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June 6, 1996

Mr. William F. Caton
Secretary
Federal Communications Commission
1919 M Street, N.W., Room 222
Washington, D.C. 20554

RE: Ex Parte Presentation
CC Docket No. 96-98
Implementation of the Local Competition
Provisions in the Telecommunications Act
of 1996

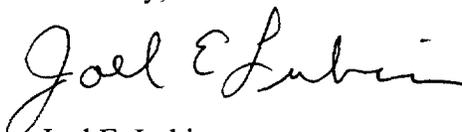
JUN 6 1996

Dear Mr. Caton:

At the request of the Commission, on Wednesday, June 5, 1996, Rich Clarke, Mark Lemler and I along with Michael Pelcovits of MCI met with Joseph Farrell, James Olson, Peyton Wynns, Thomas Koutsky and Doron Fertig of the Commission staff to review the Hatfield cost model that AT&T and MCI jointly submitted with their Comments and Reply Comments in CC Docket No. 96-98. At this meeting, AT&T also discussed the tool that it is developing to gauge quantitatively the need for, and impact of, various subsidy plans for local telephone service.

Due to the late hour of this meeting, two copies of this Notice and the illustrative materials presented at the meeting are being submitted on the following business day to the Secretary of the FCC in accordance with Section 1.1206(a)(2) of the Commission's rules.

Sincerely,


Joel E. Lubin

Attachment

cc: J. Farrell, J. Olson, P. Wynns,
T. Koutsky, D. Fertig
M. Pelcovits, MCI

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Hatfield Model - Version 2.2, Release 1

1. Models the TSLRICs of unbundled network elements

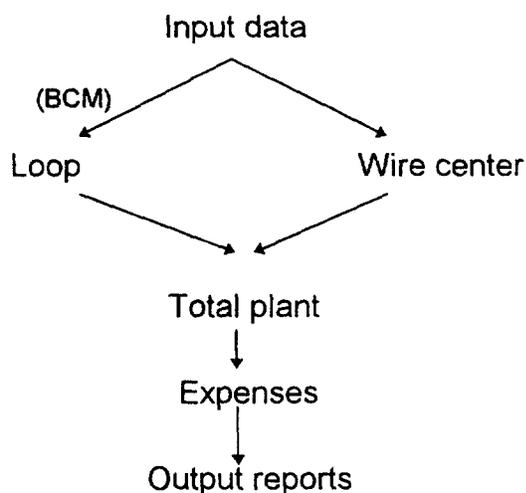
- TSLRIC
- Unbundled network elements
- Can also be adapted to provide other cost estimates

2. Assumed inputs

- Geographic/geological/demographic (U.S. Census Bureau by CBG)
- Current wire center locations (LERG)
- Current technologies (Industry studies)
- Current demands (ARMIS/NECA)
- Mostly modular costs

