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June 11, 1999

Magalie Roman Salas
Secretary
Federal Communications Commission
445 12th Street, S.W.
Washington, D.C. 20554

Re: Ex Parte Statement
Direct Access to the INTELSAT System
IB Docket No. 98-192/

RECEIVED

JUN 11 1999

FEDERAL COMMUNICATIONS COMMISSION
OFFICE OF THE SECRETARY

Dear Ms. Salas:

At the request of the International Bureau, COMSAT Corporation ("COMSAT") hereby submits the attached ex parte statement in the above-referenced proceeding. The statement provides further data and explanatory material in support of the Signatory surcharge that would be necessary in the event that the Commission were to adopt "Level 3" direct access. COMSAT requests that the attached statement be made part of the record in this proceeding.

Respectfully submitted,

Keith H. Fagan

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THE NEED FOR A DIRECT ACCESS SURCHARGE

INTRODUCTION

The Commission's Notice of Proposed Rulemaking in this proceeding ("NPRM") requested comment on what surcharge, if any, would be appropriate to compensate COMSAT Corporation ("COMSAT") for the costs it would continue to incur in connection with its statutorily-mandated role as U.S. Signatory to INTELSAT *if* the Commission were to adopt Level 3 direct access. While COMSAT believes that only Congress can alter or modify its status as the exclusive U.S. provider of INTELSAT capacity, COMSAT addressed the NPRM's inquiries relating to a Level 3 surcharge in its comments and reply comments. In particular, COMSAT's opening comments included an affidavit and supporting exhibits prepared by its Director of Financial Planning and Analysis, Theodore W. Boll ("Boll affidavit"), as well as a comprehensive economic analysis supporting COMSAT's arguments. This analysis was prepared by The Brattle Group under the direction of Professors Jerry Green and Hendrik Houthakker of Harvard University.

The staff of the International Bureau has requested COMSAT to provide additional data and explanatory material in connection with the surcharge issue. Most, but not all, of these requests related to the Boll affidavit. Accordingly, COMSAT is submitting the following *ex parte* statement to reemphasize several key points of its position and to respond to the staff's specific questions.

A surcharge is necessary. The first point is that a surcharge would be legally required under any Level 3 direct access regime. Even assuming for the sake of argument that direct access is lawful (which it is not), there is no dispute that the Satellite Act makes COMSAT the sole U.S. Signatory to INTELSAT and requires it to carry out certain Signatory functions, including investing in the INTELSAT system. 47 U.S.C. §§ 701(c), 735(a)(1). Moreover, the Act directed that COMSAT be created as a corporation "for profit." 47 U.S.C. § 731.

The INTELSAT Utilization Charge ("IUC") that users would pay under a direct access regime does not cover COMSAT's Signatory costs, and does not allow COMSAT even an opportunity to realize a compensatory return on its INTELSAT investment. Thus, any FCC decision directing COMSAT to implement INTELSAT's Level 3 direct access program in the United States would have to provide for a surcharge that would prevent direct access users from free-riding on COMSAT facilities and allow COMSAT to be justly compensated for investing in INTELSAT and for performing its other statutory functions. Failure to adopt such a surcharge would be contrary to the Satellite Act, and would also be an unlawful government taking of private property without just compensation.

Thus, as a starting point, it is irrelevant that some other Signatories like British Telecom do not collect a surcharge. Other Signatories are not subject to the Satellite Act, but COMSAT is. Moreover, as COMSAT demonstrated in its comments, it is not valid to compare COMSAT to foreign Signatories whose structures and markets are organized differently than in the United States. These companies are generally dominant or monopoly national telephone carriers. They are vertically integrated into local and long distance telecommunications services, and they are

horizontally integrated by having ownership interests in competing fiber optic cable systems, as well as other satellite systems.

