 1996 levels.

- USTA's analysis does not take into account reductions in charges to interexchange carriers that are attributable to the Presubscribed Interexchange Carrier Charges assessed for access lines that are not presubscribed to a long-distance carrier. As you know, such charges may be assessed by the local exchange carrier on end users, not interexchange carriers.

We appreciate your interest in the Commission's ongoing efforts to ensure that consumers benefit from its reforms to interstate access charges and universal service support mechanisms.

Sincerely,



A. Richard Metzger Jr.

Chief

Common Carrier Bureau