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Ameritech

Anthony M. Alessi
Director
Federal Relations

June 14, 1999

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JUN 14 1999
FEDERAL COMMUNICATIONS COMMISSION
OFFICE OF THE SECRETARY

Ms. Magalie Roman Salas, Secretary
Federal Communications Commission
The Portals
445 12th Street, SW
Washington, DC 20554

Re: **Ex Parte Presentation**
CC Docket 96-45 and CC Docket 96-262

Dear Ms. Salas:

On Friday, June 11, 1999, representatives of Ameritech (Ed Wynn, Karl Wardin, Kathy Franco, Harry Albright, Neil Briskman, Drew McLean and Tony Alessi) and representatives of LECG (Debra Aron, Bill Palmer and David Burnstein) met with Larry Strickling, Chief, Common Carrier Bureau and Bill Rogerson, Consultant to FCC, to discuss Ameritech's position on universal service and access reform as reflected in the record. In addition, the attached material was used during the discussion.

Sincerely,

Anthony M. Alessi

Attachment
cc: L. Strickling
B. Rogerson

Ameritech Position on Rogerson Proposal

Ameritech favors the Rogerson Approach to Universal Service and Access Reform but has the following concerns:

- Level of "Maximum Affordable Rate"

  - A maximum affordable rate that is too low will lead to a larger than necessary universal service fund. Ameritech supports a transition to a maximum affordable rate of $6.50.

- Level and Method of Deaveraging

  - The level and method of deaveraging access lines into cost zones does have an impact on the size of the universal service fund. The more lines that are put into the "low" cost zone, the bigger the fund. Ameritech supports linking the deaveraging to the zones used for deaveraging UNE loop prices.

- Timing is Everything

  - States must take action to rebalance rates to encourage competition before <u>additional</u> federal universal service funding is provided.

  - FCC recognized that preserving and advancing universal service is not solely their responsibility. The Further Notice recognizes that states have a "central role" in providing intrastate support for high-cost areas and seeks only to make federal support available to states that do not have the resources to maintain reasonably comparable rates.

- Local Competition

  - Deaveraging alone is not sufficient to incent competition. Competition will only develop where retail rates are cost based. Absent state action on rate rebalancing, deaveraging will lead only to increased ILEC support.

Deaveraging Affects the Size of the Fund*

Percentage of Access Lines in Each Zone

Carrier	10/20/70	70/20/10	Difference
Ameritech	$0M	$98.4M	$98.4M
BellSouth	$267.6M	$350.4M	$82.8M
Bell Atlantic	$50.5M	$321.1M	$270.6M
US West	$83.3M	$219.0M	$135.7M
Total	$401.4M	$988.9M	$587.5M

- Generally, the more access lines in the "low" cost zone, the bigger the fund will be.
- Deaveraging should be linked to UNE deaveraging zones or to retail rate deaveraging.

*Assumptions:

- Maximum Affordable Rate" of $6.50 for Primary Residence and Single-line Business, $8.00 for Non-Primary Residence and $9.00 for Multi-line Business
- BCPM version 3.1 used to disaggregate access lines into cost zones

Deaveraging should be done in a way that minimizes the cash flow between Regions

Company	Subsidy Received	Tax Paid	Net Subsidy
Alliant	$3.6M	$2.8M	$0.8M
Ameritech	$60.0M	$195.0M	$(135.0)M
Bell Atlantic	$415.0M	$479.0M	$(64.0)M
BellSouth	$358.0M	$315.0M	$43.0M
Cincinnati Bell	$4.3M	$10.7M	$(6.4)M
Frontier	$1.4M	$5.1M	$(3.7)M
GTE	$590.0M	$301.0M	$289.0M
SBC	$165.0M	$352.3M	$(187.3M)
Sprint	$184.0M	$97.0M	$87.0M
US WEST	$174.0M	$197.0M	($23.0)M

Source: Current Rogerson Proposal

- Current Proposal results in Ameritech, SBC, and Bell Atlantic customers paying to support GTE, BellSouth, and Sprint customers.

States have Varying Rate Structures

Area	LEC	Residence Rate*	5-Minute same-zone daytime call cost**	Intrastate Access Rate***
Milwaukee, WI	Ameritech	$10.36	$.06	$.019/Min
Brownsville, TX	SBC	$11.05	$.08	$.117/Min
Huntington, WV	Bell Atlantic	$11.13	$.155	$.087/Min
Seattle, WA	US West	$11.57	$.1064	$.035/Min
Miami, FL	BellSouth	$12.72	$.104	$.049/Min
Alamogordo, NM	US West	$13.23	$.156	$.085/Min
Buffalo, NY	Bell Atlantic	$13.42	$.1135	$.04/Min.
Baltimore, MD	Bell Atlantic	$13.96	$.085	$.044/Min
Albany, GA	BellSouth	$14.67	$.12	$.027/Min
Springfield, IL	Ameritech	$14.98	$.052	$.019/Min
Grand Rapids, MI	Ameritech	$15.65	$.062	$.023/Min
Pine Bluff, AR	SBC	$16.04	$.065	$.062/Min
Huntsville, AL	BellSouth	$16.34	$.06	$.029/Min

- Affordability and Comparability tests need to focus on more than just the subscriber line charge.
- States that have low basic service rates tend to have higher usage rates.
- States have great opportunity and ability to rebalance rates in order to remove implicit subsidies and incent competition without jeopardizing affordability or comparability.

* Residence Rate is Measured Rate including 100 5-minute, same zone business day calls. Source: FCC, IAD *Reference Book of Rates, Price Indices, and Expenditures for Telephone Service,* July, 1998, Table 1.3

** Source: FCC, IAD *Reference Book of Rates, Price Indices, and Expenditures for Telephone Service,* July, 1998, Table 1.3

*** Sum of Originating and Terminating Intrastate Access Rates

Where Can Competition Develop?

Area	LEC	Residence Rate*	UNE Loop Rate
Springfield, IL	Ameritech	$14.98	$11.40
Grand Rapids, MI	Ameritech	$15.65	$12.02
Albany, GA	BellSouth	$14.67	$16.51
Alamogordo, NM	US West	$13.23	$26.23

- Competition will best be enabled where there is a proper relationship between retail rates and UNE prices
- Residential competition exists in Springfield and Grand Rapids because of the relationship between UNE prices and residence rates.
- In areas where the UNE price is significantly higher than the retail rate, providing additional, portable universal service support is unlikely to jump-start competition. Competitors are unlikely to enter the market where the state gap between costs and rates is significant.
- Retail rates must be rebalanced to be cost-based before additional federal high cost support is provided. In this way, competitors will have the incentive to enter the market. FCC's proposed plan is a model in that it recognizes the joint federal and state responsibility for preserving and advancing universal service.

- Residence Rate is Measured Rate including 100 5-minute, same zone business day calls. Source: FCC, IAD *Reference Book of Rates, Price Indices, and Expenditures for Telephone Service,* July, 1998, Table 1.3