⇒ Yield conservative (high) estimates of TSLRIC

3. Structure of model



4. Illustrative outputs

5. Further work

COST OF NETWORK ELEMENTS Pennsylvania *BELL TEL CO OF PENNSYLVANIA - PA*

Loop elements	0 - 5 hh/mi2	5 - 200 hh/mi2	200 - 650 hh/mi2	650 - 850 hh/mi2	850 - 2550 hh/mi2	> 2550 hh/mi2	Totals
<i>Loop Distribution</i>							
Annual Cost	\$3,217,459	\$94,374,682	\$56,898,415	\$22,434,623	\$126,764,641	\$182,559,517	\$486,249,337
Unit Cost/month	\$40.03	\$12.50	\$7.86	\$6.81	\$6.31	\$5.42	\$6.76
<i>Loop Concentration</i>							
Annual Cost	\$769,827	\$32,759,651	\$22,219,188	\$7,426,147	\$28,175,649	\$12,341,831	\$103,692,292
Unit Cost/month	\$9.58	\$4.34	\$3.07	\$2.25	\$1.40	\$0.37	\$1.44
<i>Loop Feeder</i>							
Annual Cost	\$220,737	\$3,367,878	\$3,323,885	\$1,780,164	\$16,920,416	\$34,123,507	\$59,736,586
Unit Cost/month	\$2.75	\$0.45	\$0.46	\$0.54	\$0.84	\$1.01	\$0.83
<i>Total Loop</i>							
Annual Cost	\$4,208,023	\$130,502,211	\$82,441,489	\$31,640,933	\$171,860,705	\$229,024,854	\$649,678,215
Unit Cost/month	\$52.35	\$17.28	\$11.39	\$9.60	\$8.55	\$6.80	\$9.03
<i>Total lines</i>	6,699	629,204	603,123	274,603	1,674,787	2,807,903	5,996,319
<i>Lines served by Digital Loop Carrier</i>	6,689	608,273	406,502	134,063	497,670	194,111	1,847,307
	Annual Cost	Units		Unit Cost			
End office switching	\$278,569,495						
1. Port	\$83,570,849	5,698,063	Switched lines			\$1.22 per line/month	
2. Usage	\$194,998,647	96,590,859,329	Minutes			\$0.0020 per minute	
Signaling network elements	\$15,519,805						
1. Links	\$239,118	844	Links			\$23.61 per link/month	
2. STP	\$11,339,933	60,928,229,313	TCAP+ISUP messages			\$0.0002 per message	
3. SCP	\$3,940,755	4,149,662,600	TCAP messages			\$0.0009 per message	
Transport network elements							
1. Dedicated	\$165,018,411	706,637	Trunks			\$19.46 per DS-0 equivalent/month	
Switched	\$95,367,691	408,381	Trunks			\$0.0019 per minute	
Special	\$69,650,720	298,256	Trunks				
2. Common	\$10,312,378	6,871,604,339	Minutes			\$0.0015 per minute per leg (orig or term)	
3. Tandem switch	\$7,757,714	5,738,972,285	Minutes			\$0.0014 per minute	
Operator systems	\$6,458,358						
Total	\$1,072,773,533						
Total cost of switched network elements	\$15.08 per line/month						

Calculating the New Universal Service Fund

Tier 1 LECs

- ◆ Economic Subsidy
- ◆ Optional State Economic Subsidy
- ◆ Low Income Subsidy
- ◆ Recovery of Subsidy

Economic Subsidy (Tier 1)

= TSLRIC minus the higher of the Nationwide Affordable Rate or the Current Residence Basic Local Service Rate

Economic Subsidy
(Tier 1)