Unlike COMSAT, which offers the capacity it owns on the INTELSAT system primarily to the U.S. carriers that would become direct access users, foreign Signatories use INTELSAT to supply their own needs for capacity used in their own telecommunications businesses. Therefore, allowing direct access in other countries has, at most, only a marginal economic impact on the Signatory. Moreover, to the extent cost recovery is an issue, the record in this proceeding suggests that these foreign Signatories simply allocate their INTELSAT costs and investment obligations (which are far smaller than COMSAT's in any event) to non-INTELSAT services and customers.

Developing an adequate surcharge is a complex task. The second point is that a surcharge would have to be fully compensatory for the time period in question (e.g., the year 2000), and that past history may be an inadequate guide in determining what a future surcharge should be. COMSAT demonstrated in its comments what an adequate surcharge for investing in INTELSAT would have been if direct access were in effect in 1997 and what an additional surcharge might have been for performing other Signatory functions under direct access in 1998. However, COMSAT's submission did not attempt to show what an adequate surcharge would be in the year 2000. In order to make that determination, more analysis would be needed.

Direct access is being overtaken by privatization. The third point is that a strong consensus now exists that INTELSAT must be privatized, and the schedule for privatization has

accelerated since the NPRM was released. This means that attempting to change the arrangements for access to INTELSAT while it is still a cooperative has become a costly distraction. Any Level 3 direct access regime is likely to be of even shorter duration than COMSAT predicted only six months ago. It now appears likely that INTELSAT will be privatized some time in 2001, so direct access to the intergovernmental organization, even theoretically, could be in effect for only 12-18 months.

Given the complexities and inevitable challenges related to determining an appropriate surcharge level, and the shrinking amount of time during which such a surcharge would be at all relevant, one questions, now more than ever, whether this is a productive use of FCC (and COMSAT) resources. Perhaps most importantly, any claimed benefits arising from 12-18 months of direct access must be balanced against the issues raised by allowing INTELSAT to enter into contracts with U.S. direct access users while it is still fully immune from U.S. law and regulation.

With that as background, we will review our previous submission and explain some of the issues involved in extrapolating from that data to determine a compensatory surcharge.

RETURN ON INTELSAT INVESTMENT

INTELSAT is a cooperative, and cooperatives do not earn commercial profits. Therefore, the central concern raised by direct access is how COMSAT would be compensated for its investment in INTELSAT. The first part of the showing in the Boll affidavit was an estimate of the surcharge that would have been necessary to give COMSAT a compensatory

return on its investment if direct access had been in effect in 1997. This element of the surcharge is critical to compensating COMSAT for its investments in the international cooperative, which it is compelled to make by law. Simply put, the government cannot require COMSAT to invest in INTELSAT and not allow it an opportunity to earn a just return.

Demonstrating the shortfall. The starting point for our calculation was the INTELSAT return. In our example, we used the actual INTELSAT financial data for 1997. The next step was to convert the INTELSAT return, which is reported on a pre-tax equity basis, to an after-tax return on average net assets. The effect of this conversion was to demonstrate that, if Level 3 direct access had been in effect in 1997, and COMSAT had been forced to accept a return on investment based on the IUC alone, that return would have been just 9.14% after taxes. (See Exhibits 1 and 2 of the affidavit.)

The next step in our illustration was to compare the 1997 INTELSAT return to COMSAT's FCC-allowed rate of return for that year. That part of the calculation was straightforward. Since COMSAT was allowed to earn up to 12.48%, the shortfall that would have resulted from limiting COMSAT to an IUC-generated return was the difference between 9.14% and 12.48%, and the investment-related portion of the surcharge -- 18.22% -- was the portion that would have been necessary to raise COMSAT's return to an allowed 12.48%. Combining this 18.22% investment surcharge with a 10.44% cost recovery surcharge (discussed in the next section) resulted in a total surcharge of 28.67%. (See Exhibit 1.)

The final step in our illustration was to compare the 1997 INTELSAT return of 9.14% to the 1997 weighted average return on net assets for price cap regulated carriers, which was 15.64% (see Exhibit 3 of the affidavit). Again, the shortfall was the difference between the two returns; the investment-related portion of the surcharge -- in this case 35.44% -- was the portion that would have been necessary to raise COMSAT's return to the level of the price cap carriers' average weighted return; and the total surcharge -- in this case 45.88% -- was the sum of the 35.44% investment surcharge and the 10.44% cost recovery surcharge.

