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October 22, 1998

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

Re: Ex parte - CC Docket No. 96-45 and No. 97-160, Universal Service; CC Docket No. 96-262, Access Reform

Dear Ms. Salas:

On October 21, 1998, at the request of Commissioner Harold Furchtgott-Roth, Joel Lubin and I of AT&T met with the Commissioner and Kevin Martin, Legal Advisor. We discussed the questions referred to the Federal/ State Joint Board and the cost proxy models. The attachment was used by AT&T as the basis for our discussion.

Two copies of this Notice are being submitted to the Secretary of the Commission in accordance with Section 1.1206(a)(2) of the Commission's rules.

Very truly yours,

Bruce Cox /lm

cc: H. Furchtgott-Roth
K. Martin

JOINT BOARD REFERRAL QUESTIONS

1. **An appropriate methodology for determining support amounts, including a method for distributing support among the states and, if applicable, the share of total support to be provided by federal mechanisms. If the Commission were to maintain the current 25/75 division as a baseline, the Commission also requests the Joint Board's recommendation on the circumstances under which a state or carrier would qualify to receive more than 25 percent from the federal support mechanisms.**

   AT&T Position:
   - FCC's proposed methodology for determining high cost support for non-rural carriers based on FLEC is correct.

   - The 25/75 division of responsibility between the federal support mechanism and state responsibility is appropriate.

   - However, federal support levels should be determined at the study area rather than the wire center. This amount is sufficient to meet the needs of non-rural carriers that truly need high cost support. Major non-rural LECs (RBOCs, GTE, SNET) should not receive *any* high cost support. They have sufficient size and scope to deal with their own high cost serving areas.

   - If the Commission is intent on ensuring that no non-major, non-rural carrier is harmed by the 25/75 division, it can do so by providing federal support at the larger of the amount determined by the FLEC methodology and the current federal high cost fund, i.e., the so-called "hold harmless" view.

2. **The extent to which federal universal service support should be applied to the intrastate jurisdiction. In its recommendation on this issue, the Commission requests the Joint Board's recommendation on the following topics:**

   a) To the extent that federal universal service reform removes subsidies that are currently implicit in interstate access charges, whether interstate access charges should be reduced concomitantly to reflect this transition from implicit to explicit support, and whether other approaches would be consistent with the statutory goal of making federal universal service support explicit. The Commission also requests a recommendation

on how it can avoid "windfalls" to carriers if federal funds are applied to the intrastate jurisdiction before states reform intrastate rate structures and support mechanisms.

AT&T Position:

- The intent of the new federal universal service support mechanism is to *replace* the implicit support currently provided implicitly from interstate access charges with an explicit fund.

- By the same token, the Commission should account for the fact that the first $341 million of federal high cost support for non-rural LECs (USF and LTS) has *already* been removed from interstate access charges when these programs were consolidated into the new USF on 1/1/98. Only the *incremental* federal support, as determined by the new federal support mechanisms, needs to be offset by reductions to interstate access charges.

- The Commission should align the Part 36 Rules with the Part 54 Rules to implement this intent.

b) Whether and to what extent federal universal service policy should support state efforts to make intrastate support mechanisms explicit. The Commission recognizes that section 254(k) envisions separate state and federal measures related to the recovery of joint and common costs, but nevertheless welcomes the Joint Board's input on how section 254(k) may relate to the Commission's role in making intrastate support systems explicit.

AT&T Position:

- The Commission's FLEC methodology includes the recovery of joint and common costs associated with the provision of universal service in high cost areas. The 25/75 division meets the Section 254(k) requirements.

- Whereas Section 254(e) requires the FCC to create an explicit federal fund, Section 254(f) permits, but does not require, the states to create state funds. The creation of explicit intrastate support mechanisms is solely within the province of the states.

c) The relationship between the jurisdiction to which funds are applied and the appropriate revenue base upon which the Commission should assess and recover providers' universal service contributions and, if support for federal mechanisms continues to be collected solely in

the interstate jurisdiction, whether the application of federal support to costs incurred in the intrastate jurisdiction would create or further implicit subsidies, barriers to entry, a lack of competitive neutrality, or other undesirable economic consequences.

AT&T Position:

- The 25/75 division of the Commission's FLEC methodology defines the federal portion of high cost support mechanisms.

- That federal portion should be supported by an explicit federal fund, funded by interstate revenues. The determined amount should be used to replace the support currently obtained implicitly through interstate access charges.

- This approach avoids all questions regarding jurisdictional responsibility, and can be readily operationalized consistent with the Part 36 Rules.

3. **To what extent, and in what manner, is it reasonable for providers to recover universal service contributions through rates, surcharges, or other means.**

AT&T Position:

- AT&T has long advocated that universal service obligations be funded by mandatory end user surcharges, whether per-line or percent surcharge. This is the most competitively neutral method of supporting universal service.

- As long as carriers have the obligation of contributing to the support of universal service, they must have the discretion of how to recover those obligations.

*Universal Service Annual Support Requirements @ FCC Benchmarks of $31 and $51 **

"FCC Unified" Input Values

	Non-Rural Carriers	*Rural Carriers*	*All Carriers*
Current HCF	*$341,190,868*	*$1,382,391,256*	*$1,723,582,124*
Study Area	$738,976,441	$2,826,858,146	$3,565,834,587
Larger Between Study Area and Current			
	$930,544,655	$2,961,512,211	$3,892,056,866
Serving Wire Center	$2,874,520,878	$2,900,573,563	$5,775,094,441
Larger Between Serving Wire Center and Current			
	$3,001,984,764	$3,028,206,325	$6,030,191,089
Percent Lines Density <100	*9.3*	*53.8*	
Percent Lines Density < 650	*23.7*	*79.0*	

***Supporting all Residence and Business Lines Using FCC Unified Inputs**

These results are prior to any jurisdictional allocation (eg. 25/75 division)

*Universal Service Annual Support Requirements @ FCC Benchmarks of $31 and $51 **

"HAI Default Input Values"

	Non-Rural Carriers	*Rural Carriers*	*All Carriers*
Current HCF	*$341,190,868*	*$1,382,391,256*	*$1,723,582,124*
Study Area	**$175,156,311**	**$1,887,827,800**	**$2,062,984,111**
Larger Between Study Area and Current			
	$433,629,226	*$2,127,910,186*	*$2,561,539,412*
Serving Wire Center	**$2,118,501,710**	**$2,161,648,347**	**$4,280,150,057**
Larger Between Serving Wire Center and Current			
	$2,262,938,034	*$2,343,095,590*	*$4,606,033,624*
Percent Lines Density <100	*9.3*	*53.8*	
Percent Lines Density < 650	*23.7*	*79.0*	

***Supporting all Residence and Business Lines Using HAI Default Input Values**

These results are prior to any jurisdional allocation (eg. 25/75 division)