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ATTORNEYS AT LAW

July 29, 1999

RECEIVED
JUL 29 1999
FEDERAL COMMUNICATIONS COMMISSION
OFFICE OF THE SECRETARY

EX PARTE

Via Hand Delivery

Ms. Magalie Roman Salas
Office of the Secretary
Federal Communications Commission
445 Twelfth Street, S.W.
Twelfth Street Lobby, TW-A325
Washington, D.C. 20554

Re: Notification of *Ex Parte* Letter in CC Docket Nos. 96-45, 96-262, 94-1, 99-249

Dear Ms. Salas:

On behalf of the Coalition for Affordable Local and Long Distance Services, which includes AT&T, Bell Atlantic, BellSouth Corporation, GTE, SBC, and Sprint Corp., I submit the attached letter and proposal for inclusion in the above-referenced dockets.

Pursuant to section 1.1206 of the Commission's rules, two copies of this letter and proposal have been filed for each docket. Please contact me with any questions.

Sincerely,

John T. Nakahata

Counsel to the Coalition for Affordable Local and Long Distance Services

Enclosures

No. of Copies rec'd 0+7
List ABCDE

July 29, 1999

The Honorable William E. Kennard, Chairman
Federal Communications Commission
445 12th Street, S.W.
Washington, D.C. 20554

The Honorable Susan Ness, Commissioner
Federal Communications Commission
445 12th Street, S.W.
Washington, D.C. 20554

The Honorable Harold W. Furchtgott-Roth, Commissioner
Federal Communications Commission
445 12th Street, S.W.
Washington, D.C. 20554

The Honorable Michael K. Powell, Commissioner
Federal Communications Commission
445 12th Street, S.W.
Washington, D.C. 20554

The Honorable Gloria Tristani, Commissioner
Federal Communications Commission
445 12th Street, S.W.
Washington, D.C. 20554

Dear Chairman Kennard and Commissioners:

On behalf of AT&T, Bell Atlantic, BellSouth, GTE, Sprint, and SBC, we are very pleased to present to the Commission today an historic joint proposal to reform interstate universal service high cost support, and access charge rates and rate structures for price cap local exchange carriers in a comprehensive, unified, and timely manner. This proposal will preserve and enhance universal service while promoting competition, choice and the continued development of Internet services. The proposal also will promote consumer choice, give all competitors a more stable regulatory environment for five years, and produce lower long distance rates and more innovative pricing packages for telecommunications services.

In presenting this proposal, we urge the Commission to adopt this proposal as a necessary, sufficient, and complete integrated solution to many of today's most pressing telecommunications issues. The parties to the negotiations all have made difficult concessions to bring this overall effort to fruition, and the overall proposal represents a delicate balancing of interests that we strongly urge the Commission not to disturb. Although each of us subscribes to and endorses this proposal as presented, modifications to the individual components will prevent individual companies from continuing to support this process.

We look forward to working with each of you in the upcoming months and continuing to discuss with you the public interest benefits of this joint proposal.

Sincerely,

/s/ James W. Cicconi
James W. Cicconi
General Counsel and Executive Vice President
for Law and Government Affairs
AT&T Corp.

/s/ James R. Young
James R. Young
Executive Vice President and General Counsel
Bell Atlantic Corp.

/s/ Charles R. Morgan
Charles R. Morgan
Executive Vice President and General Counsel
BellSouth Corporation

/s/ William P. Barr
William P. Barr
Executive Vice President
and General Counsel
GTE

/s/ Sandy Kinney
Sandy Kinney
President – Industry Markets
SBC Telecommunications, Inc.

/s/ J. Richard Devlin
J. Richard Devlin
Executive Vice President
General Counsel and External Affairs
Sprint Corporation

Copies to: Lawrence E. Strickling, Chief, Common Carrier Bureau
Christopher J. Wright, General Counsel

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UNIVERSAL SERVICE AND ACCESS REFORM PROPOSAL

The companies agree to the following positions, provided these positions are adopted as an integrated package through FCC rulemaking, with an effective date for the changes of January 1, 2000[1] except as otherwise noted. The proposal is an integrated proposal addressing and settling the parties' access charge/price cap/universal service concerns. Because of the complexity and interdependence of the various facets of the proposal, the parties view it as a unified proposal that the FCC should either adopt without modification or reject.

1. **<u>ILEC Recovery of Universal Service Contributions</u>.** Reconsider the requirement that price cap incumbent LECs (ILECs) recover universal service contributions through adjustments to the Price Cap baskets and services that generate end user revenue,[2] and permit price cap incumbent LECs to establish a separate rate element to recover universal service contributions.

   1.1. The USF rate element will be charged to all end users.

   1.2. The USF rate element may be assessed on a per line basis or as a percentage of interstate retail revenues, and at the option of the ILEC it may be combined for billing purposes with other end user retail rate elements.

   1.3. Upon implementation, ILEC USF assessments (a) are removed from existing price cap baskets at the same percentage adjustment as they went into the price cap baskets using an "R" value adjustment methodology similar to that which had been prescribed by the FCC for reversal of sharing, and (b) are not subject to the Price Cap formula in future years.

   1.4. An ILEC opting to assess the USF rate element on a per line basis may apply that charge using the "equivalency" relationships established for the multiline business PICC for Primary Rate ISDN service, as per 69.153(f)(2), and for Centrex lines, per 69.153(g)(1).

2. **<u>Common Line Rate Structure Simplification, Deaveraging of Common Line Rates and Universal Service</u>.**

   Overview: SLCs, PICCs and CCL are ultimately unified into a single charge, which can be deaveraged, but which will not exceed $7.00 for residential and single line business lines and $9.20 for multiline business lines. Residential and Single Line Business End User and Presubscribed Interexchange Carrier Charges are combined into a single end user charge. For primary residential lines and single line business lines, the combined total in most, but not all, areas will be approximately $5.50 on January 1, 2000. In subsequent years, the primary residential and single line business common line transition continues as the nominal

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[1] We have used January 1, 2000 for discussion purposes. The actual date will have to be adjusted to account for Y2K issues.

