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OFFICE OF THE SECRETARY

Ex Parte

September 16, 1998

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

Re: CC Docket 96-45: Universal Service

Dear Ms. Salas:

Today, Chuck Goldfarb, and Michael Pelcovits of MCI WorldCom and Joe Miller of McDevitt and Miller, LLP (representing MCI WorldCom) met with Walter Bolter and Mark Long of the Florida Public Service Commission staff. The purpose of the meeting was to review MCI's position in this proceeding. The attached material was used during the meeting and details the topics discussed.

Please add this letter and the enclosed copy to the record of this proceeding.

Sincerely,

Leonard S. Sawicki

Leonard S. Sawicki

Attachment

cc: Mr. Bolter
Mr. Long

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UNIVERSAL SERVICE REFORM

MCI

Universal Service Cannot Be Fixed By Itself...

- It must be implemented in a fashion that fosters local competition.
- It must be implemented with dollar for dollar reductions in access charges.
- All parts must be based on forward-looking economic cost.

Principles

- The subsidy should be the **minimum** needed to meet the public-policy objective of affordability.
  - It should be **targeted to high-cost areas** in states.
  - It should be calculated by comparing the **forward-looking economic cost** of providing service to the per-line revenues that would be generated when rates for basic service are affordable (a nationwide affordability benchmark).
  - A small interstate fund does not yield a minimum subsidy if implicit subsidies are not reduced or if accompanied by an inflated intrastate fund.

Principles

- For every dollar of explicit subsidy collected, there must be a dollar **reduction in implicit subsidies** currently borne by the customers/providers paying into the new explicit fund.

- The funding mechanism should be implemented, and the subsidy dispersed, in a **competitively-neutral and administratively efficient fashion** consistent with the pro-competition provisions and spirit of the Telecommunications Act.

  - The mechanism should foster interconnection and access reform, e.g., by tying funding for non-rural LECs to the opening of local markets.

  - Providers should be allowed to recover Universal Service funds through end user charges.

MCI'S PROPOSAL

The MCI proposal for non-rural LECs provides one way to meet these sound public policy principles. It can be applied to any interstate fund, without regard to the percentage of Universal Service subsidy burden borne by the interstate jurisdiction.

- Determine the size of the interstate fund by comparing the affordability revenue benchmark to the forward-looking economic costs of providing service, calculated using the same cost zones as the state uses for setting deaveraged loop rates.

- Calculate the share borne by each interstate service provider by multiplying the total subsidy needed by the carrier's share of retail interstate revenues.

MCI'S PROPOSAL

- Do not allow the LECs to recover the assessment on their retail interstate services from their wholesale customers through the inclusion of these costs in access charges.

- Encourage all contributors to identify the Universal Service assessment on customer bills as a federal Universal Service fee.

- The dollar reduction in implicit interstate subsidies for every dollar collected by the explicit Universal Service fund would be accomplished in the following order:
  - Pay off the additional interstate revenue requirement allocation made under Rule 36.631
  - Reduce interstate access charges, starting with the CCLC, then, if needed, the PICC, and then, if needed, the local switching charge.

- Since national funding is from interstate revenues only, any state Universal Service fund must be imposed only on intrastate revenues.

Link Explicit USF Subsidies to Unbundled Loop Rate Deaverging

- Universal Service subsidy calculations should be tied to the degree of unbundled loop rate deaveraging in the ILEC's service area.
- This approach will create a virtuous cycle of pro-competitive action by giving ILECs and states the incentive to deaverage loop rates into zones that reflect underlying cost differences.
- Until loop rates are deaveraged, there is no compelling need for new explicit funding.
- Once loop rates are deaveraged, the presence of the new explicit funds will ensure that competition and support for high-cost areas go hand in hand, which is the best way to expand universal service.