Ascertaining the correct return for future years. To make such a calculation based on historical data was relatively simple -- but going forward, the ingredients for calculating a straightforward surcharge are lacking. First, the INTELSAT return under the IUC mechanism varies from year to year, and 1997 was one of only two years in which the adjusted INTELSAT return exceeded 9%. The actual return for 1998 was only 8.72%, and over the past six years, this return has averaged only 8.48%.

Second, it is unclear going forward what the appropriate benchmark for a just return should be. In our illustration, we used the weighted average return of U.S. carriers subject to price cap regulation -- but again, the comparison we made was historical (see Exhibits 2 and 3 of the affidavit). We have no way of knowing what returns those carriers will be earning next year. However, we do know that the trend in this regard has been steadily upward. In fact, FCC data indicate that, over the past six years, the average weighted return for price cap carriers has increased every year, from 11.78% in 1993 to 15.94% in 1998.

In Exhibit A attached hereto, we have updated the calculation of INTELSAT's return and the surcharge necessary to meet the weighted average return of the price cap companies for 1998. In the Boll affidavit this calculation was shown in Exhibit 3 for 1997, the most recent year for which data was available at the time.

The gap between INTELSAT's return and the price cap companies' weighted average return, after tax on average net assets, has widened. INTELSAT's return fell from 9.14% in 1997 to 8.72% in 1998. The price cap companies' return rose from 15.64% in 1997 (now restated by the FCC as 15.60%) to 15.94% in 1998. As Exhibit A shows, the increase in INTELSAT operating revenue that would have been required to meet the weighted average return has increased from \$340.75 million to \$353.68 million.

This exercise makes another point. If the surcharge is applied as a mark-up to the INTELSAT utilization charge, then the percentage will vary based on the total IUC payments that direct access users make. The surcharge *percentage* in Exhibit A for 1998 is actually less than that in Exhibit 3 of the affidavit, namely 34.66% vs. 35.44%. (See Exhibit B attached.) The reason is that INTELSAT's total IUC receipts have increased and the surcharge *amount* is recovered over a larger base.

Assuming that COMSAT would be entitled to receive surcharge payments on a monthly basis, which is how customers make their service payments to COMSAT now, then the percentage would have to be based on an estimate of direct access users' IUC payments for the coming year. That estimate introduces another layer of complexity and of potential error. On

the other hand, if COMSAT were compensated only at year-end (or later), then the surcharge would need to increase to account for the cost of money and the added difficulty of collecting payments after the fact.

MCI WorldCom's comment. MCI WorldCom stated in its reply comments that the relevant return to consider is the pre-tax return on COMSAT's INTELSAT investment, not INTELSAT's own return on its assets. This argument completely overlooks the fact that INTELSAT is a cost-sharing cooperative, not a limited liability corporation. Return on assets is important because, when INTELSAT takes on debt, the Signatories underwrite that debt in proportion to their ownership and are jointly liable for its repayment, unlike investors in a corporation. That is why COMSAT carries its ownership share of INTELSAT's debt on its own books.

Further, the FCC reports the rate of return for price cap (and non-price cap) companies on the basis of average net assets, after tax (see Exhibit 2 of the affidavit). So, to make the comparison with INTELSAT's return, it was necessary to convert it to the same basis. Not surprisingly, MCI WorldCom did not comment on the *results* of the comparison with these two groups of companies, which ranked INTELSAT near the very bottom of both lists.

RECOVERY OF SIGNATORY COSTS

In addition to its investment in INTELSAT, COMSAT carries assets on its books that are an integral part of its INTELSAT business. COMSAT also incurs expenses in carrying out its Signatory functions. Hence, the second part of COMSAT's showing (Exhibit 4 of the Boll

affidavit) was an illustrative estimate using 1998 data of the Signatory costs not reflected in the IUC for which COMSAT should be compensated under Level 3 direct access. In our illustration, these costs resulted in an additional surcharge of 10.44%.