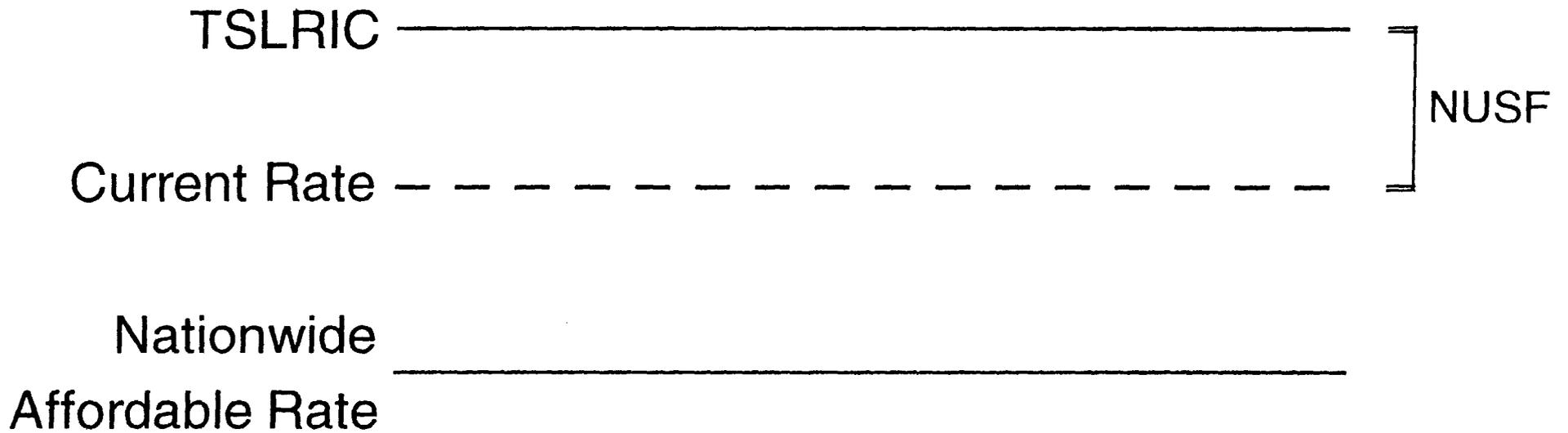
No subsidy

Current Rate - - - - -

TSLRIC _____

Economic Subsidy (Tier 1)

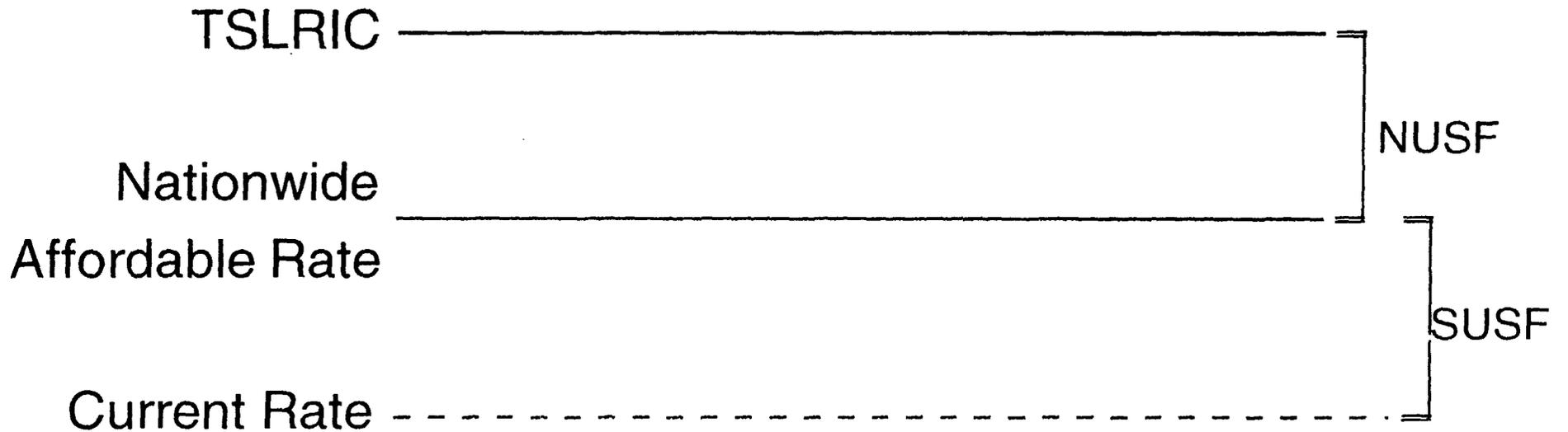
Subsidy



NUSF - Surcharge on Total Retail (State & Interstate) Service

Optional State Economic Subsidy (Tier 1)

= Nationwide Affordable Rate minus State
Commission specified Basic Local Service Rate



SUSF Funded Through Surcharge on State Services

INPUTS

ACCESS/UNIVERSAL SERVICE REFORM - VARIOUS SCENARIOS	
(ILLUSTRATIVE)	
SCENARIO	
TSLRIC (access reduced by economic subsidy)	
<u>ASSUMED VALUES</u>	
DELTA GNP-PI	0.00%
DELTA X (INTER) *	0.00%
DELTA X (INTRA)	0.00%
TSLRIC/AMOU	\$0.00468
RECOV MECH SWITCH =	0
Total Res Lns (M)	98.39
Total Bus Lns (M)	36.42
Primary Line Factor	1.11
Retail Revenues (\$M)	\$149,230
SLC Change/Mo	\$0.00
Cost of Capital	10.00%
Variable Overhead	10.00%
Tax Factor	40.00%
*Add to existing composite interstate X	