Universal Service Calculation Sheet monthly costs per line

HAI Model

Texas

Southwestern Bell-Texas

	0 - 5 lines/sq mi	5 - 100 lines/sq mi	100 - 200 lines/sq mi	200 - 650 lines/sq mi	650 - 850 lines/sq mi	850 - 2,550 lines/sq mi	2,550 - 5,000 lines/sq mi	5,000 - 10,000 lines/sq mi	> 10,000 lines/sq mi	Weighted Average
Costs										
Loop	$ 129.37	$ 36.93	$ 19.23	$ 14.55	$ 11.99	$ 9.82	$ 8.18	$ 7.28	$ 5.13	$ 12.06
Other	$ 2.88	$ 2.88	$ 2.88	$ 2.88	$ 2.88	$ 2.88	$ 2.88	$ 2.88	$ 2.88	$ 2.88
Avg monthly cost per line	$ 132.25	$ 39.81	$ 22.11	$ 17.43	$ 14.87	$ 12.70	$ 11.06	$ 10.16	$ 5.13	$ 14.94
Revenue per month										
Residential	$ 31.00	$ 31.00	$ 31.00	$ 31.00	$ 31.00	$ 31.00	$ 31.00	$ 31.00	$ 31.00	$ 31.00
Business	$ 51.00	$ 51.00	$ 51.00	$ 51.00	$ 51.00	$ 51.00	$ 51.00	$ 51.00	$ 51.00	$ 51.00
Total switched lines	69,820	548,992	232,808	807,450	258,241	2,375,516	2,489,888	1,119,377	740,271	8,812,162
Residence lines	65,643	464,235	178,253	551,727	189,059	1,679,490	1,639,304	622,531	264,047	5,854,289
Business & Public lines	4,177	84,757	54,555	255,723	69,182	696,026	850,384	496,846	476,224	2,957,873
Total Annual Support	$ 73,138,425.00	$ 52,044,387.00								