Satellite insurance. The amount COMSAT included in the asset base for the Signatory function, \$31 million, consisted largely of capitalized insurance premiums (\$30.7 million), which COMSAT paid for insurance that INTELSAT decided not to acquire. INTELSAT, as a cooperative, is ambivalent about insurance and tends to underinsure its launches; in fact, several launches were not insured at all by INTELSAT. The reason for this practice is that INTELSAT does not raise equity in the capital market, and therefore need not manage investment risk in the same way that commercial companies do.

Since spacecraft represent huge investments, commercial practice is to insure them against launch failure and malfunction in orbit. Insurance thus is a necessary cost of doing business for commercial satellite companies -- and that cost, of course, is reflected in their price of service to customers. However, that is not the case for INTELSAT, which is designed to serve users who are also its owners and from whom it obtains its capital. From INTELSAT's standpoint, a failure merely results in an additional capital call. The owner-users internalize the risk of launch and spacecraft failures; they bear the risk of failure, not INTELSAT. The loss of a satellite is borne by the cooperative members in their role as owners, and it is up to each of them to insure against this loss.

The owners may decide to obtain insurance collectively through the cooperative if the premiums are more favorable, but whether or not they do, they will either have to incur the cost of insurance or pay for replacement satellites out of their own pockets. Some Signatories may in fact self-insure. However, because COMSAT has a much larger investment in INTELSAT than any other Signatory (both in absolute terms and relative to its overall size), it is less able than other Signatories to self-insure to cover the large cost of a satellite failure. Therefore, it has been COMSAT's consistent practice to purchase insurance to the extent that INTELSAT itself does not do so.

When INTELSAT purchases insurance, that cost is reflected in the IUC, but the IUC obviously does not reflect the cost of COMSAT's own insurance, or of COMSAT's exposure, if it were to buy none. Thus, absent a surcharge, U.S. direct access customers who benefit from this coverage would get a free ride on COMSAT's insurance -- or alternatively, they would avoid paying for the cost of failures if COMSAT did not insure. Either way, COMSAT would not be compensated for its costs and, in effect, would be subsidizing direct access customers, many of whom are COMSAT's competitors. The only way to ensure fair cost recovery and prevent subsidization would be to include the costs of COMSAT's insurance in a surcharge.

Exhibit C attached hereto shows the breakdown of the insurance premiums for INTELSAT satellites, based on various sources and involving some estimation. The depreciation is straight-line and the depreciation lives are shown in Exhibit D, also attached hereto.

Headquarters Account. The remaining net asset amount reflected in Exhibit 4 of the Boll affidavit is related to the headquarters building. The items included in the headquarters account are computer equipment, software, communications equipment, etc., but not the physical building itself. (The building is leased by COMSAT, and the portion of the lease cost allocated to Signatory functions is reflected in operating expenses.) Of the total account balance, 25% (\$330,000) was allocated to the Signatory function, based on the expectation (discussed below under "Signatory Operating Costs") that significant staffing would still be required to carry out statutorily-mandated Signatory activities under a Level 3 direct access regime.

The staff has asked how the 16.5% allocation of home office headquarters costs to COMSAT's INTELSAT operations reported in the 3rd quarter 901 filing relates to the 25% figure in Exhibit 4. The 16.5% is an allocation of corporate property to COMSAT World Systems and is unrelated to the allocation of the CWS Bethesda HQ property account to the Signatory function.

Taxes. The staff has also asked what COMSAT's corporate tax rate has been for the last three years. The tax rate used in Exhibit 4 was an incremental tax rate, i.e., the rate to be applied to incremental revenue. That is the proper rate to use for pricing calculations. The actual tax rate paid will vary based on credits and adjustments, of which there were some significant ones in recent years. Exhibit E of this statement shows the incremental tax rates for the last three years and the effective tax rates as adjusted. The incremental tax rate for 1998 was 37.31%. The tax rate used in Exhibit 4 was 39% and was an estimate obtained from the corporate tax

department at the time of preparation. This difference has a very small impact both on the surcharge and on the INTELSAT after-tax rate of return we calculated.