ACCESS/UNIVERSAL SERVICE REFORM - VARIOUS SCENARIOS (ILLUSTRATIVE)				
<u>SCENARIO</u> XXXXXX				
<u>ECONOMIC</u> <u>SUBSIDY</u> (\$M)	<u>NON TIER 1</u> <u>SUBSIDY</u> (\$M)	<u>LOW INCOME</u> <u>SUBSIDY</u> (\$M)	<u>OPTIONAL</u> <u>STATE</u> <u>SPECIFIC</u> <u>ECONOMIC</u> <u>SUBSIDY</u> (\$M)	<u>TOTAL</u> <u>SUBSIDY</u> (\$M)
\$X,XXX.XX (1)	\$X,XXX.XX	\$X,XXX.XX	\$X,XXX.XX (2)	\$X,XXX.XX
NATIONAL SUBSIDY RECOVERY MECHANISMS				
<u>RETAIL</u> <u>REVENUE</u> <u>SURCHARGE</u> (EU) X.XX%	<u>RETAIL-LOC</u> <u>REVENUE</u> <u>SURCHARGE</u> (EU) X.XX%	<u>RETAIL</u> <u>REVENUE</u> <u>SURCHARGE</u> (CARR) X.XX%	<u>RET - LOC</u> <u>REVENUE</u> <u>SCHG</u> (CARR) X.XX%	
OPTIONAL STATE SPECIFIC SUBSIDY RECOVERY MECHANISMS				
<u>RETAIL</u> <u>REVENUE</u> <u>SURCHARGE</u> (EU) X.XX%	<u>RETAIL-LOC</u> <u>REVENUE</u> <u>SURCHARGE</u> (EU) X.XX%	<u>RETAIL</u> <u>REVENUE</u> <u>SURCHARGE</u> (CARR) X.XX%	<u>RETAIL-LOC</u> <u>REVENUE</u> <u>SURCHARGE</u> (CARR) X.XX%	

ACCESS/UNIVERSAL SERVICE REFORM - VARIOUS SCENARIOS (ILLUSTRATIVE)				
<u>SCENARIO</u> XXXXXX				
<u>CURRENT ACCESS</u> <u>RATE</u>	<u>ACCESS</u> <u>TSLRIC</u>	<u>NEW ACCESS</u> <u>RATE</u>	<u>SYSTEM</u> <u>SHTFL</u> (\$M)	<u>SHORTFALL</u> <u>RECOVERY</u> /Line/Month
\$.XXXX	\$.XXXX	\$.XXXX	\$X,XXX.XX	\$X.XX
NATIONAL SUBSIDY RECOVERY MECHANISMS (INCLUDING SYSTEM SHORTFALL)				
<u>RETAIL</u> <u>REVENUE</u> <u>SURCHARGE</u> (EU) X.XX%		<u>RETAIL-LOC</u> <u>REVENUE</u> <u>SURCHARGE</u> (EU) X.XX%	<u>RETAIL</u> <u>REVENUE</u> <u>SURCHARGE</u> (CARR) X.XX%	<u>RET - LOC</u> <u>REVENUE</u> <u>SCHG</u> (CARR) X.XX%
NATIONAL SYSTEM SHORTFALL ONLY RECOVERY MECHANISMS				
<u>RETAIL</u> <u>REVENUE</u> <u>SURCHARGE</u> (EU) X.XX%		<u>RETAIL-LOC</u> <u>REVENUE</u> <u>SURCHARGE</u> (EU) X.XX%	<u>RETAIL</u> <u>REVENUE</u> <u>SURCHARGE</u> (CARR) X.XX%	<u>RET - LOC</u> <u>REVENUE</u> <u>SCHG</u> (CARR) X.XX%