Total support with deaveraging $ 125,180,812.00

Total support without deaveraging $ -

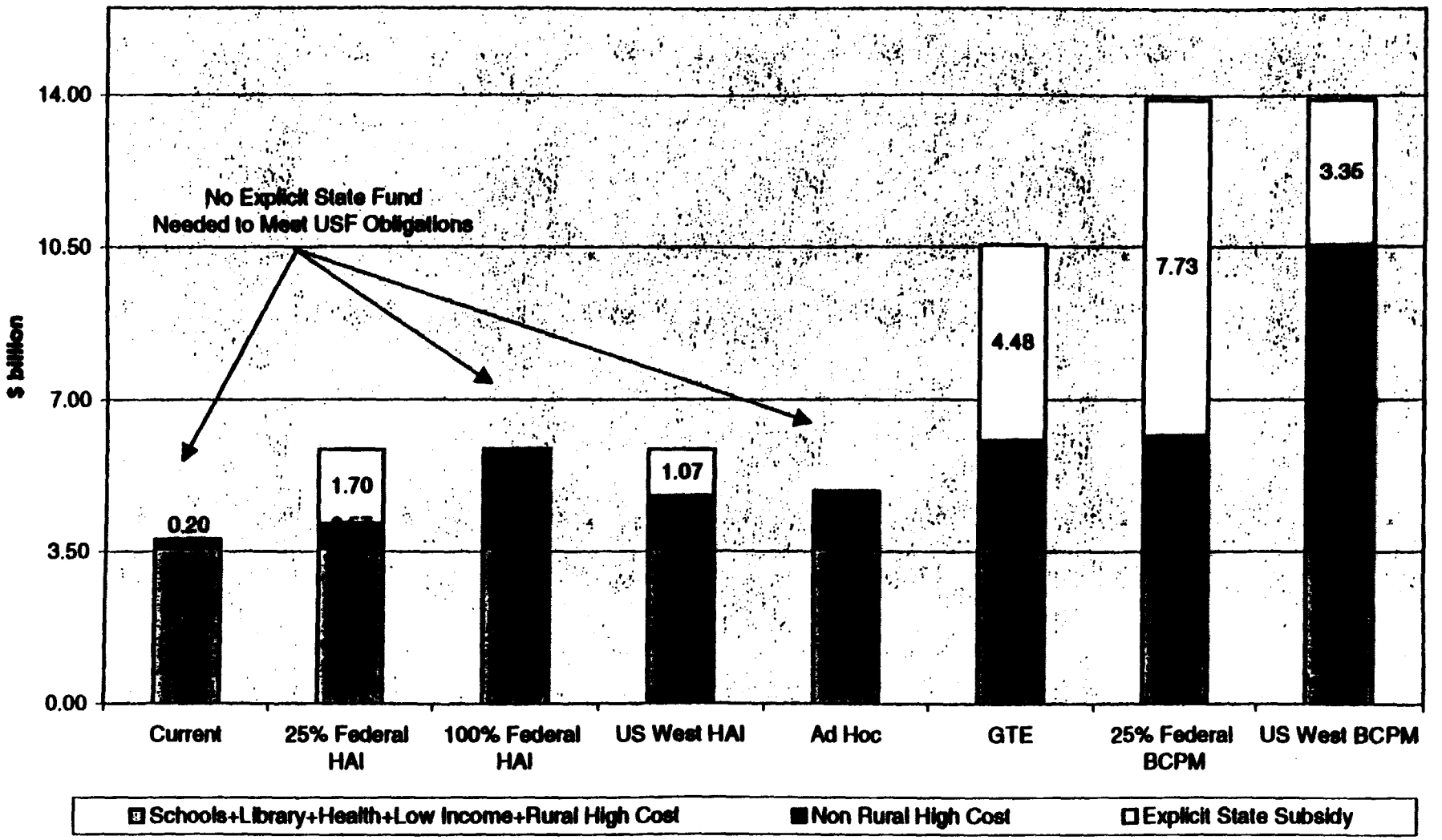
MCI

How the Various Universal Service Proposals Meet Sound Public Policy Principles

Principle	Proposal Meets the Principle	Proposal Does Not Meet the Principle	Proposal Does Not Address Principle
Subsidy is minimum needed to meet the public policy objective of affordability: small interstate fund does not yield minimum subsidy if implicit subsidies not reduced or if accompanied by inflated intrastate fund.	MCI, Ameritech, CFA	Ad Hoc, Arizona, BellSouth, GTE, Sprint, U S West	AT&T, Colorado, Time Warner
For every $ of explicit subsidy collected, $ reduction in implicit subsidies currently borne by those paying into the new explicit fund.	MCI, Ameritech, BellSouth, Sprint	Ad Hoc, Arizona, CFA, GTE, U S West	AT&T, Colorado, Time Warner
Funding burden imposed, and subsidy dispersed, in a competitively neutral and administratively efficient fashion.	MCI, Ameritech, CFA, GTE, Sprint	Ad Hoc, Colorado, Time Warner, U S West	Arizona, AT&T, BellSouth, CFA, Colorado
Consistent with pro-competition provisions and spirit of the Act — fosters interconnection and access reform: high cost Universal Service funding for non-rural LECs tied to opening of local markets.	MCI, AT&T	Ad Hoc, Arizona, BellSouth, CFA, Colorado, GTE, Sprint, U S West	Ameritech, Time Warner

Note: Many of the proposals submitted did not provide detail on how the funding burden would be imposed, how the subsidy would be dispersed, or other information needed to fully analyze whether the funding mechanism would be administratively efficient.

Explicit USF
Current USF Compared to USF Proposals
(Excludes Puerto Rico)



FLORIDA

	Explicit Federal Subsidy ($ million)	Change in Non Rural Receipts ($ million)
Current	22.40	0.00
25% Federal HAI	32.31	9.91
100% Federal HAI	67.17	44.77
USW HAI	42.79	20.39
Ad Hoc	76.65	54.25
GTE	160.69	138.29
25% Federal BCPM	88.47	66.06
USW BCPM	160.69	138.29

Texas

	Explicit Federal Subsidy ($ million)	Change in Non Rural Receipts ($ million)
Current	120.52	0.00
25% Federal HAI	149.52	29.00
100% Federal HAI	312.36	191.83
USW HAI	227.65	107.13
Ad Hoc	163.69	43.16
GTE	828.19	707.66
25% Federal BCPM	342.41	221.88
USW BCPM	828.19	707.66

Georgia

	Explicit Federal Subsidy ($ million)	Change in Non Rural Receipts ($ million)
Current	71.69	0.00
25% Federal HAI	72.33	0.64
100% Federal HAI	107.20	35.51
USW HAI	82.58	10.89
Ad Hoc	91.33	19.65
GTE	232.42	160.73
25% Federal BCPM	130.95	59.26
USW BCPM	232.42	160.73

Missouri

	Explicit Federal Subsidy ($ million)	Change in Non Rural Receipts ($ million)
Current	50.19	0.00
25% Federal HAI	70.98	20.79
100% Federal HAI	160.67	110.48
USW HAI	110.56	60.37
Ad Hoc	80.34	30.15
GTE	339.72	289.53
25% Federal BCPM	139.49	89.31
USW BCPM	339.72	289.53

South Dakota

	Explicit Federal Subsidy ($ million)	Change in Non Rural Receipts ($ million)
Current	18.55	0.00
25% Federal HAI	21.71	3.16
100% Federal HAI	31.18	12.63
USW HAI	27.55	9.00
Ad Hoc	21.10	2.55
GTE	73.80	55.25
25% Federal BCPM	34.35	15.80
USW BCPM	73.80	55.25

THE STATES' ISSUES

Q) Whether the FCC should take responsibility only for 25% of the high cost subsidy.