[2] *See* May 7, 1997 Access Reform Order at ¶379 (stating that price cap ILECs may treat their universal service contributions as exogenous changes to price cap indices, that recovery may only be in baskets that generate end user revenue, and that the baskets generating end user revenue are common line, interexchange and trunking).

SLC cap for those lines increases to $6.25 on January 1, 2001, to $6.75 on July 1, 2002, and to $7.00 on July 1, 2003. The maximum Primary Residence/Single Line Business SLC in any zone is the lower of the nominal cap, or average price cap common line revenue per line (which includes all charges currently collected through SLCs, PICCs, CCL and a portion of local switching, but does not include ILEC USF contributions) for the highest cost UNE zone in a study area. For non-primary residential lines, the combined total charge will be capped at the lower of $7.00 or the greater of the current rate or average price cap common line revenue per line for the highest average revenue per line UNE zone in a study area.

For multiline business lines, End User and Presubscribed Interexchange Carrier Charges are not combined, and the Multiline Business (MLB) PICC will continue to be charged by the ILEC to the Interexchange Carrier. However, the MLB PICC falls dramatically for most companies as a result of reforms in other flat-rated common line charges, and the MLB PICC is eventually eliminated in most areas. Except where a carrier reduces the rate through voluntary reductions, multiline business SLCs initially will be frozen until the carrier's MLB PICC and CCL are eliminated.

Average Carrier Common Line charges immediately fall dramatically and are eventually eliminated in most areas as a result of an additional $650 million in universal service funding to replace implicit support currently in interstate access charges and of increasing the Primary Residential and Single Line Business SLCs.

Lifeline support would increase to hold Lifeline customers harmless against SLC rate restructuring.

SLCs can be deaveraged subject to certain limitations. Geographic deaveraging does not increase permitted price cap common line revenues (which includes all charges other than ILEC universal service contributions currently collected through SLCs, PICCs, and CCL). ILECs may only geographically deaverage their SLCs on the same geographic basis as state-approved UNE loop zones. ILECs can have up to 4 SLC zones, absent FCC review and approval. ILECs can choose which zones to consolidate if they have more than 4 UNE zones. SLCs in lower cost zones cannot be greater than SLCs in the same customer class in higher cost zones. Within a given zone, the Multiline Business SLC cannot fall below the Non-Primary Residential SLC, which cannot be less than the Primary Residential and Single Line Business SLC. For geographic deaveraging other than through voluntary reductions, an ILEC must eliminate its CCL and MLB PICC before it can begin geographically to deaverage the SLC, and an ILEC's deaveraged SLC in the lowest cost zone cannot be less than a minimum level. A deaveraged price cap common line revenue per line is calculated for each zone. The relative price cap revenue per line in each zone reflects the relative UNE rates in that zone, and the level of revenue per line in each zone is such that the ILEC can recover total permitted price cap common line revenues. The parties do not agree whether limits on deaveraging through voluntary reductions are necessary.

The proposal provides new federal universal service support (separate and distinct from the current universal service support for high cost areas) of $650 million per year to replace implicit support in interstate access charges for price cap LECs. In any UNE loop deaveraging zone where the average common line revenue per line for that zone would exceed $7.00 per line for residential lines and $9.20 for multiline business lines, this additional interstate universal service support would provide a portion of the difference. This

proportion would be set to ensure that the overall amount of USF support to replace implicit support in interstate access rates for all price cap LEC areas does not exceed $650 million nationwide. The new interstate USF Support would ensure that, even after deaveraging, the SLC would not exceed $7.00 for residential customers anywhere, or $9.20 for multiline business customers. The amount of universal service support to each study area is also adjusted on a three year phased-in basis so that by July 1, 2003, CCL and multiline business PICC charges will be eliminated in most areas served by price cap ILECs.

This new universal service funding would be portable to other eligible telecommunications carriers. The amount that would be portable for each line would be deaveraged by zone within any study area that receives such support.

Any new interstate USF funds to replace implicit support in interstate access charges for price cap LECs will first offset carrier common line charges, then offset multiline business PICC charges, and then offset amounts that would otherwise be collected through Subscriber Line Charges, which may be deaveraged.

2.1. Reform and Simplification of Subscriber Line Charges (SLCs) and Presubscribed Interexchange Carrier Charges (PICCs).

2.1.1. Terms.

2.1.1.1. Price Cap Common Line, Marketing, TIC ("CMT") Revenue. Price Cap Common Line, Marketing, and TIC Revenue is the total revenue a filing entity would be permitted to receive for Subscriber Line Charges, Presubscribed Interexchange Carrier Charges, Carrier Common Line Charges, and the portion of local switching reallocated pursuant to paragraph 3.2. Price Cap CMT Revenue includes marketing expenses presently collected pursuant to FCC rule 69.156(a), and residual interconnection charge revenues collected through PICC charges, but it does not include the current recovery of incumbent LEC universal service contributions that are first removed from existing price cap baskets pursuant to paragraph 1.3.

2.1.1.2. Average Price Cap CMT Revenue Per Line. The Average Price Cap CMT Revenue Per Line is Price Cap CMT Revenue per month as of December 31, 1999 using base period demand, divided by the base period demand number of lines as of December 31, 1999. In filing entities with multiple study areas, if it becomes necessary to calculate the Price Cap CMT Revenue Per Line for a specific study area, then the Price Cap CMT Revenue Per Line for that study area is determined as follows, using base period demand revenues, BFPs and lines as of December 31, 1999:

$$PriceCapCMTRevenuePerLine_{StudyArea} = PriceCapCMTRevenue_{FilingEntity} \times (BFP_{StudyArea} \div BFP_{FilingEntity}) \div Lines_{StudyArea}$$

Nothing in this definition precludes a price cap LEC from continuing to average rates across filing entities containing multiple study areas, where permitted under existing rules.

