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March 24, 1998

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

RECEIVED

MAR 24 1998

FEDERAL COMMUNICATIONS COMMISSION
OFFICE OF THE SECRETARY

Re: Ex Parte Access Charge Reform CC Docket 96-262

Dear Ms Salas:

On March 23, 1998 Joel Lubin, and Paul Malandrakis of AT&T and I met with R. Lerner, J. Scott, and C. Barnekov, of the Competitive Pricing Division of the Common Carrier Bureau. AT&T discussed the impacts of Universal Service and Access Reform on the interexchange industry beginning July 1, 1998. AT&T quantified the impacts of several scenarios as detailed in the attached charts.

Further, AT&T advocated that the Commission, on July 1, 1998, set the LEC Interstate Price Cap Productivity Factor at 9.3% on a going forward basis and re-initialize interstate access prices from July 1, 1995 using the same factor. AT&T estimates that the amount of the July 1, 1998 access reduction for Price Cap companies resulting from the revised productivity factor and the re-initialization to be approximately \$3.6 billion.

In accordance with Section 1.1206(a)(1) of the Commission's rules, two (2) copies of this notice are being submitted to the Secretary of the FCC today.

Sincerely,

Brian W. Masterson

Attachment
cc: R. Lerner
C. Barnekov
J. Scott

No. of Copies rec'd
List A B C D E

0+2

	Base Case	High Growth	Low Growth
S			
	325	325	325
	25	25	25
	350	350	350
A			
ors:			
	725	350	561
	725	350	561
R			
	(145)	(661)	(379)
	607	23	366
	492	(671)	0
	86	3	52
	578	(668)	52

Impacts of Universal Service/Access Reform on Interexchange Industry

Base Case

1-Jul-98

Per Minute Access Charges

PICCs	(30)
SLCs	(15)
LTS & DEM	
Flowback	582
Other	
P-cap	(681)

Total Per Minute Access -135

PICCs 30

Universal Service

USF Assessment - Switched* 607

Total Universal Service 307

Net Switched -92

USF Assessment - Private Line* 86

Net Industry** -6

*Reflects revised USAC rates for 2nd Quarter and Industry revenue base published on 2/11/98

**Effect of price caps on special access not included due to potential offset by headroom

Base Case

1998 USF Assessment by quarter*

(Millions)	1 Quarter	2 Quarter	3 Quarter	4 Quarter	Total
High Cost Fund	434.1	431.1	434.1	434.1	1,733.4
Low Income	125.3	125.3	136.0	136.0	522.6
Schools and Libraries	300.0	325.0	625.0	625.0	1,875.0
Rural Health Care Providers	25.0	25.0	100.0	100.0	250.0
Interstate only Assessment Rate	3.20%	3.15%	3.23%	3.23%	
Funding	559.4	556.4	570.1	570.1	2,256
Revenues	17,501	17,652	17,652	17,652	70,455
Total Rev. Assessment Rate	0.72%	0.76%	1.57%	1.57%	
Funding	325	350	725	725	2,125
Revenues	44,914	46,093	46,093	46,093	183,192
Interstate combined rate	3.92%	3.91%	3.80%	3.80%	

(Millions)	1 Quarter	2 Quarter	3 Quarter	4 Quarter	Total
Total of All Funds	884.4	906.4	1,295.1	1,295.1	4,381.0
IXC Assessment	590.3	598.4	767.6	767.6	2,723.7
IXC-direct socials	137.0	147.6	305.6	305.6	
IXC- direct High costs/Low Income	453.2	450.8	461.9	461.9	
IXC Share + Flowback	785.7	803.0	1,117.3	1,117.3	3,823.3

*Revised to reflect 2nd quarter USAC revenues and contribution factors. Hence, flowback shown for 2Qtr is what it should have been as opposed to what was available for the LEC 1/1 filings

Impacts of Universal Service/Access Reform on Interexchange Industry

Flat 3 and 4 Qtr

1-Jul-98

Per Minute Access Charges

PICCs	33
SLCs	(15)
LTS & DEM	
Flowback	3
Other	
P-cap	(681)

Total Per Minute Access (661)

PICCs (33)

Universal Service

USF Assessment - Switched* 23

Total Universal Service 23

Net Switched (671)

USF Assessment - Private Line* 3

Net Industry** (668)

*Reflects revised USAC rates for 2nd Quarter and Industry revenue base published on 2/11/98

**Effect of price caps on special access not included due to potential offset by headroom

Flat 3 and 4 Qtr

1998 USF Assessment by quarter*

(Millions)	1 Quarter	2 Quarter	3 Quarter	4 Quarter	Total
High Cost Fund	434.1	431.1	434.1	434.1	1,733.4
Low Income	125.3	125.3	125.3	125.3	501.2
Schools and Libraries	300.0	325.0	325.0	325.0	1,275.0
Rural Health Care Providers	25.0	25.0	25.0	25.0	100.0
Interstate only Assessment Rate	3.20%	3.15%	3.17%	3.17%	
Funding	559.4	556.4	559.4	559.4	2,235
Revenues	17,501	17,652	17,652	17,652	70,455
Total Rev. Assessment Rate	0.72%	0.76%	0.76%	0.76%	
Funding	325	350	350	350	1,375
Revenues	44,914	46,093	46,093	46,093	183,192
Interstate combined rate	3.92%	3.91%	3.93%	3.93%	

(Millions)	1 Quarter	2 Quarter	3 Quarter	4 Quarter	Total
Total of All Funds	884.4	906.4	909.4	909.4	3,609.6
IXC Assessment	590.3	598.4	600.8	600.8	2,390.2
IXC-direct socials	137.0	147.6	147.6	147.6	
IXC- direct High costs/Low Income	453.2	450.8	453.2	453.2	
IXC Share + Flowback	785.7	803.0	805.8	805.8	3,200.3