A) The fund could go above 25% if interstate access charges are reduced by the amount of explicit subsidy and federal funding is tied to competition.

Q) Whether federal universal service funds should reduce the cost of interstate access charges.

A) Interstate access charges should be reduced by the amount of the explicit subsidy.

- The FCC has found that part of interstate access charges support universal service. With the creation of an explicit subsidy, these implicit subsidies must be removed.
- Some rate must be reduced or else LECs would double-dip.
- Interstate rates must be reduced to prevent a separations change.
- Interstate rates should be reduced because customers of interstate services will be paying the explicit high cost fund amounts.

Q) What method should be used for formulating and distributing high cost funds among the States.

A) Under MCI's proposal, states would get, at a minimum, their current level of support. States could receive more support when loop rates are deaveraged.

THE STATES' ISSUES

Q) Whether and to what extent the FCC should have a role in making intrastate support systems explicit, and a referral of the section 254(k) issue concerning recovery of joint and common costs.

A) The Telecommunications Act requires universal service subsidies, in both the state and federal jurisdictions, to be explicit.

Q) The revenue base upon which the FCC should assess and recover providers' contributions for universal service.

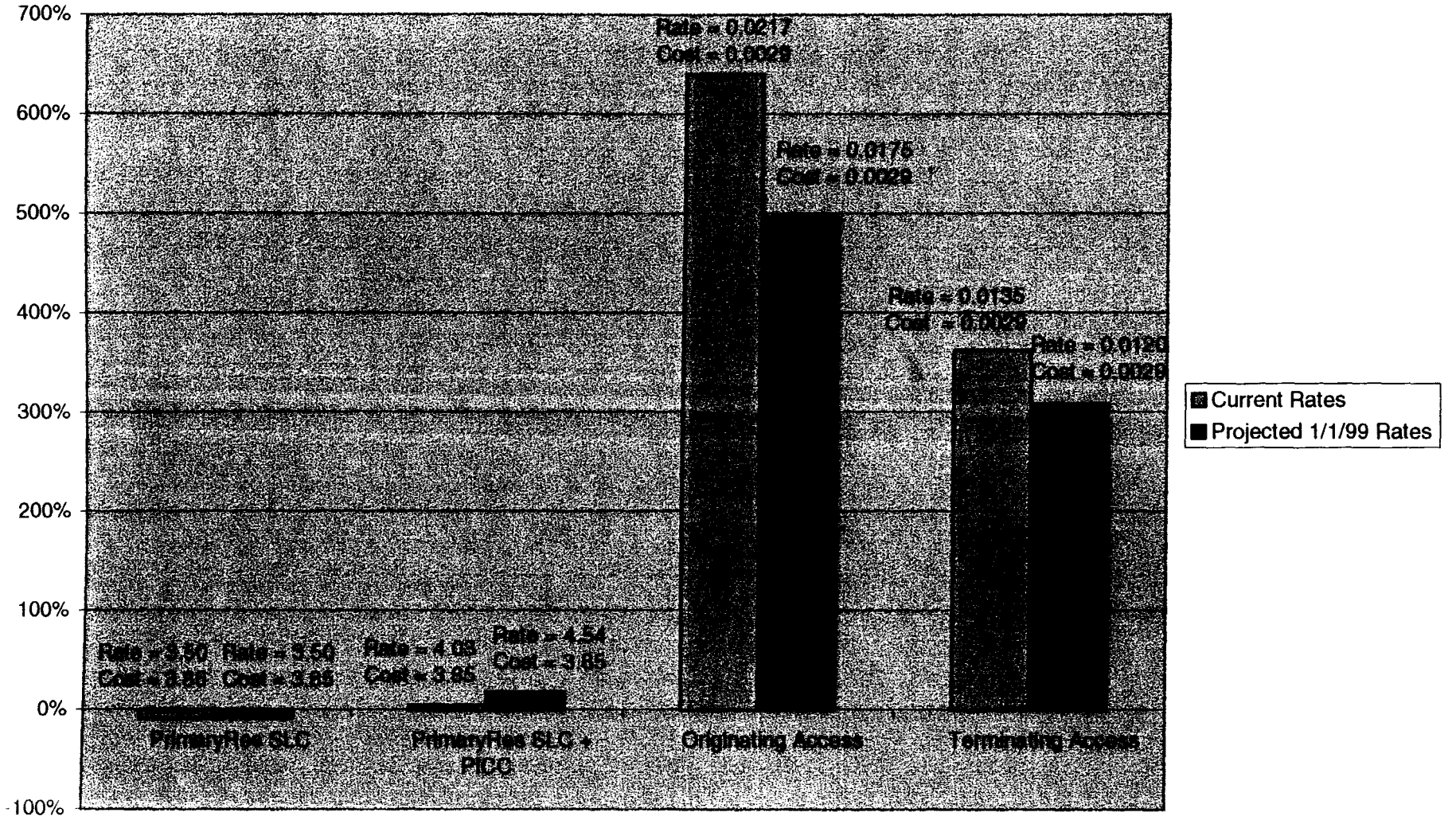
A) If the federal Fund is assessed on interstate and international revenues only, then state funds must be imposed only on intrastate revenues.