2.1.1.3. <u>Zone Average Revenue Per Line</u>. Zone Average CMT Revenue Per Line is the Price Cap CMT Revenue Per Line calculated for a particular state-defined zone used for deaveraging of UNE loop prices. The Zone Average Revenue Per Line is computed according to the following formula:

$$ZoneAverageRevenuePerLine = 25\%\left(Loop_{ZonePrice} + Port_{Price}\right) + U$$

Where:

U (Uniform Revenue Per Line Adjustment) =
(PriceCapCMTRevenue$_{StudyArea(s)}$ *- (25%(Sum of (Lines*$_{UNEZone}$ *x Loop&Port Price*$_{UNE\ Zone}$ *x 12) for each zone))) ÷ Base Period Lines*$_{Study\ Area(s)}$ *÷ 12*

Loop&Port Price$_{UNE\ Zone}$ *= the UNE rates for unbundled loop and switch ports in that UNE zone.*[3]

2.1.2. <u>Primary Residential and Single Line Business Charges</u>.

2.1.2.1. <u>Presubscribed Interexchange Carrier Charge</u>. Beginning on January 1, 2000, eliminate the primary residential line and single line business Presubscribed Interexchange Carrier Charge.

[3] As stated in paragraph 5, nothing in this proposal supercedes, prejudices or otherwise implies a result of the UNE Remand proceeding.

2.1.2.2. **Subscriber Line Charge.**

2.1.2.2.1. **Averaged Subscriber Line Charge.** Beginning on January 1, 2000, the maximum averaged Subscriber Line Charge for primary residential and single line business lines in a given entity will be Average Price Cap CMT Revenue per Line up to a nominal cap of $5.50.[4] Beginning on January 1, 2001, in lieu of what would have been scheduled annual increases in the cap on the primary residential line and single line business Presubscribed Interexchange Carrier Charge of $0.50, plus inflation, increase the nominal cap on primary residential and single line business Subscriber Line Charges according to the following schedule:

On January 1, 2001, to $6.25;

On July 1, 2002, to $6.75;

On July 1, 2003, to $7.00 per line.

2.1.2.2.2. **Zone Deaveraged Subscriber Line Charge.**

2.1.2.2.2.1. **Maximum Charge.** The maximum zone deaveraged SLC that may be charged in any zone is the lesser of the highest Zone Average Revenue Per Line within the study area, or a nominal cap, which as of January 1, 2000 is $5.50 per line per month. Beginning on January 1, 2001, increase the nominal cap on primary residential and single line business Subscriber Line Charges according to the following schedule:

On January 1, 2001, to $6.25;

On July 1, 2002, to $6.75;

On July 1, 2003, to $7.00 per line.

2.1.2.2.2.2. **Minimum Charge.** See paragraph 2.1.5.6.2.

2.1.2.3. **Lifeline.** Increase minimum federal Lifeline support effective January 1, 2000, and coincident with changes in nominal SLC caps thereafter, so that all of the Subscriber Line Charge continues to be waived for Lifeline customers, with carriers reimbursed from the Universal Service Fund. In subsequent years, increase minimum federal Lifeline support in the same amount as increases in the primary residential Subscriber Line Charge.

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[4] $5.50 is equivalent to the current primary residential SLC, PICC-related account fees charged to the vast majority of presubscribed residential long distance subscribers, and the 50 cent increase in the PICC cap for primary residential and single line business subscribers scheduled to go into effect on July 1, 2000.

2.1.3. **Non-Primary Residential Lines.**

2.1.3.1. **Presubscribed Interexchange Carrier Charges.** Beginning on January 1, 2000, eliminate the PICC for Non-Primary Residential lines.

2.1.3.2. **Subscriber Line Charges.**

2.1.3.2.1. **Averaged Subscriber Line Charges.** Beginning on January 1, 2000, the maximum averaged Subscriber Line Charge for non-primary residential lines in a given entity will be the lesser of:

(a) $7.00 or

(b) the greater of:

(1) the rate as of December 31, 1999 less amounts of SLC reduction pursuant to paragraph 2.1.6, or

(2) Average Price Cap CMT Revenue Per Line.

2.1.3.2.2. **Zone Deaveraged Subscriber Line Charge.**

2.1.3.2.2.1. **Maximum Charge.** The maximum Zone Deaveraged Non-Primary Residential Subscriber Line Charge will be the lesser of $7.00 per line per month or the highest Zone Average Revenue Per Line for any zone in the study area.

2.1.3.2.2.2. **Minimum Charge.** See paragraph 2.1.5.6.2.

2.1.3.2.3. **Elimination of Distinction between Primary and Non-Primary Residential Lines.** Once the charges for primary and non-primary residential lines are equal within a zone or study area, the ILEC may eliminate the distinction between primary and non-primary lines within that zone or study area.

2.1.4. **Multiline Business Lines.**

2.1.4.1. **Presubscribed Interexchange Carrier Charges.** Beginning on January 1, 2000, the cap on the Multiline Business PICC is reduced to $4.00 per line. Multiline Business PICCs remain assessed to the interexchange carrier. This charge will be eliminated over time in most areas pursuant to paragraph 2.1.6.

2.1.4.2. **Subscriber Line Charges.**

2.1.4.2.1. **Averaged Subscriber Line Charges.** Beginning on January 1, 2000, and in the absence of voluntary reductions, the averaged Subscriber Line Charge for multiline business lines in a given entity that has not deaveraged SLCs will be the lesser of:

(a) $9.20 or

(b) the greater of:

(1) the rate as of December 31, 1999, less amounts of SLC reductions pursuant to paragraph 2.1.6 or

(2) Average Price Cap CMT Per Line.

