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April 23, 1998

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FEDERAL COMMUNICATIONS COMMISSION
OFFICE OF THE SECRETARY

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

RE: Ex Parte. Presentation - CC Docket No. 96-262

Dear Ms. Salas:

On April 22, 1998, representing the United States Telephone Association (USTA), Bob McDonnell (Bell Atlantic), Maureen Keenan (Bell Atlantic), Jay Bennett (SBC), and Frank McKennedy (USTA) met with Rich Lerner, Jay Atkinson, Rich Cameron and Chris Barnocaoff of the Commission's Common Carrier Bureau to discuss the USTA Petition for Reconsideration of the Order in this proceeding requiring local exchange carriers (LECs) to apply the price cap productivity factor to the exogenous cost adjustment for their Universal Service Fund (USF) obligations. (See USTA ex parte letters regarding this matter filed on April 2, April 14, and April 17, 1998.)

The USTA representatives discussed the price cap LEC position originally set forth in USTA's PFR seeking relief from the Commission's price cap rules which apply the price cap productivity factor against the USF exogenous cost factor . The effect on the price cap indices after application of the productivity factor does not allow the LECs an opportunity to fully recover these additional costs. Also discussed was the urgent need for action on the PFR because of the impending annual price cap tariff filing on June 15. USTA presented a method for the reversal of the prior years exogenous adjustment from the price cap formula for each year's annual tariff filing that would avoid the effects of the productivity factor and remove the effects of demand growth year to year. A copy of the illustrative work sheet used in this discussion is attached to this notice. USTA noted that in the example used, annual access revenues declined from 1997 to 1998 as calculated in the Tariff Review Plan that will be filed on June 15. This emulates actual situations that some LECs will experience in the upcoming filing.

USTA also discussed the comments filed in response to the SBC Petition for Waiver of these rules (Part 61.44-61.45) absent action by the Commission on the USTA PFR. USTA pointed out that the AT&T and MCI comments concluded that the LECs should be able to recover all of these costs but not a greater amount. USTA agrees. Its

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PFR included a price cap formula adjustment that allowed the introduction of the exogenous adjustment that avoided the productivity factor. MCI pointed out that USTA's proposed adjustment with a reversal of the prior year's exogenous adjustment would achieve the desired result. The reversal method proposed by USTA in this ex parte. would achieve the result that both AT&T and MCI have concluded should occur.

An original and two copies of this notice and the attachment are being filed with the Secretary of the Commission. Please include them in the record in this proceeding.

Respectfully,

Frank McKennedy
Director Legal & Regulatory Affairs

cc with attach:
Rich Lerner
Rich Cameron
Chris Barnacoff
Jay Atkinson

UNITED STATES TELEPHONE ASSOCIATION
ILLUSTRATIVE WORK SHEET -- REVERSAL OF PRIOR YEAR EXOGENOUS ADJUSTMENT FOR RECOVERY OF THE USF OBLIGATION

Line Item	Source	AMOUNT
1. 1998 Annual Filing R	TRP PCI-1	$ 2,850 million
2. 1997 Annual Filing R	Tariff Transmittal	$ 2,986 million
3. 1998 R value/1997 R value	Ln 1/Ln 2	0.9546
4. 1997 USF Exog. Adj.		$ 121 million
5. Reversal of Prior Year Adj.	Ln 4*Ln 3	$ 116 million