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March 24, 1998

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FEDERAL COMMUNICATIONS COMMISSION  
OFFICE OF THE SECRETARY

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

Re: Ex Parte Price Cap Performance Review for Local Exchange Carriers CC Docket 94-1

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 0+2  
List A B C D E

	Base Case	Plan 3 and 4 Qtr.	Qtr.
<b>S</b>			
	325	325	325
	25	25	25
	350	350	350
<b>A</b>	<b>rs:</b>		
	725	350	561
	725	350	561
<b>R</b>			
	(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** [REDACTED] 515

**PICCs** 30

**Universal Service**

USF Assessment - Switched\* 607

**Total Universal Service** [REDACTED] 607

**Net Switched** [REDACTED] 192

USF Assessment - Private Line\* 86

**Net Industry\*\*** [REDACTED] 278

\*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
<b>High Cost Fund</b>	434.1	431.1	434.1	434.1	1,733.4
<b>Low Income</b>	125.3	125.3	136.0	136.0	522.6
<b>Schools and Libraries</b>	300.0	325.0	625.0	625.0	1,875.0
<b>Rural Health Care Providers</b>	25.0	25.0	100.0	100.0	250.0
<b>Interstate only Assessment Rate</b>	<b>3.20%</b>	<b>3.15%</b>	<b>3.23%</b>	<b>3.23%</b>	
<b>Funding</b>	<b>559.4</b>	<b>556.4</b>	<b>570.1</b>	<b>570.1</b>	<b>2,256</b>
<b>Revenues</b>	<b>17,501</b>	<b>17,652</b>	<b>17,652</b>	<b>17,652</b>	<b>70,455</b>
<b>Total Rev. Assessment Rate</b>	<b>0.72%</b>	<b>0.76%</b>	<b>1.57%</b>	<b>1.57%</b>	
<b>Funding</b>	<b>325</b>	<b>350</b>	<b>725</b>	<b>725</b>	<b>2,125</b>
<b>Revenues</b>	<b>44,914</b>	<b>46,093</b>	<b>46,093</b>	<b>46,093</b>	<b>183,192</b>
<b>Interstate combined rate</b>	<b>3.92%</b>	<b>3.91%</b>	<b>4.80%</b>	<b>4.80%</b>	

(Millions)	1 Quarter	2 Quarter	3 Quarter	4 Quarter	Total
<b>Total of All Funds</b>	884.4	906.4	1,295.1	1,295.1	4,381.0
<b>IXC Assessment</b>	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** (681)

PICCs (33)

## Universal Service

USF Assessment - Switched\* 23

**Total Universal Service** 23

**Net Switched** (671)

USF Assessment - Private Line\* 3

**Net Industry\*\*** (683)

\*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
<b>High Cost Fund</b>	434.1	431.1	434.1	434.1	1,733.4
<b>Low Income</b>	125.3	125.3	125.3	125.3	501.2
<b>Schools and Libraries</b>	300.0	325.0	325.0	325.0	1,275.0
<b>Rural Health Care Providers</b>	25.0	25.0	25.0	25.0	100.0
<b>Interstate only Assessment Rate</b>	<b>3.20%</b>	<b>3.15%</b>	<b>3.17%</b>	<b>3.17%</b>	
<b>Funding</b>	<b>559.4</b>	<b>556.4</b>	<b>559.4</b>	<b>559.4</b>	<b>2,235</b>
<b>Revenues</b>	<b>17,501</b>	<b>17,652</b>	<b>17,652</b>	<b>17,652</b>	<b>70,455</b>
<b>Total Rev. Assessment Rate</b>	<b>0.72%</b>	<b>0.76%</b>	<b>0.76%</b>	<b>0.76%</b>	
<b>Funding</b>	<b>325</b>	<b>350</b>	<b>350</b>	<b>350</b>	<b>1,375</b>
<b>Revenues</b>	<b>44,914</b>	<b>46,093</b>	<b>46,093</b>	<b>46,093</b>	<b>183,192</b>
<b>Interstate combined rate</b>	<b>3.17%</b>	<b>3.17%</b>	<b>3.17%</b>	<b>3.17%</b>	

(Millions)	1 Quarter	2 Quarter	3 Quarter	4 Quarter	Total
<b>Total of All Funds</b>	884.4	906.4	909.4	909.4	3,609.6
<b>IXC Assessment</b>	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
<b>High Cost Fund</b>	434.1	431.1	434.1	434.1	1,733.4
<b>Low Income</b>	125.3	125.3	136.0	136.0	522.6
<b>Schools and Libraries</b>	300.0	325.0	461.4	461.4	1,547.7
<b>Rural Health Care Providers</b>	25.0	25.0	100.0	100.0	250.0
<b>Interstate only Assessment Rate</b>	<b>3.20%</b>	<b>3.15%</b>	<b>3.23%</b>	<b>3.23%</b>	
<b>Funding</b>	<b>559.4</b>	<b>556.4</b>	<b>570.1</b>	<b>570.1</b>	<b>2,256</b>
<b>Revenues</b>	<b>17,501</b>	<b>17,652</b>	<b>17,652</b>	<b>17,652</b>	<b>70,455</b>
<b>Total Rev. Assessment Rate</b>	<b>0.72%</b>	<b>0.76%</b>	<b>1.22%</b>	<b>1.22%</b>	
<b>Funding</b>	<b>325</b>	<b>350</b>	<b>561.3614</b>	<b>561.3614</b>	<b>1,798</b>
<b>Revenues</b>	<b>44,914</b>	<b>46,093</b>	<b>46,093</b>	<b>46,093</b>	<b>183,192</b>

(Millions)	1 Quarter	2 Quarter	3 Quarter	4 Quarter	Total
<b>Total of All Funds</b>	884.4	906.4	1,131.5	1,131.5	4,053.7
<b>IXC Assessment</b>	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
<b>High Cost Fund</b>	434.1	431.1	434.1	434.1	1,733.4
<b>Low Income</b>	125.3	125.3	125.3	125.3	501.2
<b>Schools and Libraries</b>	300.0	325.0	325.0	325.0	1,275.0
<b>Rural Health Care Providers</b>	25.0	25.0	25.0	25.0	100.0
<b>Interstate only Assessment Rate</b>	<b>3.20%</b>	<b>3.15%</b>	<b>3.17%</b>	<b>3.17%</b>	
<b>Funding</b>	<b>559.4</b>	<b>556.4</b>	<b>559.4</b>	<b>559.4</b>	<b>2,235</b>
<b>Revenues</b>	<b>17,501</b>	<b>17,652</b>	<b>17,652</b>	<b>17,652</b>	<b>70,455</b>
<b>Total Rev. Assessment Rate</b>	<b>0.72%</b>	<b>0.76%</b>	<b>0.76%</b>	<b>0.76%</b>	
<b>Funding</b>	<b>325</b>	<b>350</b>	<b>350</b>	<b>350</b>	<b>1,375</b>
<b>Revenues</b>	<b>44,914</b>	<b>46,093</b>	<b>46,093</b>	<b>46,093</b>	<b>183,192</b>

(Millions)	1 Quarter	2 Quarter	3 Quarter	4 Quarter	Total
<b>Total of All Funds</b>	884.4	906.4	909.4	909.4	3,609.6
<b>IXC Assessment</b>	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**

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

NOTE: Reinitialization totals based on 1996 Base Year Revenues

\* Assume 1998 Annual Filing made with specified X factor.