Except when the incumbent LEC reduces the rate through voluntary reductions, the averaged multiline business SLC initially will be frozen until the entity's multiline business PICC and CCL are eliminated.

2.1.4.2.2. Zone Deaveraged Subscriber Line Charge.

2.1.4.2.2.1. Maximum Charge. The maximum Zone Deaveraged Multiline Business Subscriber Line Charge will be the lesser of $9.20 per line per month or the highest Zone Average Revenue Per Line for any zone in the study area.

2.1.4.2.2.2. Minimum Charge. See paragraph 2.1.5.6.2.

2.1.5. Limitations on Deaveraging of Subscriber Line Charges. Except as otherwise noted, these limitations apply both to deaveraging pursuant to 2.1.6(4) and to deaveraging through voluntary reductions.

2.1.5.1. All Geographic Deaveraging According to UNE zones. All geographic deaveraging of SLCs by customer class must be done according to UNE zones. If a state has not created geographically deaveraged UNE rates for loops, the incumbent LEC may not deaverage its SLCs in that state.[5]

2.1.5.2. No More Than 4 Zones for Interstate Pricing and Interstate Universal Service Purposes Without FCC Approval. Solely for the purposes of determining interstate subscriber line charges and the interstate universal service funding described in Section 2.2, an ILEC may not have more than four geographic SLC/USF zones absent a review by the FCC. Where an ILEC has more than four state-created UNE zones and the FCC has not approved use of additional zones, the ILEC will determine, at its discretion, which state-created UNE zones to consolidate so that it has no more than four zones for the purpose of determining interstate subscriber line charges and interstate universal service funding.

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[5] As stated in paragraph 5, nothing in this proposal supercedes, prejudices or otherwise implies a result of the UNE Remand proceeding.

2.1.5.3. **Relationship Between Multiline Business, Non-Primary Residential And Primary Residential And Single Line Business SLCs Within A UNE Zone.** Within a given UNE zone, the multiline business SLC may not be lower than the SLC for non-primary residential lines, and the non-primary residential line SLC may not be lower than the primary residential and single line business SLC.

2.1.5.4. **Relationship Between SLCs for the Same Customer Class in Different UNE Zones in a Study Area.** For any given customer class (i.e. Primary Residential and Single Line Business, Non-Primary Residential, or Multiline Business) and any given zone, the Zone Deaveraged SLC in that zone must be greater than or equal to the Zone Deaveraged SLC in the zone with the next lower Zone Average Revenue Per Line. (That is, Zone 4 SLCs must be greater than or equal to Zone 3 SLCs, which must be greater than or equal to Zone 2 SLCs, which must be greater than or equal to Zone 1 SLCs, where Zone 1 is the zone with the lowest Zone Average Revenue Per Line, and Zone 4 (if there is one) is the zone with the highest Zone Average Revenue Per Line).

2.1.5.5. **Revenues From all Zones Cannot Exceed Revenues from Averaged SLCs.** The parties have discussed two alternate ways of implementing a restriction that precludes incumbent LEC from increasing permitted Price Cap CMT revenues through deaveraging. The parties will present their respective views to the FCC as to the appropriateness of each alternative.

Alternative 1 – Filing Entity

The sum of revenues per month that would be generated from all deaveraged SLCs in all SLC deaveraging zones within a filing entity plus revenues per month from all SLCs from study areas within that filing entity that have not geographically deaveraged SLCs plus the sum of all Study Area Access Universal Service Support in all study areas within the filing entity, divided by the number of lines cannot exceed Average Price Cap CMT Revenue Per Line for the filing entity.

Alternative 2 – Study Area and Filing Entity

The sum of all revenues per month that would be generated from all deaveraged SLCs in all zones within a study area plus Study Area Access Universal Service Support for that study area divided by the number of lines in that study area cannot exceed Average Price Cap CMT Revenue Per Line for that study area. In addition, the sum of revenues per month that would be generated from all deaveraged SLCs in all SLC deaveraging zones within a filing entity plus revenues per month from all SLCs from study areas within that filing entity that have not geographically deaveraged SLCs plus the sum of

all Study Area Access Universal Service Support in all study areas within the filing entity, divided by the number of lines cannot exceed Average Price Cap CMT Revenue Per Line for the filing entity.

2.1.5.6. **Limitations Applicable Only To Zone SLC Deaveraging Pursuant To Paragraph 2.1.6, or Through Increases in Other Zone Deaveraged SLCs.**

2.1.5.6.1. **Elimination of PICC and CCL Prior to SLC Deaveraging.** Except where an incumbent LEC deaverages through voluntary reductions, before an incumbent LEC may begin geographically deaveraging its SLC rates, its Originating and Terminating CCL and Multiline Business PICC rates must equal $0.00. Deaveraging through voluntary reductions may be undertaken without regard to the levels of the CCL or Multiline Business PICCs.

2.1.5.6.2. **Minimum Charge.** Except where the incumbent LEC chooses to lower the deaveraged SLC through voluntary reductions, the minimum Zone Deaveraged Subscriber Line Charge in any zone in a study area is at least the lowest Zone Average Revenue Per Line for any zone in that study area. The parties do not agree as to whether the Minimum Charge should also be adjusted to reflect a portion of those Study Area Above Cap Revenues not offset by Study Area Universal Service Support, and the parties will advocate their respective positions to the Commission. The parties do not agree as to whether limits on deaveraging through voluntary reductions are necessary, and will advocate their respective positions to the Commission.

2.1.5.6.3. **Voluntary Reduction.** A "Voluntary Reduction" is one in which the incumbent LEC reduces prices other than through offset of net increase in subscriber line charge revenues or universal service revenues pursuant to paragraph 2.1.6, or through increases in other zone deaveraged Subscriber Line Charges.