Signatory operating costs. The staff has asked COMSAT to provide additional detail with respect to the "Estimated Signatory Function Expenses" shown in Exhibit 4 of the Boll affidavit. The approach used was to review, department by department, the activities included in the Signatory role that are not directly related to the provision of service to customers, and then to allocate a portion of the department's operating cost based on the percentage of time employees were expected to devote to these Signatory functions under Level 3 direct access. The estimate was based on a hypothetical "steady state" after customers were allowed to take service directly from INTELSAT. Thus, for example, additional costs relating to INTELSAT privatization were *not* included in COMSAT's original submission.

We reviewed the actual expenses by department as of November 1998 and annualized them. A share of each department's cost was allocated to Signatory activities based on that department's functions. Prior to the Signatory allocation, floor space and other general overhead items were allocated to each department by head count. Professional service contracts were excluded.

Service-related costs that COMSAT would avoid under Level 3 direct access -- such as sales, service development, customer technical support, contracts and purchasing -- were also excluded. However, it should be noted that users ultimately would *not* avoid bearing these costs, since they would not be eliminated but would merely be shifted to others. That, of course, is

precisely why the FCC found no savings from direct access the first time it was rejected. As the Court of Appeals noted, "[d]irect access probably would not reduce any of these costs; it would, rather, simply redistribute the costs among COMSAT and the carriers." *Western Union International, Inc. v. FCC*, 804 F.2d 1280, 1285 (D.C. Cir. 1986).

The Signatory functions identified were as follows. First, COMSAT would continue to attend, and prepare for, all INTELSAT meetings, including those of the Budget and Finance Committee, Planning Committee, Technical Committee, Broadcast and Video Working Group, Board of Governors, Meeting of Signatories, and Assembly of Parties.

Second, COMSAT would continue to incur costs as a result of the U.S. government's instructional process. These costs include the time that COMSAT employees spend in working with the U.S. government on INTELSAT agenda items, preparing for and holding U.S. government briefings, responding to government information requests, distributing INTELSAT documents, and conducting the quarterly public briefings that COMSAT is required to hold pursuant to the Commission's information flow procedures.

Third, COMSAT would continue to perform Signatory functions designed to protect its investment in INTELSAT and to ensure that U.S. users are not saddled with excessive INTELSAT costs. Toward this end, COMSAT would monitor and review INTELSAT activities and proposals, such as satellite and launch procurements. COMSAT could not retreat into the role of a passive investor as long as INTELSAT is a cooperative and COMSAT is forced to

invest in it. The Satellite Act's requirement that COMSAT invest in INTELSAT implies that it be allowed to manage that investment, which gives rise to costs.

Fourth, COMSAT would continue to represent the interests of U.S. carriers and users within INTELSAT. Even under a Level 3 direct access regime, COMSAT would still have a statutory obligation to ensure equitable and non-discriminatory access to the INTELSAT system. Moreover, as the NPRM recognizes, Level 3 direct access users would be customers of INTELSAT, but would not be members of the Board of Governors nor of any of INTELSAT's committees. Accordingly, COMSAT would continue to engage in certain Signatory activities related to INTELSAT's provision of service.

For example, INTELSAT has a number of procedures for assigning space segment capacity to users; there are procedures relating to different services (e.g., IDR, IBS), different types of reservations (e.g., first right of refusal vs. guaranteed reservations) and different levels of priority (e.g., preemptible vs. non-preemptible). These procedures have been the subject of proposed changes, some of which have been implemented and some of which were in time reversed again. As U.S. Signatory, COMSAT would continue to participate in shaping such procedures by reviewing proposals, formulating positions, and advocating these positions in the appropriate fora.

Finally, COMSAT would continue to observe the implementation of these procedures from the standpoint of U.S. access to and use of capacity, and monitor any changes to them. For example, it would continue to review INTELSAT's operations to determine whether INTELSAT

was reserving capacity allotments as agreed in operations meetings for specific applications, or whether it was actually managing preemptible and non-preemptible capacity in the manner set forth in its policies and procedures.

