ORIGINAL

AT&T

Patrick H. Merrick, Esq.
Director - Regulatory Affairs
AT&T Federal Government Affairs

Suite 1000
1120 20th St. NW
Washington, DC 20036
202 457-3815
FAX 202 457-3110

EX PARTE OR LATE FILED October 13, 1999

RECEIVED
OCT 13 1999
FEDERAL COMMUNICATIONS COMMISSION
OFFICE OF THE SECRETARY

Ms. Magalie Roman Salas
Secretary
Federal Communications Commission
445 Twelfth Street, SW, Room TWB-204
Washington, DC 20554

Re: Notice of Ex Parte Meeting
In the Matter Federal-State Joint Board on Universal Service
CC Docket No. 96-45.

Dear Ms. Roman Salas:

On Tuesday, October 12, 1999, Leonard Cali, Mark Lemler, Joel Lubin and I, of AT&T, spoke with Sarah Whitesell, Legal Advisor to Commissioner Gloria Tristani. We discussed AT&T's position relative to Universal Service and the most recent comments in this proceeding using the attached document as an outline.

Two copies of this Notice are being submitted to the Secretary of the FCC in accordance with Section 1.1206 of the Commission's rules.

Sincerely,

Pat H. Merrick

cc: S. Whitesell

No. of Copies rec'd 0+1
List ABCDE

Recycled Paper

AS THE JOINT BOARD RECOMMENDED, FEDERAL SUPPORT SHOULD NOT INCREASE SIGNIFICANTLY

- **Central purpose of the federal universal service support mechanism is to enable rates in rural areas to remain reasonably comparable to rates in urban areas.**

  - Telephone subscribership of 94 percent demonstrates that rates for local service are generally affordable.

  - Current federal mechanism provides support sufficient to contribute to these subscribership levels.

  - The Commission concluded that states retain primary responsibility for local rate design policy and have primary responsibility for ensuring reasonably comparable rates *within* a state's borders.

  - The Commission agreed with the Joint Board that current conditions do not necessitate substantial increases in federal support for local rates. Only minor redistribution of federal support between states, based on forward-looking costs, may be necessary in order ensure rate comparability *among* states.

AS THE JOINT BOARD RECOMMENDED, FEDERAL SUPPORT SHOULD NOT INCREASE SIGNIFICANTLY (cont'd

- **Support should be calculated by comparing the forward-looking costs of providing supported services to the benchmark at the study area level.**

  - Study area determination is consistent with Joint Board Recommendation for federal responsibility of maintaining reasonable rate comparability *among* states, rather than *within* states.

  - Wire center or UNE zone determination ignores the mitigating effects of low cost wire centers offsetting high cost wire centers, resulting in a support mechanism much larger than is necessary under current competitive conditions. Indeed, massive increases to the federal fund would be required.

  - Advocates of wire center or UNE zone determination argue that federal support flows must be targeted to replace implicit support flows *within* the state.

    * this would violate the separate responsibilities of the FCC under section 254(e) and the states under section 254(f)

    * this is also *bad* public policy: for example, customers in New York should not be required to subsidize rates in high cost areas *within* a high cost state; rather, such a subsidy, if even necessary, should be designed to lower rates in the high cost state as a whole, in order for the rates in the state to be *reasonably comparable* with those in New York.

  - Once evaluated at the study area level, the Commission may geographically distribute the federal support to UNE zones once forward-looking cost-based UNE loops are available. This should address the Commission's concerns about the pressure on implicit support flows from low cost areas. Until geographically deaveraged UNE loop rates are available and systematically deployed, such pressure will not occur.

AS THE JOINT BOARD RECOMMENDED, FEDERAL SUPPORT SHOULD NOT INCREASE SIGNIFICANTLY (cont'd

- **Should the Commission choose to implement a hold-harmless policy, states, rather than carriers, should be "held harmless".**

  - Determination of hold-harmless on a state-by-state basis will prevent unnecessary increases in the size of the fund.

  - This approach best comports with the Commission's focus on ensuring rate comparability among states.

  - As the Fifth Circuit recently held, Section 254 does not prohibit a reduction in funding for any carrier, as long as the funding remains "sufficient." There is no basis for the major ILECs (RBOCs and GTE) to receive *any* high cost support.

AS THE JOINT BOARD RECOMMENDED, FEDERAL SUPPORT SHOULD NOT INCREASE SIGNIFICANTLY (cont'd)

- **That only a few states might receive incremental support from the 2-step process is *not* an indictment of the FCC's methodology.**

  - Demonstrates that either most high cost states have sufficient state resources to address their universal service needs or that the current explicit fund is sufficient for that state.

  - Lowering the State Per-Line Revenue threshold in order to redistribute federal support to more states will only result in an extraordinary and unnecessary increase to the current fund, in violation of the Commission's objectives.

MODELING FORWARD-LOOKING ECONOMIC COST

- **For the FCC Synthesis Model to generate FLECs, it must:**

  - Engineer a FL network (already ordered in the Platform Order); and

  - Be populated with FL input values (subject of imminent order)

- **While most of the preliminary input values that the Bureau is considering for the Synthesis Model seem reasonable, several appear to depart significantly from FLEC principles**

  - Digital loop carrier costs and switch cost offset

  - Copper cable costs

  - Structure type mix and density calculations

  - Accelerated tax depreciation

  - including embedded, one time or other non-FL costs in recurring expense

  - Using road surrogate data when actual geocode data is available

- **Decisions about input values should be resolved based on adherence to FL principles, not based on complaints about numeric cost outputs or alleged divergence from unsupported embedded costs**