Q) Whether, to what extent, and in what manner providers should recover contributions to universal service through their rates.

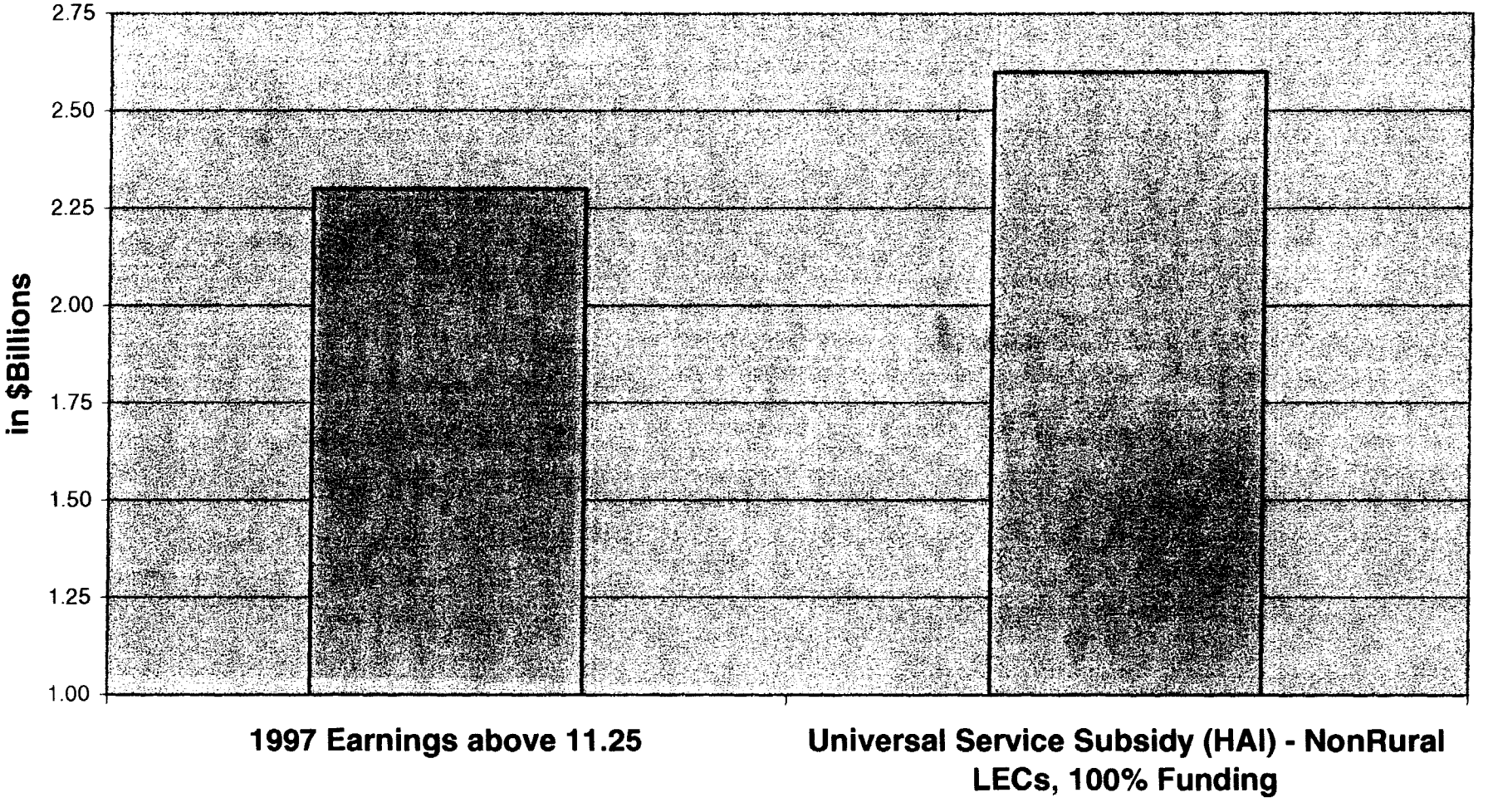
A) Providers are entitled to recover all of their universal service costs.

