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February 25, 2000

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FEDERAL COMMUNICATIONS COMMISSION
OFFICE OF THE SECRETARY

VIA HAND DELIVERY

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

Re: Coalition for Affordable Local and Long Distance Service Proposal – CC Dockets 96-262, 94-1, 96-45, 99-249

Dear Ms. Salas:

On behalf of the Coalition for Affordable Local and Long Distance Service ("CALLS"), I am submitting the attached Ex Parte in connection with the Commission's Notice of Proposed Rulemaking on the CALLS proposal.

In accordance with FCC rules, I am filing copies of this letter in each of the above-captioned dockets.

Sincerely,

John T. Nakahata

Counsel to the Coalition for Affordable Local and Long Distance Service

JTN/krs
Attachment
cc: William E. Kennard, Chairman
Commissioner Susan Ness
Commissioner Harold W. Furchtgott-Roth
Commissioner Michael K. Powell
Commissioner Gloria Tristani
Ms. Kathryn Brown, Chief of Staff

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List ABCDE

Ms. Dorothy Attwood, Legal Advisor to the Chairman
Mr. Jordan Goldstein, Legal Advisor to Commissioner Ness
Ms. Rebecca Beynon, Legal Advisor to Commissioner Furchtgott-Roth
Mr. Kyle D. Dixon, Legal Advisor to Commissioner Powell
Ms. Sarah Whitesell, Legal Advisor 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. Aaron Goldschmidt, Attorney, Competitive Pricing Division, Common Carrier Bureau

Outline of Modifications to CALLS Proposal

After having reviewed the comments and reply comments with respect to the CALLS proposal filed July 29, 1999 (as revised and clarified by Attachment A to the CALLS Comments), and having over the past several months discussed the proposal with numerous parties, including public interest groups, state utility commissioners and the staff of the Federal Communications Commission, the Coalition for Affordable Local and Long Distance Service will file modifications to its proposal, as outlined below, which respond to the concerns that have been raised, and provide even greater benefits for consumers. The five-year term of the CALLS proposal remains the same, but begins July 1, 2000.

1. Lower Caps On Subscriber Line Charges -- CALLS believes the progression of changes in the caps on the primary residential and single line business subscriber line charges should be as follows:
    - $4.35 as of July 1, 2000;
    - $5.00 as of July 1, 2001;
    - $6.00 as of July 1, 2002;
    - $6.50 as of July 1, 2003.
2. Cost Review For Residential And Single Line Business Subscriber Line Charges – We agree that, after SLC caps reach $5.00, the Commission should initiate a proceeding for the purpose of verifying that the progression of the change in the caps is appropriate and that the progression reflects higher costs in the UNE zone or zones where they would apply. At such time, the incumbent LEC CALLS members would provide economic data, including identifying the forward-looking costs associated with the provision of retail voice grade access to the public switched telephone network for those areas.[1]
3. The primary residential and single line business PICC and non-primary residential PICC rate elements would be consolidated with other common line rate elements as of July 1, 2000, as in the initial CALLS proposal. This means that the line item for the PICC recovery fee will no longer appear on residential and single line business bills.
4. Special Access Rate Reductions -- Rates for special access services will be reduced according to the applicable price cap mechanisms using an X-factor equal to 3.0% in 2000, and an X-factor equal to 6.5% in 2001, 2002, and 2003. Thereafter, there will be a price cap freeze for special access (i.e. X equals inflation).
5. Lower Switched Access Rates --
    - Switched access usage charges (including Average Traffic Sensitive Charge rates and carrier common line charges but excluding SLCs and PICCs) will fall by $2.1 billion on July 1, 2000, assuming all price cap

[1] Nothing herein alters or waives the CALLS members' positions with respect to the legality, definition, application or use of forward-looking costs.

companies participate. X-factor reductions targeted to the Average Traffic Sensitive Charge rates will not include reductions associated with special access. X-factor reductions other than those associated with special access will be targeted to reduce Average Traffic Sensitive Charge rates to $0.0055 for the Bell Companies and GTE, and $0.0065 for the other price cap incumbent LECs, at which point there will be a price cap freeze (i.e. X equals inflation) for elements other than special access. Additional reductions to Average Traffic Sensitive Charge rates necessary to achieve a total of $2.1 billion reduction in switched access usage charges on July 1, 2000 would be calculated as a percentage of the local switching element of all price cap LECs, but carriers could take these reductions against any of the Average Traffic Sensitive Charge rate elements, provided that they still generated the same amount of reductions. At least a proportionate share of the additional reduction in Average Traffic Sensitive Charge rates will be taken to local switching rates. These additional reductions to Average Traffic Sensitive Charge rates would not be offset by increases in other rate elements, except for limited safeguards for smaller rural carriers and to provide for an orderly transition for carriers facing disproportionate initial reductions per line. This yields additional consumer savings.

