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ORIGINAL

EX PARTE NOTICE

March 6, 2000

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FEDERAL COMMUNICATIONS COMMISSION
OFFICE OF THE SECRETARY

Magalie Roman Salas
Secretary
Federal Communications Commission
445 Twelfth Street, S.W. TWB-204
Washington, D.C. 20554

RE: CC Docket No. 80-286

Dear Ms. Salas:

On March 4, 2000, John Schrotenboer and Porter Childers representing the United States Telecom Association (USTA) met with Lori Kenyon of the Federal-State Joint Board staff to discuss USTA's position regarding issues before the Federal-State Joint Board on Separations Reform. The attached material was the basis for the presentation and discussion.

The discussion was consistent with USTA's filings in this proceeding.

In accordance with Section 1.1206 (a) (1) of the Commission's rules, an original and one copy of this notice are being submitted to your office today. Please include this notice in the public record of this proceeding.

Respectfully submitted,

Porter E. Childers

Porter E. Childers
Executive Director
Legal and Regulatory Affairs

Attachment

cc: Federal-State Joint Board

No. of Copies rec'd 0+1
List A B C D E

USTA Separations Reform Proposal

CC Docket No. 80-286
Jurisdictional Separations Reform and Referral to the Federal-State Joint Board

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Legal Basis for Jurisdictional Separations

- There is currently a legal requirement to define jurisdictional responsibilities for costs and expenses.
- Each jurisdiction must then allow charges at a level designed to fairly compensate LECs for services under its authority.
- Jurisdictional separations of costs is necessary so long as local exchange carriers remain subject to federal and state regulations — including price cap regulation.
- The Telecom Act of 1996 did not change 47 U.S.C. § 221(c).

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USTA's Separations Freeze Proposal

Two-Tiered Approach:

Price Cap Carriers:

- Immediate freeze of allocation factors and categorization relationships as of end of most current year

Rate of Return Carriers:

- Immediate freeze of allocation factors based on 1995, 1996 and 1997 data
- Continue current categorization process
- Rate of return carriers, may freeze both category relationships and allocation factors at the initiation of the freeze.

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Meets Criteria Recommended by FCC Commenters Evaluating the Existing Separations Process

- Competitive neutrality
- Administrative simplicity
- Regulatory streamlining
- Maintains principles of cost causation
- Avoids jurisdictional cost shift
- Maintains jurisdictional separations

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USTA's Separations Freeze Proposal

Example

Price Cap Carriers — Central Office Equipment

	BASE/FREEZE YEAR				FUTURE YEAR(S)		
Account 2210	Subj to Sep (a)	Category Ratio (b=a/tot a)	Interstate (c)	Interstate Factor (d=c/a)	Subj to Sep (e=tot e*b)	Interstate (f=e*d)	Total Interstate (g=tot f/tot e)
1. Tandem Switching	18,000	0.0594	9,400	0.5222	20,792	10,858	
2. Local Switching	285,000	0.9406	34,500	0.1210	329,208	39,851	
3. Total	303,000	1.0000	43,900	0.1449	350,000*	50,710	0.1449
Account 2220							
4. Operator Systems	40	0.0092	40	1.0000	46	46	
5. Service Observing Boards	5	0.0011	—	0.0000	6	—	
6. Auxiliary Service Boards	4,200	0.9622	680	0.1619	4,811	799	
7. Traffic Service Positions	120	0.0275	7	0.0583	137	8	
8. Total	4,365	1.0000	727	0.1666	5,000*	833	0.1666

* For future years, the only input required is the total dollar amount in the account subject to separations.

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USTA's Separations Freeze Proposal

Example

Price Cap Carriers — Cable and Wire Facilities

Account 2410	BASE/FREEZE YEAR				FUTURE YEAR(S)		
	Subj to Sep (a)	Category Ratio (b=a/tot a)	Interstate (c)	Interstate Factor (d=c/a)	Subj to Sep (e=tot e*b)	Interstate (f=e*d)	Total Interstate (g=tot f/tot e)
1. Cat. 1 C&WF Loop – Msg	523,000	0.7259	131,000	0.2505	598,855	150,000	
2. Cat. 1 C&WF Loop – PI	27,500	0.0382	11,300	0.4109	31,489	12,939	
3. Cat. 2 C&WF Exch Trunk -- Msg	50,700	0.0704	5,300	0.1045	58,053	6,069	
4. Cat. 2 C&WF Exh Trunk – PI	2,000	0.0028	1,500	0.7500	2,290	1,718	
5. Cat. 3 C&WF IX Trunk – Msg	32,500	0.0451	22,000	0.6769	37,214	25,191	
6. Cat. 3 C&WF IX Trunk – PI	5,800	0.0080	3,200	0.5517	6,641	3,664	
7. Cat. 4 C&WF Host/Remote Trunk– Msg	76,500	0.1062	8,700	0.1137	87,595	9,962	
8. Cat. 4 C&WF Host/Remote Trunk – PI	2,500	0.0035	300	0.1200	2,863	344	
9. Total	720,500	1.0000	183,300	0.2544	825,000*	209,855	0.2544

* For future years, the only input required is the total dollar amount in the account subject to separations.