2.1.6. **Phased Elimination of Carrier Common Line and Multiline Business Presubscribed Interexchange Carrier Charges, and SLC Deaveraging.** Each year, the net increase in maximum permitted Subscriber Line Charge revenues (calculated by summing across all line classes in a study area the products of the maximum permitted Averaged Subscriber Line Charge for each class times the number of lines in each class times 12) from changes specified in paragraph 2, and any universal service revenues received pursuant to paragraph 2.2, will be offset by reducing charges as follows, in order of priority:

(1) Terminating CCL Charges until the Terminating CCL rate is $0.00; then

(2) Originating CCL Charges until the Originating CCL rate is $0.00; then

(3) Multiline Business PICC until the Multiline Business PICC rate is $0.00; then

(4) Subscriber Line Charges, which may be deaveraged pursuant to paragraph 2.1.5, above.

(Note: This is the existing order of offsets, once the residential (primary and non-primary) and single line business PICCs are stricken.)

2.2. New Universal Service for Areas Served by Price Cap Incumbent LECs.

2.2.1 Implicit Support in Interstate Access Charges by Price Cap LECs. The total amount of universal service funding that is targeted to offset implicit support in interstate access charge rates ("Access USF") for areas served by price cap incumbent LECs is $650 million per year.[6] This size for Access USF assumes a final nominal residential and single line business SLC cap of $7.00, and a final nominal multiline business SLC cap of $9.20 for multiline businesses. Changes in the level of these caps would change the appropriate level of universal service funding. It also assumes that all price cap LECs are included. It also assumes that the new program will cover the areas currently served by all price cap LECs, except those offered for sale before January 1, 2000, and sold to a non-price cap company. If any such area does not participate in the program, either because the price cap LEC does not participate, or because the area is offered for sale after January 1, 2000, and sold to a non-price cap company, then the funding estimated for that area pursuant to paragraph 2.2.3.1.1 will not be collected or distributed as part of this plan for price cap LECs.

2.2.2. Minimum Study Area Universal Service Support. For each study area, the minimum amount of Access USF support that study area would receive is calculated as follows:

$$MinimumAccessUSF_{StudyArea} = PriceCapCMTRevenue_{StudyArea} - \begin{pmatrix} (\$7.00 \times Residential\ \&\ SingleLineBusinessLines_{StudyArea} \times 12) + \\ (\$9.20 \times MultilineBusinessLines_{StudyArea} \times 12) \end{pmatrix}$$

$$Where:$$

$$PriceCapCMTRevenue_{StudyArea} = PriceCapCMTRevenue_{FilingEntity} \times \left(\frac{BFP_{StudyArea}}{BFP_{FilingEntity}} \right)$$

6 New federal universal service support to replace implicit support in interstate access charges by price cap LECs does not include support calculated under FCC Rules 54.301 (DEM Weighting), 54.303 (Long Term Support), or 36.601 et seq. (Part 36 Universal Service Fund), or support expressly designated by the FCC to offset costs allocated to the intrastate jurisdiction.

2.2.3. Calculation of Access USF Per Line

2.2.3.1. Terms.

2.2.3.1.1. Zone Above SLC Cap Revenues. For each zone, the above cap revenues for that zone are calculated according to the following formula:

$$ZoneAboveSLCCapRevenues = ((ZoneAverageRevenuePerLine - \$7.00) \times Residential\&SingleLineBusinessLines_{StudyArea} \times 12) + ((ZoneAverageRevenuePerLine - \$9.20) \times MultilineBusinessLines_{StudyArea} \times 12)$$

The zones used for determining universal service will be the same zones that would be used for any SLC deaveraging, as described in paragraph 2.1.5.2. Where an ILEC has consolidated zones pursuant to paragraph 2.1.5.2, the consolidated zone is used for determining universal service.

(a) For the purposes of distributing Access USF, Zone Average Revenue Per Line should be calculated pursuant to paragraph 2.1.1.3, except that Loop&Port $Price_{UNE\ Zone}$ could either be (1) the cost projected by an FCC-approved cost model, or (2) the rates for unbundled UNE loops and switch ports in that UNE zone. Parties differ as to the relative merits of using proxy cost model outputs or state-established UNE rates for this calculation, and will present their respective views.

(b) In states that have not established UNE zones, support will be determined on a study area basis, as described in paragraph 2.2.3.3. For purposes of calculating Access USF support for study areas in states that have not established UNE zones, an interim estimate of Zone Above SLC Cap Revenues will be calculated by using the FCC Proxy Cost Model or other substitute method if no model is available. In order to develop this estimate, zones will be established by assigning the lowest cost one third of lines to Zone 1, the highest cost one third of lines to Zone 3 and the remaining lines to Zone 2.

2.2.3.1.2. Study Area Above Cap Revenues. For each study area, Study Area Above Cap Revenues is calculated by summing the Zone Above SLC Cap Revenues for all zones in the study area.

2.2.3.1.3. **Nationwide Total Above Cap Revenues.** Nationwide Total Above Cap Revenues is the sum of all Study Area Above Cap Revenues nationwide for all price cap incumbent LEC study areas.

2.2.3.2. **Study Area Access USF Support.** Each study area's Access USF support is calculated according to the following steps:

Step 1: Calculate Preliminary Access USF Support

Preliminary Access USF Support is calculated according to the following formula:

$$PreliminaryStudyAreaUniversalServiceSupport = StudyAreaAboveCapRevenues \times \left(\frac{\$650million}{TotalNationwideAboveCapRevenues} \right)$$

Step 2: Calculate the Minimum Support Requirement.

