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FEDERAL COMMUNICATIONS COMMISSION
OFFICE OF THE SECRETARY

February 4, 2000

EX PARTE

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

Re: CC Docket 94-1 (Price Cap Performance Review)
CC Docket 96-45 (Universal Service)
CC Docket 96-262 (Access Charge Reform)
CC Docket 99-249 (Low-Volume Long Distance Users)
CC Docket 96-98

Dear Ms. Salas:

On February 4, 2000, I met with Larry Strickling, Chief of the Common Carrier Bureau, to discuss possible modifications to the CALLS proposal for universal service and access reform. Topics discussed included appropriate levels of local switching revenues, subscriber line charges and the recovery of universal service contributions provided for under the CALLS proposal.

The potential impact of a modified CALLS proposal on residential telephone rates also was discussed. The attached paper describes the magnitude of these savings to consumers in general and low volume users in particular.

As required by Section 1.1206(b)(2) of the Commission's rules, I am filing two copies of this notice for placement in the record for each of the proceedings identified above.

Sincerely,

Robert T Blau

cc: Larry Strickling

How the Modified "CALLS" Proposal Helps America's Residential Phone Customers

The Telecommunications Act of 1996 requires the FCC to eliminate "hidden" telephone charges and make certain subsidies in consumer telephone bills transparent. To accomplish this goal, long-distance and local service providers have reached a major agreement on access and universal service reform embodied in the "CALLS" proposal. In addition to making charges explicit to consumers, the proposal significantly reduces phone bills for residential consumers, particularly elderly and low-income households that do not make many long distance calls. **Importantly, the plan also ear marks an additional $650M in universal service support that would be used to keep basic local phone rates affordable in high cost, rural areas**. Here is how it works:

- Local carriers would slash "minute-of-use" charges that long distance carriers pay for using local networks to complete long distance calls in half or by $2.1 billion as of July 1, 2000. Flowed through to residential customers, these reductions would lower long distance charges.

- The CALLS proposal will fully eliminate the "presubscribed interexchange carrier charge" (PICC) from monthly long distance bills for residential and small business customers. Without the proposal, however, the monthly charge will increase from approximately $1.50 to $2 in July 2000, to $2.15 in July 2001, before declining to $1.80 in July 2003.

- At present, many long distance carriers charge their residential customers minimum monthly fees for using less than a pre-determined amount of long distance service (e.g., $3 for AT&T, $5 for MCI). Under CALLS, all monthly minimum charges on low volume users would also be substantially reduced if not eliminated. **Eliminating the minimum charges and the PICC will save the 12% percent of AT&T residential customers who make no long distance $4.50 per month in local and long distance charges.**

- As part of the deal, local carriers will raise "subscriber line charges" (SLCs) slightly. The proposal would raise the SLC for a residential customer's primary phone line from $3.50 today to an average of $4.00 in July 2000, $4.92 in Jan.' 01, $5.60 in July '02, and $5.88 in July '03. While monthly saving therefore declines with SLC increases, **adoption of the CALLS plan would leave "no volume" users substantially better off – by an average of $3.10 per month over the 5 year life of the CALLS plan.**

- Long distance customers who spend $3 per month on long distance service would have their SLC increases offset by not having to pay the PICC and by reductions in long-distance rates that would result from the CALLS plan. Higher volume customers also would see their bills fall: Average residential customers who spend about $20 per month on long distance calls would realize rate reductions (e.g., a savings of $1 or more in usage charges plus eliminating their PICC) that more than compensate for SLC increases.

	Jul 00	**Jan 01**	**Jul 02**	**Jul 03**
LD Rate Cut	$1.00	$1.00	$1.00	$1.00
Eliminate PICC	$2.00	$2.00	$2.15	$1.80
LD Savings	$3.00	$3.00	$3.15	$2.80
Cum. Incr. in Avg. SLC	$0.50	$1.42	$2.10	$2.38
Net Monthly Savings	**$2.50**	**$1.58**	**$1.05**	**$0.42**

- Over 5 years, the CALLS proposal would reduce combined local and long distance charges to residential customers by an average of at least $1.10 per month. Savings realized by residential customers that make above average use of long distance services would save even more.

- By contrast, without the CALLS proposal, over the next 2 years U.S. households will pay about $220 million per month, or $2.6 billion per annum, in additional charges. Since savings that result from CALLS would be relatively greater for low volume users (due to sharp reductions in monthly minimum charges), the cost of delaying its implementation would fall disproportionately on elderly and lower income households who make up a relative large share of low volume user.