We included the entire cost (in 1998) of the INTELSAT Affairs department (\$1.35 million), and allocated \$1.7 million in operating costs from all other departments. The total amount allocated -- \$3 million -- represented only 11% of COMSAT's total departmental operating costs, as estimated last November for the full year of 1998.

The estimate is not definitive. It bears repeating, however, that our analysis was based on a hypothetical "steady state" extrapolated from 1998 data. Thus, we did *not* include any extraordinary cost items in our estimate. The effect of this was to understate the surcharge that would actually be required if direct access were adopted. For example, promoting INTELSAT's pro-competitive privatization -- as the U.S. government requires in specific instructions to COMSAT -- is an enormous (and growing) Signatory effort, involving outside legal and investment banking support, as well as substantial participation by senior corporate management. Based on our experience with Inmarsat privatization, COMSAT's own costs to pursue INTELSAT privatization in conjunction with the U.S. government (as distinct from costs incurred by INTELSAT) could easily exceed \$3 million in the year 2000. This alone would more than double the amount shown in Exhibit 4 for operating expenses, and thereby increase this component of the surcharge from 10.44% to at least 12.38%.

Moreover, our estimate did not include any cost items associated with administering the surcharge itself. Direct access users would order, obtain, and pay for their services without COMSAT's involvement, so it is difficult to see how COMSAT could enforce the payment of a surcharge. Accordingly, Exhibit 4 treated the surcharge not as a commercial price, but rather as a mandatory government levy prescribed by the FCC to be paid to COMSAT by direct access users. However, if that assumption were incorrect, and COMSAT were expected to bear the risk of recovering the surcharge, it would incur extraordinary costs for collection, as well as for litigation and/or writing off bad debt. Those costs would also have to be added to the surcharge that we estimated for Signatory expenses. The amount of the surcharge in Exhibit 4 of the Boll affidavit is \$16 million. If costs of \$1 million for extraordinary collections efforts and related legal fees were added and 5% of the charges had to be written off, the surcharge amount would rise to \$17.84 million, which (by itself) would increase the surcharge percentage from 10.44% to 11.53%.

Treating the surcharge as a government levy rather than a commercial price also affects its tax treatment, and hence the level of the surcharge itself. Exhibit 4 assumed that the levy would be designed to cover the Signatory operating cost and capital cost (depreciation plus return requirement) and to generate taxable income to be paid by COMSAT at the applicable corporate tax rate. It also assumed that the levy itself would not be taxed, because that would be akin to taxing postage stamps. Under that assumption, COMSAT would owe the government $\$3.87\text{M} \times 39\% = \1.51M , which is what we showed in Exhibit 4. However, if the IRS viewed the Signatory surcharge as a commercial price, and therefore applied a corporate income tax to

the entire surcharge (rather than just the return component), then COMSAT would owe the government substantially more than \$1.51M:

$$\$3.87\text{M (after-tax allowed return)}/(1-.39) = \$6.34 \text{ M (pretax allowed return)}$$

$$\$6.34 \text{ M} \times 39\% \text{ (tax rate)} = \$2.47 \text{ M tax}$$

If this tax treatment were applied, the surcharge percentage would need to be higher than 10.44%, namely 11.07%, in order to achieve the same compensation for COMSAT. And if all three of these factors (privatization costs, collection costs and unfavorable tax treatment) were present, this component of the surcharge would need to be at least 14.17% in order to achieve the same compensation for COMSAT.

Finally, it should be noted that, even after a surcharge has been set, it could not be left fixed. The only way to ensure a compensatory surcharge would be to adjust it on an annual basis -- e.g., to adjust the surcharge in year 2 to compensate for any excess (or, more likely, shortfall) in year 1. This would involve a tremendous outlay of resources, which would make such a scheme undesirable in any event. But under the circumstances (i.e., with INTELSAT privatization on the horizon), such a scheme would be not just undesirable but impossible, because the surcharge will likely be in effect for little more than a year. Thus, there will be no year 2 in which to compensate for year 1.

