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JOHN T. NAKAHATA
CONSULTING

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FEDERAL COMMUNICATIONS COMMISSION
OFFICE OF THE SECRETARY

June 28, 1999

EX PARTE

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

Re: CC Docket 96-262 (Access Charge Reform)
CC Docket 94-1 (Price Cap Performance Review)
CC Docket 97-181 (Primary Lines)
CC Docket 91-213 (Transport Rate Structure)
CC Docket 96-45 (Universal Service)

Dear Ms. Salas:

On June 23, 1999, Robert Blau (representing Bell South), Alan Ciamporcero (representing GTE), Pete Sywenki (representing Sprint), Jay Bennett (representing SBC), Joel Lubin (representing AT&T), Frank Gumper (representing Bell Atlantic), and John Nakahata (representing all companies in attendance), met with Kathyn C. Brown, Chief of Staff, Dorothy Attwood, Legal Adviser to the Chairman, Larry Strickling, Chief, Common Carrier Bureau, Yog Varma, Deputy Chief, Common Carrier Bureau. John Nakahata also met separately with Larry Strickling, Chief, Common Carrier Bureau, Yog Varma, Deputy Chief, Common Carrier Bureau, Jane Jackson, Chief, Competitive Pricing Division, Common Carrier Bureau, and Rich Lerner, Deputy Chief, Competitive Pricing Division, Common Carrier Bureau. On June 25, 1999, John Nakahata met with Kyle Dixon, Legal Adviser to Commissioner Powell, Linda Kinney, Legal Adviser to Commissioner Ness and Sarah Whitesell, Legal Adviser to Commissioner Tristani.

During these discussions, we discussed concerns the above-listed companies have with the need for access charge and universal service reform in order to better preserve and enhance universal service, the need for reform in the light of emerging competition and technological change, the uncertain regulatory environment and the effect that uncertainty has on competition, and efforts by the attending companies to develop access charge and universal service reform proposals for price cap incumbent local exchange carriers. The attached further summarizes the points discussed.

906 PORTNER PLACE • ALEXANDRIA, VIRGINIA • 22314-1313
PHONE: (703) 739-4036 • E-MAIL: jnakahata@aol.com

As required by Section 1.1206(b)(2) of the Commission's rules, I am filing two copies of this notice and ask that you place this notification in the record of the proceeding identified above.

Sincerely,

John T. Nakahata

cc: Ms. Kathryn Brown, Chief of Staff
Ms. Dorothy Attwood, Legal Adviser to the Chairman
Mr. Kyle Dixon, Legal Adviser to Commissioner Powell
Ms. Linda Kinney, Legal Adviser to Commissioner Ness
Ms. Sarah Whitesell, Legal Adviser to Commissioner Tristani
Mr. Larry Strickling, Chief, Common Carrier Bureau
Mr. Yog Varma, Deputy Chief, Common Carrier Bureau
Ms. Jane Jackson, Chief, Competitive Pricing Division, Common Carrier Bureau
Mr. Rich Lerner, Deputy Chief, Competitive Pricing Division, Common Carrier Bureau

TELECOMMUNICATIONS INDUSTRY INTERSTATE ACCESS REFORM AND UNIVERSAL SERVICE PLAN -- PART ONE

The Telecommunications Act of 1996 set rules to open all telecommunications markets to competition. As Congress and the FCC recognized, this means that traditional ways of promoting universal service must be changed. The phenomenal development of the Internet since 1996 adds urgency to universal service and interstate access charge reform.

The market forces unleashed by the 1996 Telecommunications Act combined with explosive growth of internet technology threaten the historic system of implicit universal service support. Unless changes are made in the current system, rural America may not have affordable service, competition or choice.

The Internet and related technologies are also moving telecommunications services away from traditional models. New cable modem and digital subscriber line services are flat-rated, not sold per minute of use. As the Internet networks handle more communications services, including voice telephone service, traditional per minute interstate access charge-based subsidies will no longer be able to support universal service.

In addition, uncertainty over national universal service and interstate access charge policies could hamper the development of consumer choices. In particular, the market distortions caused by the current access structure threaten the prospects for local and long distance competition.

To speed the adoption of new FCC rules to promote more consumer choice and better value, companies including AT&T, Bell Atlantic, BellSouth, GTE, SBC, and Sprint have been meeting to develop a proposal to reform interstate access charges and interstate universal service in the context of a continued commitment to universal service. Part One addresses interstate access charge reform. These companies are continuing to discuss these proposals with other parties in order to reach a broader consensus. They intend to present Part Two, a complementary universal service support reform plan shortly.

Key Objectives In Developing Access Reform Plan

- Improve choices and value for consumers.
- Keep Americans connected with universal service at affordable rates.
- Be Internet/Digital-friendly.
- Be Competition-friendly (i.e. encourage efficient investment in real choices for all Americans).
- Improve telephone subscription among low-income Americans.

Key Components of Reform Plan

- Cut per minute interstate access charges significantly below levels they would reach under the FCC's existing rules.
  - ⇒ X-factor reductions would be targeted to local switching and switched transport rates.
  - ⇒ The X-factor should continue to be 6.5% until local switching and switched transport rates reach 0.55 cents per access minute for the Bells and GTE, and 0.65 cents for other price cap LECs. Together with phasing out the Carrier Common Line Charge, had this plan started July 1, 1999, switched access charges would be cut by more than half within 3 years.
  - ⇒ The X-factor should equal inflation once local switching and switched transport rates reach 0.55 cents per access minute for Bells/GTE, or 0.65 cents per access minute for other price cap LECs.

- Simplify consumer bills by consolidating multiple line items into easily understood charges, and end the proliferation of confusing line items. In particular, consolidate all retail, residential "PICC"-related charges -- charges from local companies to long distance companies that are then billed by long distance companies to subscribers -- with Subscriber Line Charges.
- End the distinction between primary and non-primary residential lines in interstate access rates.
- Support the emergence of rural and residential telecommunications choices by continuing gradually to move telephone rates into the same types of rate structures that competition would produce, while phasing out unsustainable, above-cost usage and business charges. Accelerate the existing transition schedule by 6 months.
  - ⇒ Phase out the Carrier Common Line Charge (as current rules would do).
  - ⇒ Phase out the Multiline Business Presubscribed Interexchange Carrier Charge (as current rules would do).
  - ⇒ Adjust Lifeline so that all Subscriber Line Charges continue to be waived for low-income consumers.
  - ⇒ Gradually permit some deaveraging of SLCs according to UNE zones when UNE rates have been deaveraged. Business SLCs could not fall below residential SLCs within the same zone.
- Allow local telephone companies to recover ILEC universal service contributions in a competitively neutral manner and in the same way all other telecommunications carriers recover universal service contributions.
- These companies agree that it is critical to resolve interstate universal service issues in time for January 2000 implementation. They are continuing to work to develop a universal service support proposal. However, adoption of these access reform steps would substantially ease resolution of universal service issues.

Key Advantages

- Greatly reduce any threat to universal service from the dramatic changes in technology and competition.
- Simplify residential phone bills.
- Create an interstate access charge framework that supports broader competition.
- Create market certainty that allows companies to focus on competing in the marketplace.

The Opportunity

- This is the first time since the AT&T break-up that local telephone companies and long distance companies have negotiated a resolution of interstate access charge disputes.
- The economy depends on continued growth in the telecommunications, information service, and Internet sectors. Sound reform now helps support continued growth of the New Economy.
- Sensible action fosters continued growth of the Internet.