ALL TIER 1

NETWORK GROUP/NETWORK ELEMENT SUMMARY - UNIT COST

Total Loop	End Office Switching		Signaling			Transport			Oper Sys
	Port	Usage	Link	SYP	SCP	Dedicated	Common	Tandem	Per Line-Mo
\$XX.XX	\$X.XX	\$0.002176	NA	\$XXXX	\$XXXX	\$XXXX	\$XXXX	\$XXXX	\$XXXX

Monthly Local Service TSLRIC							Access
0-5	6-200	201-650	651-850	851-2550	>2550	Total	TSLRIC
\$XX.XX	\$XX.XX	\$XX.XX	\$XX.XX	\$XX.XX	\$XX.XX	\$XX.XX	\$XXXX

Monthly Local Service Rate (incl SLC and Touch Tone)						
0-5	6-200	201-650	651-850	851-2550	>2550	Total
\$XX.XX	\$XX.XX	\$XX.XX	\$XX.XX	\$XX.XX	\$XX.XX	\$XX.XX

Subsidy By Density Zone based on Actual Rate						
0-5	6-200	201-650	651-850	851-2550	>2550	Total
\$XX,XXX,XXX	\$XX,XXX,XXX	\$XX,XXX,XXX	\$XX,XXX,XXX	\$XX,XXX,XXX	\$XX,XXX,XXX	\$XX,XXX,XXX
Primary Lines Receiving Subsidy by Density Zone						
X,XXX,XXX	X,XXX,XXX	X,XXX,XXX	X,XXX,XXX	X,XXX,XXX	X,XXX,XXX	X,XXX,XXX
Subsidy Per Primary Line Per Month By Density Zone based on Actual Rate						
\$XX.XX	\$XX.XX	\$XX.XX	\$XX.XX	\$XX.XX	\$XX.XX	\$XX.XX

(1) + (2)

National affordable Monthly Local Service Rate (incl SLC and Touch Tone)						
0-5	6-200	201-650	651-850	851-2550	>2550	Total
\$XX.XX	\$XX.XX	\$XX.XX	\$XX.XX	\$XX.XX	\$XX.XX	\$XX.XX

Subsidy By Density Zone based on National Affordable Rate						
0-5	6-200	201-650	651-850	851-2550	>2550	Total
\$XX,XXX,XXX	\$XX,XXX,XXX	\$XX,XXX,XXX	\$XX,XXX,XXX	\$XX,XXX,XXX	\$XX,XXX,XXX	\$XX,XXX,XXX
Primary Lines Receiving Subsidy by Density Zone						
X,XXX,XXX	X,XXX,XXX	X,XXX,XXX	X,XXX,XXX	X,XXX,XXX	X,XXX,XXX	X,XXX,XXX
Subsidy Per Primary Line Per Month By Density Zone based on National Affordable Rate						
\$XX.XX	\$XX.XX	\$XX.XX	\$XX.XX	\$XX.XX	\$XX.XX	\$XX.XX

(1)

Optional State Subsidy recovery By Density Zone						
0-5	6-200	201-650	651-850	851-2550	>2550	Total
\$XX,XXX,XXX	\$XX,XXX,XXX	\$XX,XXX,XXX	\$XX,XXX,XXX	\$XX,XXX,XXX	\$XX,XXX,XXX	\$XX,XXX,XXX
Primary Lines Receiving Subsidy by Density Zone						
X,XXX,XXX	X,XXX,XXX	X,XXX,XXX	X,XXX,XXX	X,XXX,XXX	X,XXX,XXX	X,XXX,XXX
Subsidy Per Primary Line Per Month By Density Zone based on National Affordable Rate						
\$XX.XX	\$XX.XX	\$XX.XX	\$XX.XX	\$XX.XX	\$XX.XX	\$XX.XX

(2)