If the Minimum Study Area Universal Service Support ("MSAUSS")[7] exceeds the Preliminary Study Area Universal Service Support ("PSAUSS") then the Minimum Support Requirement for that study area is calculated using the following process:

A. For each study area, calculate the Study Area Minimum Delta. Study Area Minimum Delta = Minimum Study Area Universal Service Support – Preliminary Study Area Universal Service Support.

B. Nationwide, calculate the Total National Minimum Delta, which equals the sum of all Study Area Minimum Deltas.

C. (1) If the Total National Minimum Delta is less than or equal to $75 million then the Minimum Adjustment Amount is:

Minimum Adjustment Amount = Phase In Percentage x Minimum Delta.

(2) If the Total National Minimum Delta is greater than $75 million, then the Minimum Adjustment Amount is:

$$Minimum\ Adjustment\ Amount = (PhaseInPercentage) \times (MinimumDelta) \times \left(\frac{\$75million}{TotalNationalMinimumDelta} \right)$$

The Phase In Percentage is:

50% on January 1, 2000

[7] *See* paragraph 2.2.2.

75%	on	January 1, 2001
100%	on	July 1, 2002

For those study areas with a Minimum Adjustment Amount, the Minimum Support Requirement is:

Minimum Support Requirement = Preliminary Study Area Universal Service Support + Minimum Adjustment Amount.

Step 3: Determine the Study Area Universal Service Support.

For study areas with a Minimum Support Requirement, Study Area Universal Service Support equals Minimum Support Requirement.

For study areas with no Minimum Support Requirements:

(1) Determine the Total National Minimum Support Requirement (TNMSR), which equals the sum of all Minimum Support Requirements.

$$StudyAreaUniversalServiceSupport = PSAUSS \times \left(\frac{\$650million - TNMSR}{\$650million} \right)$$

(2) Study Area Universal Service Support is determined as follows:

The above calculations ensure that the Total Interstate Implicit Support Fund does not exceed $650 million while the Study Area Minimum Support Requirements are phased in as the Primary Residential and Single Line Business Subscriber Line Charge increases to $7.00.

2.2.3.3. **<u>No Access USF Above The Minimum Support Requirement For A Study Area That Has No Zone Deaveraged Prices For UNE Loops.</u>** Notwithstanding the calculations in paragraph 2.2.3.2, in any study area for which the incumbent LEC has not established zone deaveraged UNE loop prices approved by the state, the incumbent LEC will receive no Access USF Support unless the study area has a Minimum Support Requirement, in which case the Study Area Universal Service Support shall equal the Minimum Support Requirement. If an incumbent LEC establishes deaveraged UNE loop prices after January 1, 2000, then beginning with the subsequent quarter after it implements deaveraged UNE loop rates, that entity will receive the amount of Access USF support previously calculated pursuant to paragraph 2.2.3.2 using the methodology described in paragraph 2.2.3.1.1(b). When Access USF support is subsequently recalculated to redistribute Access USF among Price

Cap ILEC service territories, support for that entity will be calculated pursuant to paragraph 2.2.3.1.1.(a).[8]

2.2.4. **Determination of Portable Access USF Support Per Line.** Portable Access USF Support Per Line is the amount of new interstate universal service funding to replace implicit support in interstate access that an eligible telecommunications carrier receives for serving a customer. This support is portable between eligible telecommunications carriers as customers change service providers.

2.2.4.1. **Portable Access USF Support Per Line When Deaveraged UNE Loop Rates Have Not Been Established.** When Deaveraged UNE Loop Rates have not been established in a study area, the Portable Access USF Support Per Line for that study area is Study Area Universal Service Support divided by total lines in the study area.

2.2.4.2. **Portable Access USF Support Per Line When Deaveraged UNE Loop Rates Have Been Established.**

The parties have discussed two alternate ways to allocate universal service support to zones and line-types within those zones. The parties will present their respective views to the FCC as to the appropriateness of each alternative means of allocating universal service support to lines within a study area.

Alternative 1

Proportionate Allocation. Within each study area, determine the percentage proportion of Study Area Universal Service Support to Study Area Above Cap Revenues. Within each zone and customer class (i.e. residential/single line business and multiline business for each zone), total universal service support for that zone and customer class is that same proportion of the Above Cap Revenues for that zone and customer class. That is:

$$UniversalService_{CustomerClassByZone} =$$

$$AboveCapRevenues_{CustomerClassbyZone} \times \left(\frac{StudyAreaUniversalServiceSupport}{StudyAreaAboveCapRevenues} \right)$$

Portable Universal Service Support Per Line in any given zone and customer class is Universal $Service_{CustomerClassByZone}$ divided by the total number of lines of the customer class within that zone.

[8] As stated in paragraph 5, nothing in this proposal supercedes, prejudices or otherwise implies a result of the UNE Remand proceeding.

Alternative 2

Highest Cost Zone First. The funding in each study area will be made portable for lines in the highest cost zone first, and will "cascade" to lines in lower cost zones to the extent that sufficient funding is available. Beginning with the zone with the highest Zone Average Revenue Per Line, funding will be applied in the following order of priority:

(1) To all lines in the highest zone, to eliminate the amount per line by which Zone Average Revenue Per Line exceeds the higher of $9.20 or the Average Revenue Per Line in the next highest zone;

(2) If the Zone Average Revenue Per Line in the next highest zone is greater than $9.20, then to all lines in both zones to eliminate the amount per line by which Zone Average Revenue per Line exceeds $9.20;

(3) To all residential and single line business lines in the highest zone, to eliminate the amount per line that Zone Average Revenue Per Line for these lines exceeds the higher of $7.00 or Average Revenue Per Line in the next highest zone;

(4) If the Zone Average Revenue per Line in the next highest zone is greater than $7.00, then to all residential and single line business lines in both zones to eliminate the amount per line by which Zone Average Revenue Per Line exceeds $7.00.