*Revised to reflect 2nd quarter USAC revenues and contribution factors. Hence, flowback shown for 2Qtr is what it should have been as opposed to what was available for the LEC 1/1 filings

Impacts of Universal Service/Access Reform on Interexchange Industry

Switched @ 0

0

1-Jul-98

Per Minute Access Charges

PICCs	(13)
SLCs	(15)
LTS & DEM	
Flowback	331
Other	
P-cap	(681)

Total Per Minute Access [REDACTED]

PICCs 13

Universal Service

USF Assessment - Switched* 365

Total Universal Service [REDACTED] 365

Net Switched [REDACTED]

USF Assessment - Private Line* 52

Net Industry** [REDACTED] 52

*Reflects revised USAC rates for 2ndQuarter and Industry revenue base published on 2/11/98

**Effect of price caps on special access not included.

Switched @ 0

1998 USF Assessment by quarter*

(Millions)	1 Quarter	2 Quarter	3 Quarter	4 Quarter	Total
High Cost Fund	434.1	431.1	434.1	434.1	1,733.4
Low Income	125.3	125.3	136.0	136.0	522.6
Schools and Libraries	300.0	325.0	461.4	461.4	1,547.7
Rural Health Care Providers	25.0	25.0	100.0	100.0	250.0
Interstate only Assessment Rate	3.20%	3.15%	3.23%	3.23%	
Funding	559.4	556.4	570.1	570.1	2,256
Revenues	17,501	17,852	17,852	17,852	70,455
Total Rev. Assessment Rate	0.72%	0.76%	1.22%	1.22%	
Funding	325	350	561.3614	561.3614	1,798
Revenues	44,914	46,093	46,093	46,093	183,192

(Millions)	1 Quarter	2 Quarter	3 Quarter	4 Quarter	Total
Total of All Funds	884.4	906.4	1,131.5	1,131.5	4,053.7
IXC Assessment	590.3	598.4	698.6	698.6	2,585.7
IXC-direct socials	137.0	147.6	236.7	236.7	
IXC- direct High costs/Low Income	453.2	450.8	461.9	461.9	
IXC Share + Flowback	785.7	803.0	985.8	985.8	3,560.2

*Revised to reflect 2nd quarter USAC revenues and contribution factors. Hence, flowback shown for 2Qtr is what it should have been as opposed to what was available for the LEC 1/1 filings

**Impacts of Universal Service/Access Reform
on Interexchange Industry**

Flat 3 and 4 Qtr
Price Cap Reinitialization

1-Jul-98

Per Minute Access Charges

PICCs	635
SLCs	65
LTS & DEM	
Flowback	3
Other	
P-cap	(3,157)

Total Per Minute Access [REDACTED]

PICCs align="right">(635)

Universal Service

USF Assessment - Switched* align="right">23

Total Universal Service [REDACTED]

Net Switched [REDACTED]

USF Assessment - Private Line* align="right">3

Net Industry** [REDACTED] (3,063)

*Reflects revised USAC rates for 2ndQuarter and Industry revenue base published on 2/11/98

**Effect of price caps on special access not included.

Flat 3 and 4 Qtr

1998 USF Assessment by quarter*

(Millions)	1 Quarter	2 Quarter	3 Quarter	4 Quarter	Total
High Cost Fund	434.1	431.1	434.1	434.1	1,733.4
Low Income	125.3	125.3	125.3	125.3	501.2
Schools and Libraries	300.0	325.0	325.0	325.0	1,275.0
Rural Health Care Providers	25.0	25.0	25.0	25.0	100.0
Interstate-only Assessment Rate	3.20%	3.16%	3.17%	3.17%	
Funding	559.4	556.4	559.4	559.4	2,235
Revenues	17,501	17,652	17,652	17,652	70,455
Total Rev. Assessment Rate	0.72%	0.76%	0.76%	0.76%	
Funding	325	350	350	350	1,375
Revenues	44,914	46,093	46,093	46,093	183,192

(Millions)	1 Quarter	2 Quarter	3 Quarter	4 Quarter	Total
Total of All Funds	884.4	906.4	909.4	909.4	3,609.6
IXC Assessment	590.3	598.4	600.8	600.8	2,390.2
IXC-direct socials	137.0	147.6	147.6	147.6	
IXC- direct High costs/Low Income	453.2	450.8	453.2	453.2	
IXC Share + Flowback	785.7	803.0	805.8	805.8	3,200.3

*Revised to reflect 2nd quarter USAC revenues and contribution factors. Hence, flowback shown for 2Qtr is what it should have been as opposed to what was available for the LEC 1/1 filings

	<u>LEC</u>	<u>IX</u> <u>INDUSTRY</u>	<u>FLOWBACK*</u>
Schools/Libraries Rural Health Care Combined	41.1%	42.2%	38.2%
HCF (Interstate)	13.7%	81.0%	12.7%

NOTE: 2nd quarter USAC revenues effective 4/1/98

* Assumed 93% Flowback

**REINITIALIZATION OF LEC PRICE CAP PRODUCTIVITY FACTORS
TO INTERSTATE LEVELS**

ANNUAL TARIFF FILING	REINITIALIZE TO 9.30% (\$millions)
1995	(\$1,003)
1996	(\$639)
1997	(\$642)
1998*	(\$1,358)
TOTAL	(\$3,641)

NOTE: Reinitialization totals based on 1996 Base Year Revenues

* Assume 1998 Annual Filing made with specified X factor.