- Providers should recover universal service costs from their customers through explicit charges.
- Providers should recover universal service costs in the same manner as they are assessed.

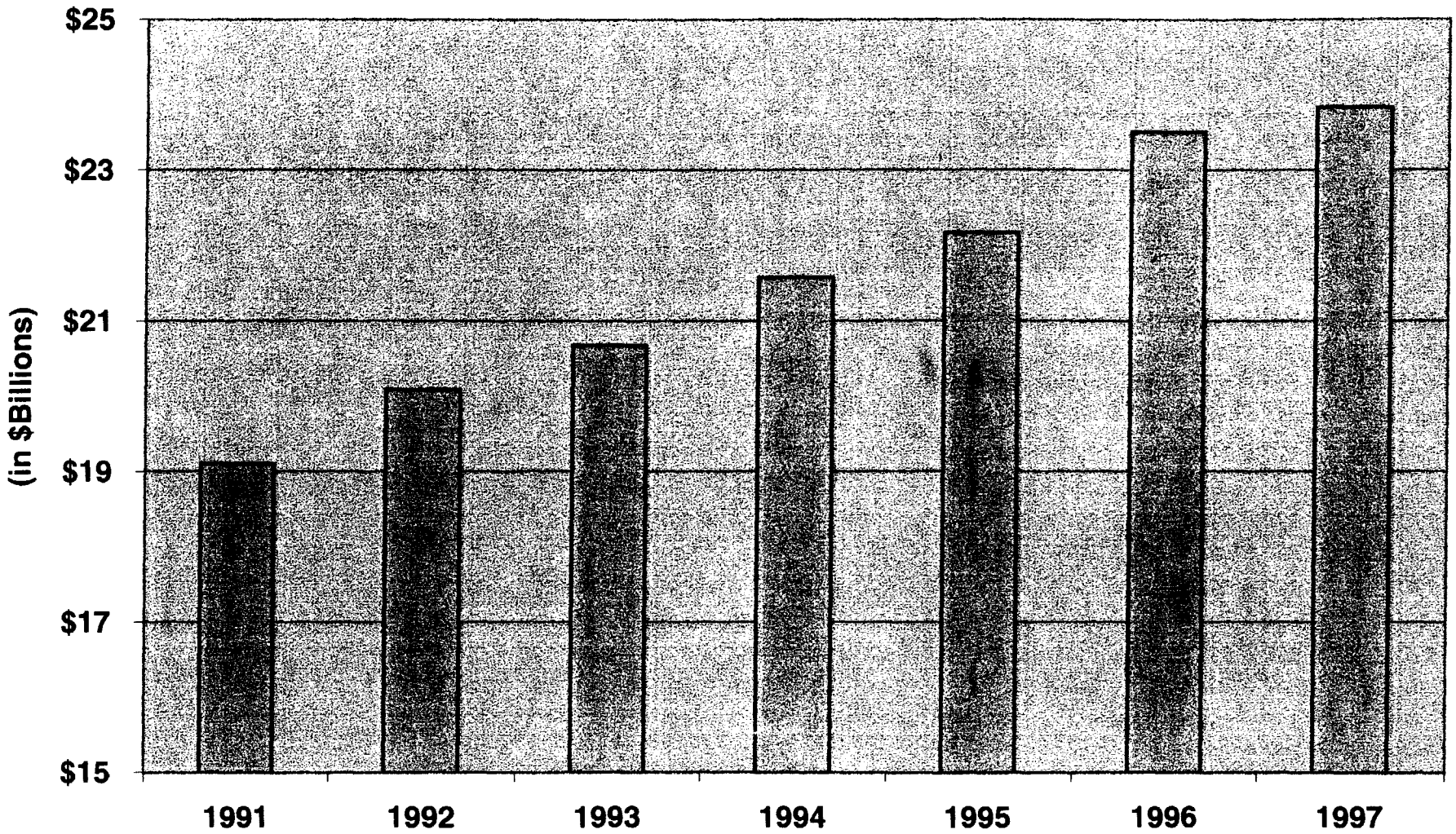
Percent By Which Rates Exceed Costs



COMPARISON OF LEC INTERSTATE EARNINGS AND UNIVERSAL SERVICE FUND SIZE



PRICE CAP LEC INTERSTATE REVENUES



Universal Service Calculation Sheet - monthly costs per line

Florida

Southern Bell-Fl

	0 - 5 lines/sq mi	5 - 100 lines/sq mi	100 - 200 lines/sq mi	200 - 650 lines/sq mi	650 - 850 lines/sq mi	850 - 2,550 lines/sq mi	2,550 - 5,000 lines/sq mi	5,000 - 10,000 lines/sq mi	> 10,000 lines/sq mi	Weighted Average
Local network costs										
Loop	$ 73.22	$ 29.66	$ 17.78	$ 14.29	$ 12.27	$ 10.03	$ 8.38	$ 7.39	$ 4.73	$ 10.80
Other	$ 4.23	$ 4.23	$ 4.23	$ 4.23	$ 4.23	$ 4.23	$ 4.23	$ 4.23	$ 4.23	$ 4.23
Avg monthly cost per line	$ 77.44	$ 33.89	$ 22.01	$ 18.52	$ 16.49	$ 14.26	$ 12.60	$ 11.61	$ 8.95	$ 15.02
Revenue per month										
Residential	$ 31.00	$ 31.00	$ 31.00	$ 31.00	$ 31.00	$ 31.00	$ 31.00	$ 31.00	$ 31.00	$ 31.00
Business	$ 51.00	$ 51.00	$ 51.00	$ 51.00	$ 51.00	$ 51.00	$ 51.00	$ 51.00	$ 51.00	$ 51.00
Total switched lines	13,073	289,766	195,486	598,007	223,937	1,654,151	1,598,799	963,578	272,086	5,808,883
Residence lines	9,320	238,517	149,587	461,557	172,392	1,197,986	1,095,669	612,081	108,193	4,045,301