This "cascade" process will continue until all of the available funding has been assigned to lines by zone and by customer class; it may extend in similar fashion to additional zones, to the extent that their Zone Average Revenue per Line exceeds the $9.20 and $7.00 caps, and available funding permits. The per-line amount assigned to each multiline business line in a given zone would then be portable among eligible telecommunications carriers, as would the per-line amount assigned to each residence line and each single line business line in that zone.

2.2.5. **Commencement of New Access USF Support.** Universal service distributed pursuant to this section will begin once administrative mechanisms have been established to transfer support among eligible telecommunications carriers in the shortest interval possible given reasonable operational considerations. The parties agree that a three-month lag may be reasonable, provided that an ILEC's entitlement to receive Access USF for service to that customer stops when service stops, and that there are true-ups.

2.2.6. **Recalculation of Access USF Amounts.** Access USF support for each ILEC service territory will be recalculated on July 1, 2000, and January 1, 2001, and thereafter as determined by the USF Administrator.

3. **Reducing Traffic Sensitive Interstate Access Rates.**

3.1. **Target Traffic Sensitive Interstate Access Charge Rate.**

3.1.1. **Bell Companies and GTE.** For Bell Companies and GTE, the Target Rate for traffic sensitive interstate access charges (defined as the average revenue per switched access minute for the sum of Local Switching (less amounts transferred to CMT), Local Switching Trunk Ports, Signaling Transfer Point Port Termination, switched Direct Trunk Transport, signaling for switched Direct Trunk Transport, entrance facilities for switched access traffic, Tandem Switched Transport, the residual and service-related Transport Interconnection Charges, Information Surcharge, and Signaling for Tandem Switching) is calculated by tariff filing entity and is $0.0055 per minute for each tariff filing entity. For Bell Atlantic, the former NYNEX telephone companies may be treated as a separate tariff filing entity.

3.1.2. **All Other Price Cap ILECs.** For all other price cap ILECs, the Target Rate for traffic sensitive interstate access charges (defined as the average revenue per switched access minute for the sum of Local Switching, Local Switching Trunk Ports, Signaling Transfer Point Port Termination, switched Direct Trunk Transport, signaling for switched Direct Trunk Transport, entrance facilities for switched access traffic, Tandem Switched Transport, the residual and service-related Transport Interconnection Charges, Information Surcharge, and Signaling for Tandem Switching) is calculated by tariff filing entity and is $0.0065 per minute.

3.2. **Local Switching Restructuring.** In any study area in which, on December 31, 1999, the average traffic sensitive access charge is greater than the Target Rate, 25% of Local Switching revenues (calculated using base period demand) will be moved to the CMT Basket, except that less than 25% of Local Switching revenues will be moved to the CMT Basket if moving 25% would reduce the average traffic sensitive access charge below the Target Rate. If moving 25% of Local Switching would reduce average traffic sensitive access charges below the Target rate, then the amount of Local Switching moved to the CMT Basket is the amount necessary to reach the Target Rate.

3.3. **Interstate X-Factor Levels and Targeting of X-Factor Reductions Effective January 1, 2000.** The basic regime set up under this section is that all the price cap reductions flowing from an X-factor of 6.5% are initially targeted to reduce traffic sensitive charges until those charges reach the Target Rate ($0.0055 per minute by tariff filing entity for Bell Companies and GTE, and $0.0065 per minute by tariff filing entity for other price cap ILECs). When the filing entity's average traffic sensitive switched interstate access charge reaches the Target Rate, then the X-factor becomes equal to GDP-PI. All X-factor targeting is done at the tariff filing entity level, not at a holding company level. Beginning July 1, 2001 (i.e. after one full year's X-factor reduction), an ILEC may choose not to target X-factor reductions from special access to reduce switched access rates.

3.3.1 The interstate X-factor will be 6.5% until a Tariff Entity's average traffic sensitive access charge equals the Tariff Entity's Target Rate. The average traffic sensitive charge will be calculated by taking the sum of revenues for

Local Switching, Local Switching Trunk Ports, Signaling Transfer Point Port Termination, switched Direct Trunk Transport, signaling for switched Direct Trunk Transport, entrance facilities for switched access traffic, Tandem Switched Transport, the residual and service-related Transport Interconnection Charges, Information Surcharge, and Signaling for Tandem Switching, and dividing that sum of revenues by total switched access minutes of use. If a new element is created from an existing switched access rate element (such as creating a call set-up charge out of the existing local switching rate) the revenues anticipated from that element will be included in the calculation of the average traffic sensitive access charge. The X-factor of 6.5% will be applied only to the extent necessary to reduce the Tariff Entity's average traffic sensitive access charges to the Target Rate. Once the Tariff Entity's average traffic sensitive access charges reach the Target Rate, the X-factor will be GDP-PI.

3.3.2 Until a Tariff Entity's average traffic sensitive interstate access charge equals the Target Rate, the aggregate reductions within a given tariff filing entity from application of the X-factor adjustment in the price cap formula across all of that entity's interstate price cap baskets (less special access reductions, if any, the ILEC chooses to apply beginning July 1, 2001 to reduce special access rates, up to the amount of reductions special access would get through an untargeted application of the X-factor adjustment) will be targeted to reduce the following rates for that tariff filing entity, in order of priority:

(1) To the residual per minute Transport Interconnection Charge, until that rate is $0.00; then

(2) To the Information Surcharge, until that rate is $0.00; then

(3) To the Local Switching charge and Switched Transport charges until the Tariff Entity's average traffic sensitive interstate access charge equals the Target Rate. In making these reductions to Local Switching rates, the percentage of total X-factor reductions directed to Local Switching rates must be greater than or equal to the percentage that local switching revenues represent of the sum of revenues for Local Switching, Local Switching Trunk Ports, Signaling Transfer Point Port Termination, switched Direct Trunk Transport, signaling for switched Direct Trunk Transport, entrance facilities for switched access traffic, Tandem Switched Transport, and Signaling for Tandem Switching (i.e., Local Switching gets at least its proportionate share of reductions).