- Unlike the original CALLS proposal, 25% of local switching revenues will not be shifted to the common line, marketing and TIC elements, as was proposed in the original CALLS proposal, subject to the limited safeguards for smaller rural carriers and to provide for an orderly transition noted above. Those revenues instead will be eliminated.

6. Universal Service Preserved And Enhanced -- As in the original CALLS proposal, there remains $650 million in universal service support for high cost areas to replace support currently in interstate access rates, as well as additional Lifeline support for low-income consumers. Support is calculated and distributed as per the original CALLS proposal, with the previously proposed $7 threshold for residential line support.

7. No waiver of the lower formula adjustment mechanism -- Unlike the original CALLS proposal, a price cap LEC electing to participate in the modified CALLS plan would not be required, by virtue of its election to participate in the CALLS plan, to waive the lower formula adjustment mechanism, other than for the July 2000 filing.

8. Consumer Education program -- CALLS will work with the FCC's Consumer Information Bureau to develop a consumer education program.

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Frank J. Gumper
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Donald E. Cain
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SBC Telecommunications Inc.

Jay C. Keithley
Vice President Regulatory Affairs
Sprint Corporation

Appendix

These are the safeguards for smaller rural carriers and to permit an orderly transition for carriers with disproportionate initial reductions per line. These options are mutually exclusive:

- In order to provide additional stability for rural study areas served by the smaller price cap carriers during this transitional period, $0.0065 (i.e. "mid-sized") price cap carriers with at least 20% of total holding company lines serving statutory "rural" study areas may elect to pool up to the following amounts:

    i. for that carrier's predominantly non-rural filing entities, the amount of the additional reductions to Average Traffic Sensitive Charge rates necessary to yield those filing entities' proportionate share of a total $2.1 billion reduction in switched access usage rates on July 1, 2000, to the extent such reductions exceed 25% of the Local Switching element revenues as of July 1, 2000 before application of price cap adjustments and other changes under the plan;

    ii. for that carrier's predominantly rural filing entities, the amount of the additional reductions to Average Traffic Sensitive Charge rates necessary to yield those filing entities' proportionate share of a total $2.1 billion reduction in switched access usage rates on July 1, 2000;

  subject to a maximum of the amount that the carrier can recover from common line elements other than primary residence/single line business SLCs and CCL across all filing entities within that holding company without exceeding the nominal caps on those elements ("pooled amounts"). The pooled amounts may be recovered across common line elements other than primary residential single line business SLCs and CCL within the same holding company. The pooled amounts will offset a portion of that carrier's additional reductions (i.e., those taken after all other changes resulting from the plan) to Average Traffic Sensitive Charge rates necessary to achieve that carrier's portion of a price cap LEC total of $2.1 billion reduction in switched access usage charges on July 1, 2000. The additional reductions in excess of pooled amounts will be taken without offset. Nothing in this provision reduces the total drop in a carrier's Average Traffic Sensitive Charge rates or CCL rates on July 1, 2000. The pooled amounts and the recovery thereof do not affect calculations of universal service support. We understand that in the proceeding the Commission initiates after July 1, 2001, the Commission will review whether retaining this pooling or transferring the pooled amounts to common line is appropriate.

- In order to provide for an orderly transition, any price cap company with reductions per line at the holding company level greater than the industry

average at the holding company level may elect temporarily to pool the amount of the additional reductions to Average Traffic Sensitive Charge rates necessary to yield that carrier's proportionate share of a total $2.1 billion reduction in switched access usage rates on July 1, 2000, to the extent such reductions exceed 25% of the Local Switching element revenues as of July 1, 2000 before application of price cap adjustments and other changes under the plan. The pooled amounts may be recovered across common line elements other than primary residence/single line business SLCs and CCL within the same filing entity, provided that the carrier agrees that an X-factor of 6.5 would continue for that filing entity until Average Traffic Sensitive Charge reaches the applicable target rate and the pooled amount is eliminated. Nothing in this provision reduces the total drop in a carrier's Average Traffic Sensitive Charge rates or CCL rates on July 1, 2000. The pooled amounts and the recovery thereof do not affect calculations of universal service support.