Business & Public Lines	3,753	51,249	45,899	136,450	51,545	456,165	503,130	351,497	163,893	1,763,582
Total Annual Support	$ 4,921,600	$ 7,412,149	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ 12,333,748

Total Support with deaveraging $ 12,333,748

Total Support without deaveragin $

Universal Service Calculation Sheet - monthly costs per line

Florida

Central Tel Co Of Florida

	0 - 5 lines/sq mi	5 - 100 lines/sq mi	100 - 200 lines/sq mi	200 - 650 lines/sq mi	650 - 850 lines/sq mi	850 - 2,550 lines/sq mi	2,550 - 5,000 lines/sq mi	5,000 - 10,000 lines/sq mi	> 10,000 lines/sq mi	Weighted Average
Local network costs										
Loop	$ 121.20	$ 45.49	$ 19.97	$ 15.18	$ 15.17	$ 11.29	$ 8.93	$ 7.14	$ 4.98	$ 18.56
Other	$ 5.38	$ 5.38	$ 5.38	$ 5.38	$ 5.38	$ 5.38	$ 5.38	$ 5.38	$ 5.38	$ 5.38
Avg monthly cost per line	$ 126.58	$ 50.87	$ 25.35	$ 20.56	$ 20.55	$ 16.67	$ 14.31	$ 12.52	$ 10.36	$ 23.94
Revenue per month										
Residential	$ 31.00	$ 31.00	$ 31.00	$ 31.00	$ 31.00	$ 31.00	$ 31.00	$ 31.00	$ 31.00	$ 31.00
Business	$ 51.00	$ 51.00	$ 51.00	$ 51.00	$ 51.00	$ 51.00	$ 51.00	$ 51.00	$ 51.00	$ 51.00
Total switched lines	4,734	66,450	19,236	54,483	11,185	90,960	79,619	27,700	24,761	379,129
Residence lines	4,249	56,016	13,181	35,244	6,738	57,456	43,920	12,748	5,598	235,150
Business & Public Lines	485	10,434	6,055	19,239	4,447	33,504	35,700	14,952	19,163	143,979
Total Annual Support	$ 4,639,810	$ 12,323,135	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ 16,962,945