Once the Tariff Entity's average traffic sensitive interstate access charge equals the Target Rate, no further reductions will be mandated (i.e. if applying the full X-factor reduction for a given year would reduce average traffic sensitive interstate access charges below the Target Rate, the amount of X-factor reduction applied that year will be the amount necessary to reach the Target Rate).

In calculating aggregate X-factor reductions, the Price Cap formula should be applied against the entire common line basket, without removing amounts

received through the new interstate universal service support pursuant to paragraph 2.2.

3.3.3. **CMT Adjustments After Reaching Target Rate.** Once the CCL and PICC are eliminated and the primary residential and single line business SLC reaches the Average Price Cap CMT Revenues Per Line, the X-factor for the CMT Basket will equal GDP-PI as long as GDP-PI is less than or equal to 6.5 percent and greater than 0 percent. If GDP-PI is greater than 6.5% and an entity has eliminated its CCL and multiline business PICC charges, the X-factor for common line will equal 6.5%, and all SLC rates and nominal caps on SLC rates will be increased by the difference between GDP-PI and the X-factor. If GDP-PI is less than 0, the X-factor for common line will be 0.

3.3.4. **Exogenous Adjustments.** After January 1, 2000, exogenous adjustments will be applied only to services other than those constituting traffic sensitive interstate access charges.

3.3.5. **Annual Filings After Reaching Target Rate.** With each annual filing, the Average Traffic Sensitive Rate will be recalculated and set at the new base period level. Due to changes in base period demand and inclusion of new services for that Annual Tariff filing, the absolute level of a Tariff Entity's Average Traffic Sensitive Charge may change. The resulting new Average Traffic Sensitive Charge level will be what that Tariff Entity will measured against during that base period.

4. **Other Changes to Interstate Access Charge Rate Levels.**

4.1. **Changes to the Interstate X-factor.** No company will advocate changes to the interstate X-factor other than as outlined in paragraph 3.

4.2. **Prospective Interstate Adjustments.** The companies agree that Paragraphs 2-3 are a just, reasonable and fair means of moving usage sensitive interstate access rates to a point achieved by the above mechanisms. Therefore, other adjustments, such as changes in the interstate X-factor, changes in interstate access rates for price cap ILECs based on results of present or future Continuing Property Records audits, changes in interstate access rates for price cap ILECs based on changes in the Prescribed Rate of Return, and changes in the rate structure for Common Line, Traffic Sensitive (Local Switching, Local Switching Trunk Ports, Signaling Transfer Point Port Termination, switched Direct Trunk Transport, signaling for switched Direct Trunk Transport, entrance facilities for switched access traffic, Tandem Switched Transport, the residual and service-related Transport Interconnection Charges, Information Surcharge, and Signaling for Tandem Switching) and Other (all other interstate access charges not included in Common Line or Traffic Sensitive, as defined here) charges by price cap ILECs, are unnecessary.

4.3. **Retrospective Interstate Adjustments.** The companies also agree not to initiate legal or regulatory action to adjust price cap determined rates for interstate access charges billed for access minutes prior to January 1, 2000, although a payee would not be precluded from accepting any refund the FCC ordered to be made and a payor will not object to or resist such a refund on the basis of this paragraph.

4.4. **Lower Formula Adjustments.** The Lower Formula Adjustment to interstate access rates is eliminated until January 1, 2005.

4.5. **Term of Agreements.** These agreements in paragraph 4 will run until January 1, 2005.

5. **Pricing Flexibility/Non-Dominant Classification/Price Cap Forbearance With Respect To Specific Services/UNE Remand.** Except as specifically addressed, the companies are not agreeing as to current or future proposals for pricing flexibility, non-dominant classification of specific services, or price cap forbearance with respect to specific services. The companies agree that the Commission should establish guidelines no later than October 1, 1999, for granting appropriate incumbent LEC pricing flexibility for interstate access services. Nothing in this proposal supercedes, prejudices or otherwise implies a result of the UNE Remand proceeding. Parties will continue to argue for their respective positions in these other proceedings.

6. **Long Distance Rates and SLC Changes.** This interstate access and universal service plan is in the public interest because the interstate access reductions the plan produces will result in lower long distance bills while the SLC and universal service revenues the plan produces will help to protect and enhance universal service and the local exchange infrastructure. The IXC signatories commit to meet with the FCC to review the effects of the interstate access reductions under the plan on long distance customers, and the incumbent LEC signatories commit to meet with the FCC to review effects of the SLC increases and SLC deaveraging under the plan on local customers.

7. **Non-Signatory Price Cap LECs.** The signatories agree that this proposal, without modification, is a fair and reasonable compromise plan to resolve issues relating to access and universal service for price cap LECs. Accordingly, signatories agree on behalf of themselves and their current affiliates as of August 1, 1999 to participate in the proposal if it is approved by the FCC.

   The signatories agree that non-signatory price cap LECs are not bound by the terms of this plan and that the access rules that will apply solely to non-signatory price cap LECs will be determined by the FCC. All companies, whether signatories or not, would remain free to advocate for whatever changes, if any, are appropriate to the current price cap rules that would apply only to non-signatory price cap LECs.

   At their option, price cap LECs that are non-signatories to the proposal at the time of its submission may chose to become signatories to the proposal prior to its implementation following an FCC Order. Additionally, if a non-signatory price cap LEC experiences a change of control during the first six months of the year 2000, that LEC may become a signatory to the proposal before the July 1, 2000 annual filing becomes effective, provided that such a LEC incorporates all provisions of the proposal scheduled to be implemented during the first six months of 2000 no later than the July 1, 2000 annual filing effective date.