Primary Line Factor=	X.XX	Cost of Capital=	XX.XX%
		Variable Overhead=	XX.XX%

STATE: XXXXXX										
NETWORK GROUP/NETWORK ELEMENT SUMMARY - UNIT COST										
Total Loop	End Office Switching		Signaling			Transport			Oper Sys	
	Port	Usage	Link	STP	SCP	Dedicated	Common	Tandem	/Line/Mo	
\$XX.XX	\$XX.XX	\$0.001732	NA	\$,XXXX	\$,XXXX	\$,XXXX	\$,XXXX	\$,XXXX	\$,XXXX	
Monthly Local Service TSLRIC							Access TSLRIC	Cost of Capital=		XX,XX%
0-5	6-200	201-650	651-850	851-2550	>2550	Total		Variable Overhead=		XX,XX%
\$XX.XX	\$XX.XX	\$XX.XX	\$XX.XX	\$XX.XX	\$XX.XX	\$XX.XX	\$,XXXX	Primary Line Factor=		X,XX
Monthly Local Service Rate (incl SLC and Touch Tone)										
0-5	6-200	201-650	651-850	851-2550	>2550	Total				
\$XX.XX	\$XX.XX	\$XX.XX	\$XX.XX	\$XX.XX	\$XX.XX	\$XX.XX				
Subsidy By Density Zone based on Actual Rate										
0-5	6-200	201-650	651-850	851-2550	>2550	Total				
\$X,XXX,XXX	\$X,XXX,XXX	\$X,XXX,XXX	\$X,XXX,XXX	\$X,XXX,XXX	\$X,XXX,XXX	\$X,XXX,XXX				
Primary Lines Receiving Subsidy by Density Zone										
X,XXX,XXX	X,XXX,XXX	X,XXX,XXX	X,XXX,XXX	X,XXX,XXX	X,XXX,XXX	X,XXX,XXX				
Subsidy Per Primary Line Per Month By Density Zone based on Actual Rate										
\$XX.XX	\$XX.XX	\$XX.XX	\$XX.XX	\$XX.XX	\$XX.XX	\$XX.XX				
National Affordable Monthly Local Service Rate (incl SLC and Touch Tone)										
0-5	6-200	201-650	651-850	851-2550	>2550	Total				
\$XX.XX	\$XX.XX	\$XX.XX	\$XX.XX	\$XX.XX	\$XX.XX	\$XX.XX				
Subsidy By Density Zone based on National Affordable Rate										
0-5	6-200	201-650	651-850	851-2550	>2550	Total				
\$X,XXX,XXX	\$X,XXX,XXX	\$X,XXX,XXX	\$X,XXX,XXX	\$X,XXX,XXX	\$X,XXX,XXX	\$X,XXX,XXX				
Primary Lines Receiving Subsidy by Density Zone										
X,XXX,XXX	X,XXX,XXX	X,XXX,XXX	X,XXX,XXX	X,XXX,XXX	X,XXX,XXX	X,XXX,XXX				
Subsidy Per Primary Line Per Month By Density Zone based on Actual Rate										
\$XX.XX	\$XX.XX	\$XX.XX	\$XX.XX	\$XX.XX	\$XX.XX	\$XX.XX				
Optional State Subsidy Recovery By Density Zone										
0-5	6-200	201-650	651-850	851-2550	>2550	Total				
\$X,XXX,XXX	\$X,XXX,XXX	\$X,XXX,XXX	\$X,XXX,XXX	\$X,XXX,XXX	\$X,XXX,XXX	\$X,XXX,XXX				
Primary Lines Receiving Subsidy by Density Zone										
X,XXX,XXX	X,XXX,XXX	X,XXX,XXX	X,XXX,XXX	X,XXX,XXX	X,XXX,XXX	X,XXX,XXX				
Subsidy Per Primary Line Per Month By Density Zone based on Actual Rate										
\$XX.XX	\$XX.XX	\$XX.XX	\$XX.XX	\$XX.XX	\$XX.XX	\$XX.XX				
State Economic Subsidy Recovery Mechanisms										
<u>RETAIL REVENUE SURCHARGE (EU)</u>	<u>RETAIL-LOC REVENUE SURCHARGE (EU)</u>		<u>RETAIL REVENUE SURCHARGE (CARR)</u>	<u>RETAIL-LOC REVENUE SURCHARGE (CARR)</u>						
X,XX1	X,XX1		X,XX1	X,XX1						