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FEDERAL COMMUNICATIONS COMMISSION
OFFICE OF THE SECRETARY

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

Re: **Ex Parte** Direct Access to the INTELSAT System, IB Docket No. 98-192, File No. 60-SAT-ISP-97; and
Comsat Corporation (Transferor) and Lockheed Martin Corporation and Regulus, LLC (Transferees), File Nos. SES-T/C-19981016-01388(2); ITC-T/C-19981016-0715; and SAT-ISP-19981016-00072

Dear Ms. Salas:

On August 31, 1999, representatives of the Satellite Users Coalition ("Coalition"), an ad hoc group consisting of AT&T Corp., MCI WorldCom, Inc., and Sprint Communications Co. L.P., met with Adam Krinsky, Legal Advisor, Office of Commissioner Gloria Tristani, to discuss the above-captioned dockets. The Coalition representatives were Robert S. Koppel, Jennifer Manner and Lori Wright for MCI WorldCom, and James W. Hedlund for Sprint. We discussed the attached materials.

Respectfully submitted,

The Satellite Users Coalition
AT&T Corp.
MCI WorldCom, Inc.
Sprint Communications Co. L.P.

By: _____
James W. Hedlund
Sprint Communications Co. L.P.
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Attachment
cc: Daniel J. Connors, Jr.

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DIRECT ACCESS TO THE INTELSAT SATELLITE SYSTEM

Satellite Users Coalition
AT&T, MCI WorldCom, Sprint

August 31, 1999

Key Points:

- The FCC clearly has authority to implement direct access.
- Direct Access is very much in the public interest.
- The proposed Lockheed/Comsat transaction is not in the public interest UNLESS the FCC at the same time, or as a condition to that transaction, implements direct access.
  - –Without direct access, merger permits Lockheed Martin to enjoy benefits of Comsat's *de facto* monopoly position.
  - –Lockheed will have advantage over other carriers, particularly for sales to the U.S. government under Comsat Government Systems, Inc. (CGSI) contracts.

The FCC Clearly Has Authority to Implement Direct Access

- While Satellite Act arguably grants Comsat exclusive authority over ownership and management of Intelsat, the sale of INTELSAT capacity (and ownership of INTELSAT earth stations) is not exclusive (47 USC §735 (a)).
- The Satellite Act requires the FCC to "insure that all... authorized carriers shall have nondiscriminatory use of, and equitable access to [Intelsat]." (47 U.S.C. § 721(c)(2)).
- FCC last considered Direct Access in 1984, but rejected it on policy grounds, not legal grounds.

Direct Access is in the Public Interest

- Savings to carriers/customers: $1 Billion over 10 years (Satellite Users Coalition estimate).
  - Comsat currently enjoys a *de facto* monopoly on access to Intelsat
    - -As a result, Comsat can charge monopoly rents.
    - -Comsat's average mark-up above Intelsat rates: 68%
  - Yet, Comsat provides virtually no value
    - -U.S. carriers own their own satellite earth stations.
    - -Intelsat provides the satellite space segment.

- U.S. carriers are at a substantial competitive disadvantage to foreign carriers.
  - –Foreign carriers: purchase space segment at IUC
  - –U.S. carriers using U.S. earth stations: pay Comsat 68% mark-up above IUC.
- Direct Access will keep satellite earth station facilities and jobs in the U.S.
  - –At present, Comsat mark-up creates a huge incentive to route traffic to Intelsat via foreign facilities.

- Since FCC last considered Direct Access in 1984:
  - Intelsat itself authorized Direct Access in 1992.
  - At least 94 countries have authorized Direct Access (and Comsat itself enjoys Direct Access in UK and Brazil):
  - US is one of only 4 WTO signatories to take a reservation for exclusive access to Intelsat.

Direct Access and the Comsat/ Lockheed Martin Merger

- The transaction would fundamentally alter the unique, independent status of Comsat envisioned by the Satellite Act. Substantial ownership of Comsat by Lockheed would remove any possible remaining justification for Comsat to retain its *de facto* monopoly on access to Intelsat.
- FCC should not approve 49% ownership by Lockheed without also implementing direct access and portability of space segment capacity.

INTELSAT Space Segment Portability

- Comsat has used its *de facto* monopoly access to INTELSAT to tie up most of the US capacity in long-term leases -- typically 15 years.
- Without fair access to that capacity by direct access customers, benefits of direct access would be substantially diminished.
- When a user's existing contract for space segment expires, the user should have the opportunity to renew its access to INTELSAT by paying Comsat a network management fee (NMF).

Network Management Fee

- NMF covers Comsat's costs for circuit orders, change orders and billing and collection.
- The user and Comsat would negotiate the NMF for 90 days following the effective date of direct access.
- If there is no agreement within 90 days, the FCC would determine the amount of the NMF, which would in no event exceed a nominal amount, retroactive to the effective date of direct access.