Total Support with deaveraging	$ 16,962,945
Total Support without deaveragin	$ -

Universal Service Calculation Sheet - monthly costs per line

Florida

United Tel Co Of Florida

	0 - 5 lines/sq mi	5 - 100 lines/sq mi	100 - 200 lines/sq mi	200 - 650 lines/sq mi	650 - 850 lines/sq mi	850 - 2,550 lines/sq mi	2,550 - 5,000 lines/sq mi	5,000 - 10,000 lines/sq mi	> 10,000 lines/sq mi	Weighted Average
Local network costs										
Loop	$ 102.32	$ 30.53	$ 19.56	$ 15.00	$ 11.78	$ 10.11	$ 7.67	$ 7.34	$ 4.24	$ 14.80
Other	$ 4.13	$ 4.13	$ 4.13	$ 4.13	$ 4.13	$ 4.13	$ 4.13	$ 4.13	$ 4.13	$ 4.13
Avg monthly cost per line	$ 106.45	$ 34.66	$ 23.69	$ 19.13	$ 15.91	$ 14.24	$ 11.80	$ 11.47	$ 8.37	$ 18.93
Revenue per month										
Residential	$ 31.00	$ 31.00	$ 31.00	$ 31.00	$ 31.00	$ 31.00	$ 31.00	$ 31.00	$ 31.00	$ 31.00
Business	$ 51.00	$ 51.00	$ 51.00	$ 51.00	$ 51.00	$ 51.00	$ 51.00	$ 51.00	$ 51.00	$ 51.00
Total switched lines	13,359	171,327	119,471	295,615	80,316	493,690	187,927	52,855	18,952	1,433,512
Residence lines	11,802	140,966	97,640	227,220	59,535	367,513	111,028	29,644	5,400	1,050,749
Business & Public Lines	1,557	30,361	21,831	68,395	20,781	126,177	76,898	23,211	13,553	382,763
Total Annual Support	$ 10,128,091	$ 5,631,525	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ 15,759,615

Total Support with deaveraging	$ 15,759,615
Total Support without deaveragin	$ -

Universal Service Calculation Sheet - monthly costs per line

Florida

Gte Floridainc

	0 - 5 lines/sq mi	5 - 100 lines/sq mi	100 - 200 lines/sq mi	200 - 650 lines/sq mi	650 - 850 lines/sq mi	850 - 2,550 lines/sq mi	2,550 - 5,000 lines/sq mi	5,000 - 10,000 lines/sq mi	> 10,000 lines/sq mi	Weighted Average
Local network costs										
Loop	$ 106.66	$ 25.84	$ 15.58	$ 13.57	$ 10.89	$ 9.63	$ 8.25	$ 6.97	$ 4.05	$ 10.55
Other	$ 4.38	$ 4.38	$ 4.38	$ 4.38	$ 4.38	$ 4.38	$ 4.38	$ 4.38	$ 4.38	$ 4.38
Avg monthly cost per line	$ 111.04	$ 30.22	$ 19.96	$ 17.95	$ 15.28	$ 14.01	$ 12.63	$ 11.35	$ 8.43	$ 14.93
Revenue per month										
Residential	$ 31.00	$ 31.00	$ 31.00	$ 31.00	$ 31.00	$ 31.00	$ 31.00	$ 31.00	$ 31.00	$ 31.00
Business	$ 51.00	$ 51.00	$ 51.00	$ 51.00	$ 51.00	$ 51.00	$ 51.00	$ 51.00	$ 51.00	$ 51.00
Total switched lines	2,250	94,047	80,550	291,576	87,209	674,193	653,452	167,709	38,660	2,089,645
Residence lines	1,940	76,181	67,326	225,711	67,133	501,953	468,332	99,253	11,713	1,519,541
Business & Public Lines	310	17,866	13,223	65,866	20,075	172,240	185,120	68,457	26,947	570,104
Total Annual Support	$ 1,740,457	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ 1,740,457

Total Support with deaveraging	$ 1,740,457
Total Support without deaveragin	$ -