CONCLUSION

Establishing a compensatory direct access surcharge would require the Commission to decide a number of legal and policy issues, but there is very little time either to implement a surcharge scheme or for the alleged benefits of direct access to be realized by consumers. The progress being made on INTELSAT's privatization is rendering these issues moot. Privatization will result in true economic direct access. Moreover, COMSAT's Signatory role, which gives rise to the need for a surcharge and its attendant regulatory regime, will expire with privatization. Finally, the merit of the surcharge concept is undermined by the Commission's own findings of competitive market conditions and its deregulation of COMSAT. For all these reasons, the Commission should abandon any effort to impose direct access and should, instead, focus its resources and personnel on obtaining the pro-competitive privatization of INTELSAT as quickly as possible.

Rate of Return Calculation for INTELSAT - 1998
(\$000)

	1998 *	Revenue Increase	1998 after Adj.
Telecommunications Revenue	\$ 1,020,431	\$ 353,680	\$ 1,374,111
Operating Expenses			
Operations and Development	143,462		143,462
General and Administrative	27,794		27,794
Depreciation	459,782		459,782
Total Operating Expense	<u>\$ 631,038</u>		<u>\$ 631,038</u>
Operating Income	389,393	353,680	743,073
Tax Expense (see Tax Calculation below)	128,643		266,578
Operating Income After Tax	<u>\$ 260,750</u>		<u>\$ 476,495</u>
Comm. Plant and Other Property	1998 \$ 2,702,566 1997 \$ 3,276,045		
Avg. Comm. Plant and Other Property	\$ 2,989,306		\$ 2,989,306
After Tax Rate of Return on Communications Plant and Other Property	8.72%		15.94%

Tax Calculation

	1998 *	Adj.	Adj. 1998
Telecommunications Revenue	\$ 1,020,431	\$ 353,680	\$ 1,374,111
Total Operating Expense	631,038		631,038
Operating Income	<u>389,393</u>		<u>743,073</u>
Interest Expense	(59,540)		(59,540)
Pre-Tax Income	<u>329,853</u>		<u>683,533</u>
Tax Rate	39%	39%	39%
Tax Expense (Pre-Tax Income times Tax Rate)	<u>\$ 128,643</u>	<u>\$ 137,935</u>	<u>\$ 266,578</u>

* Data are from the 1998 INTELSAT Annual Report

**Estimated Mark Up Required for Average Return
Including Signatory Function
(1998)**

1998 Rate of Return - as calculated from INTELSAT Annual Report	8.72%
Weighted Avg. Price-Capped Rate of Return for 1998 (from FCC Report*)	15.94%
Increase Required for INTELSAT to Match Avg. Price Capped	<u>7.22%</u>
INTELSAT Avg Comm Plant and Equipment (1998)	2,989,306
Increase in Rate of Return required	<u>7.22%</u>
Increase in Operating Revenue required to Obtain Avg Return	215,745
Increase in Revenue Required to Obtain Avg Return	215,745
Current Tax Rate	<u>39%</u>
Required Pre Tax Increase in Revenue to Obtain Avg After Tax Return	353,680
1997 INTELSAT Telecommunication Revenue	1,020,431
Increase in Operating Revenue required to Obtain Avg Return	<u>353,680</u>
Total Revenue Required	1,374,111
Markup Increase Required for Additional Revenue	34.66%

* The Rate of Return Calculation performed by the FCC includes a Weighted Average Return Calculation.

