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MAY 20 1998

Memorandum of Ex Parte Communication

FEDERAL COMMUNICATIONS COMMISSION
OFFICE OF THE SECRETARY

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

Dear Ms. Salas:

Re: CCB/CPD 98 -19 / SBC Petition for Waiver
CC Docket No. 96 - 262 - Access Charge Reform
CC Docket No. 96 - 45 - Universal Service

On Tuesday, May 19, 1998, representatives of SBC met with Ms. Jane Jackson, Chief - Competitive Pricing Division, Mr. Rich Lerner, Deputy Chief - Competitive Pricing Division and Mr. Jim Schlichting, Deputy Chief - Common Carrier Bureau regarding the above-listed proceedings. Attending on behalf of SBC were Mr. Pat Doherty, District Manager - Federal Docket Management, Mr. Tom Pajda, Senior Counsel, and the undersigned. The attached materials were used during the meeting.

SBC's representatives stressed that the recovery of universal service contributions should not be subject to application of the price cap productivity factor and that contrary to the assertions of MCI and AT&T, demand growth is not sufficient to offset the impact of the productivity factor on SBC's universal service contributions. SBC believes there should be neither under-recovery nor over-recovery of universal service contributions and that as suggested in USTA's July 11, 1997 Petition for Reconsideration, the most efficient solution is to treat universal service contributions as being outside of price cap regulation. SBC requests that the Commission grant the waiver request in time for its implementation in the annual filings scheduled to become effective on July 1, 1998.

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We are submitting the original and one copy of this Memorandum to the Secretary in accordance with Section 1.1206(b)(2) of the Commission's rules.

Please stamp and return the provided copy to confirm your receipt. Please contact me at (202) 326-8889 should you have any questions.

Sincerely,

A handwritten signature in black ink that reads "Jay Bennett". The signature is written in a cursive style with a long, sweeping horizontal line extending from the end of the name.

cc: J. Jackson, R. Lerner, J. Schlichting (all w/o attachments)

Universal Service Fund Contributions

Productivity Factor Application

- USTA filed a PFR on July 11, 1997 asking for Universal Service contributions to be excluded from application against the productivity factor.
- SBC filed a Petition for Waiver to exclude contributions from this calculation in the 1998 Annual Access Tariff Filing. (March 18, 1998)
- SBC continues to support the concept that these contributions:
 - Should be collected and remitted on a dollar for dollar basis as a mere “pass through”.
 - The productivity calculation should not alter this pass through by shorting one side of the funds flow.
 - Overcollections of funds created by “growth” of billed units should be corrected.
 - This growth can be corrected in the process of calculating rates by forecasting future demand or
 - a much simpler and more accurate method would consist of billing USF contributions on a per line basis which would be trued up on a quarterly basis. Thus these contributions would be removed from the productivity calculation entirely.
- The amount of collections which are “shorted” by the productivity application are greater than the overcollections created by growth.
- Considering the increase in USF fund contributions in 1999 for schools, libraries, and rural health care, the impact of productivity applied to these increased contributions will grow significantly.
- SBC believes the guiding principle should be that the amounts collected for USF programs should be the same as the required contributions to these programs- no more no less.
- SBC requests expedited relief to incorporate this issue as suggested above into the July 1 rates.

SBC Companies
X Factor Universal Service Reductions Exceed Demand Growth
Annual Filing Estimate

<u>Line</u>	<u>Description</u>	<u>Source</u>	<u>Amount</u>
1	1997 Base Period MOU	Annual Filing	80,625,501,973
2	1997 Base Period Access Lines	Annual Filing	31,237,847
3	1996 Base Period MOU	Annual Filing	74,545,405,359
4	1996 Base Period Access Lines	Annual Filing	30,468,978
5	MOU Growth 1996 to 1997	Line 1/Line 3	1.0816
6	Line Growth 1996 to 1997	Line 2/Line 4	1.0252
7	PICC Revenues	USF Transmittal	371,249,696
8	MOU Revenues	USF Transmittal	22,134,585
9	Percent PICC Revenues	Line 7/(Line 7 + Line 8)	0.9437
10	Percent MOU Revenues	Line 8/(Line 7 + Line 8)	0.0563
11	Total Universal Service Amount in Common Line	USF Transmittal	259,702,803
12	Universal Service Amount associated with line data	Line 11 * Line 9	245,090,084
13	Universal Service Amount associated with MOU data	Line 11 * Line 10	14,612,719
14	USF associated with Line data adj. for line growth	Line 12 * Line 6	251,274,807
15	USF associated with Line data adj. for MOU growth	Line 13 * Line 5	15,804,566
16	New USF amount adjusted for growth	Line 14 + Line 15	267,079,373
17	Difference between Actual amount and Growth	Line 16 - Line 11	7,376,570
18	Common Line GDP-PI-X with R Unadjusted	Revenues * (GDPPI-X)	(86,041,747)
19	Common Line GDP-PI-X with "R" adjusted for USF	(Revenues-USF)*(GDPPI-X)	(74,404,832)
20	Impact of USF on GDPPI less X for Common Line	Line 18 - Line 19	(11,636,915)
21	SBC Impact	Line 17 + Line 20	<u>(4,260,346)</u>