COMSAT World Systems' Satellite Insurance

Satellite	Launch Date	CWS Insurance Premiums (\$M)				Estimated Cost of Insuring the Premiums (Incl. in Total)
		Share of INTELSAT	Launch	Post-Sep.	Total	
601	Oct-91	\$ -				
602	Oct-89	\$ -				
603	Mar-90	\$ -	Accurate data by satellite not available.			
603 Reboost	May-92	\$ -				
604	Jun-90	\$ -				
605	Aug-91	\$ -				
6 series total		\$ -			\$ 54.800	\$ 7.976
ISK	Jun-92	\$ -	\$ 7.525	\$ 1.475	\$ 9.000	\$ 1.299
701	Oct-93	\$ 4.191	\$ 0.712	\$ 0.422	\$ 5.325	\$ 0.468
702	Jun-94	\$ 4.218	\$ 0.712	\$ 0.422	\$ 5.352	\$ 0.471
703	Oct-94	\$ 4.605	\$ 0.888	\$ 0.422	\$ 5.915	\$ 0.622
704	Jan-95	\$ 4.621	\$ 0.888	\$ 0.422	\$ 5.931	\$ 0.624
705	Mar-95	\$ 4.406	\$ 0.888	\$ 0.422	\$ 5.716	\$ 0.601
706	May-95	\$ 4.910	\$ 1.041	\$ 0.645	\$ 6.596	\$ 0.548
707	Mar-96	\$ 5.010	\$ 1.173	\$ 0.645	\$ 6.828	\$ 0.638
709	Jun-96	\$ 2.894	\$ 0.611	\$ 0.645	\$ 4.150	\$ 0.369
801	Mar-97	\$ 4.831	\$ 0.514	\$ 0.809	\$ 6.154	\$ 0.811
802	Jun-97	\$ 5.029	\$ 0.526	\$ 0.471	\$ 6.026	\$ 0.794
803	Sep-97	\$ 2.495	\$ -	\$ -	\$ 2.495	\$ 0.318
804	Dec-97	\$ 2.549	\$ -	\$ -	\$ 2.549	\$ 0.325
805	Jun-98	\$ 6.103	\$ -	\$ -	\$ 6.103	\$ 0.778
806	Feb-98	\$ 3.087	\$ 0.309	(Combined)	\$ 3.396	\$ 0.269

COMSAT's accounting system does not track launch and spacecraft insurance premiums according to the categories requested. Data on the share of INTELSAT's insurance premiums is based on INTELSAT documents and communications with INTELSAT. COMSAT's ownership share applied to INTELSAT's total premiums is as of March 1 of each year. The other data shown is based on various sources, including records of wire transfers, company correspondence, and estimates.

Depreciation Schedule For Insurance

Spacecraft	Depreciable Life
VI Series	10 Years
VII Series	11 Years
VIIA Series	11 Years
VIII Series	11 Years
IS-K	10 Years

Note:

VI Series and VIII Series insurance both have multiple accounts with some subaccounts having different lives. The term shown above is the blended average rate for the series.

EFFECTIVE AND INCREMENTAL TAX RATES

	1996	1997	1998
Effective Tax Rate (Fed. & State)	39.54%	36.67%	25.95%
Incremental Tax Rate (Fed. & State)	36.68%	36.68%	37.31%

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AFFIDAVIT OF THEODORE W. BOLL

I am director, Financial Planning and Analysis, for COMSAT Satellite Services, a division of COMSAT Corporation. I have been employed by COMSAT since 1982 and have been the director responsible for rate and tariff matters involving COMSAT's INTELSAT business since 1987.

In December 1998, I prepared and executed an affidavit which, along with certain related exhibits, was submitted as an attachment to COMSAT's comments in the FCC's direct access proceeding, IB Docket No. 98-192. Those materials were based on work done by me or at my direction.

Since then, I and other COMSAT personnel have received various inquiries from the FCC staff relating to the information contained in those materials. In response to those inquiries, COMSAT has prepared a document entitled "The Need for a Direct Access Surcharge," which is being submitted to the FCC contemporaneously with this affidavit. I have read, and helped to prepare, that document.

I declare under penalty of perjury that the statements contained in this affidavit, and in the document entitled "The Need for a Direct Access Surcharge," are true and correct to the best of my knowledge and belief.


Theodore W. Boll

Subscribed and sworn to before me this 11 day of June, 1999


Notary Public

My Commission Expires
May 4, 2003