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USTA's Separations Freeze Proposal

Example

Rate of Return Carriers — Central Office Equipment

Account 2210	1997 Subj to Sep (a)	1997 Interstate (b)=(a)*(e)	1995 Interstate Factor (c)	1996 Interstate Factor (d)	1997 Interstate Factor (e)	Average Interstate Factor* (f)=((c)+(d)+(e))/3	1998 Subj to Sep (g)	1998 Interstate (h)=(g)*(f)
1. Tandem Switching	10,000	5,200	0.5000	0.5100	0.5200	0.5100	10,500	5,355
2. Local Switching	200,000	95,000	0.4500	0.4650	0.4750	0.4633	222,500	103,092
3. Total	210,000	100,200					233,000	108,447
Account 2220								
4. Operator Systems	400	400	1.0000	1.0000	1.0000	1.0000	405	405
5. Service Observing Boards	100	-	0.0000	0.0000	0.0000	0.0000	110	-
6. Auxiliary Service Boards	50	4	0.0600	0.0760	0.0850	0.0737	51	4
7. Traffic Service Positions	500	88	0.1666	0.1678	0.1767	0.1704	550	94
8. Total	1,050	493					1,116	502

* For future years, the average interstate factors would be used as the separations allocators.

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USTA's Separations Freeze Proposal

Example

Rate of Return Carriers — Cable & Wire Facilities

Account 2410	1997		1995 Interstate Factor (c)	1996 Interstate Factor (d)	1997 Interstate Factor (e)	Average Interstate Factor* (f)=((c)+(d)+(e))/3	1998	
	Subj to Sep (a)	Interstate (b)=(a)*(e)					Subj to Sep (g)	Interstate (h)=(g)*(f)
1. Cat. 1 C&WF Loop – Msg	523,000	132,058	0.2495	0.2520	0.2525	0.2513	525,000	131,950
2. Cat. 1 C&WF Loop – PL	27,500	11,138	0.4035	0.3986	0.4050	0.4024	28,000	11,266
3. Cat. 2 C&WF Exch Trunk – Msg	50,700	5,324	0.0985	0.1120	0.1050	0.1052	51,000	5,364
4. Cat. 2 C&WF Exch Trunk – PL	2,000	1,520	0.7400	0.7500	0.7600	0.7500	2,000	1,500
5. Cat. 3 C&WF IX Trunk – Msg	32,500	22,019	0.6875	0.6750	0.6775	0.6800	33,000	22,400
6. Cat. 3 C&WF IX Trunk – PL	5,800	3,132	0.5430	0.5395	0.5400	0.5408	6,000	3,245
7. Cat. 4 C&WF Host Remote Trunk – Msg	76,500	8,415	0.1095	0.1130	0.1100	0.1108	77,000	8,534
8. Cat. 4 C&WF Host Remote Trunk – PL	2,500	319	0.1150	0.1250	0.1275	0.1225	3,000	368
9. Total	720,500	183,923					725,000	184,666

* For future years, the average interstate factors would be used as the separations allocators.

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Revenue Requirement Impacts of Different Separations Change

REVENUE REQUIREMENT IMPACT OF SEPARATIONS FREEZE

	ARMIS COMPANIES	NECA COMPANIES	TOTAL
NUMBER OF LOOPS	162,771,573	6,399,594	169,171,167
BASE YEAR IS REVENUE REQUIREMENT	$23,891,373,000	$1,599,843,160	$25,491,216,160
USTA FREEZE IS REVENUE REQUIREMENT	$23,444,698,000	$1,564,522,284	$25,009,220,284
COST PER LINE PER MONTH			
Average shift to Intrastate	$0.23	$0.46	$0.24
Maximum shift to Intrastate	$1.86	$20.23	$20.23
Minimum shift to Intrastate	($3.31)	($43.05)	($43.05)

Base year is 1998; ARMIS Cos. Freeze category relationships and allocation factors from 1997 data; NECA Cos. Freeze allocation factors from 1995, 1996 & 1997 data.

48 Companies out of 719, or less than 7%, have shifts greater than +/-$5.00.

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USTA Response to June 17, 1999 Letter of State Members of Federal-State Joint Board

- Costs for UNEs should flow through the existing separations process with no unique treatment. Revenues for UNEs should be treated as rent revenues and offset allocated costs.
- The Joint Board and the FCC should reaffirm that Internet usage is interstate and should be reflected as interstate for purposes of separations. The FCC must, at the same time, establish a cost recovery mechanism for the costs associated with Internet use.
- NARUC's "three year rolling average" proposal would result in more separations work for incumbent LECs, with no perceived benefit in terms of accuracy or creditability of separations

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USTA Response to June 17, 1999 Letter of State Members of Federal-State Joint Board - (Cont'd.)

- The only "new, more rational, structure" of separations that should be considered is a freeze as suggested by USTA and subsequent elimination of requirements for separations.
- No changes or integration of FCC Part 64 and Part 36 are required to address increasing competition.
- The second sentence of sections 254(k) does not impose any new accounting or separations requirements.
- Potential "takings" or "confiscation" liabilities do not impose any constraints on the appropriate level of separations requirements

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Advantages of USTA's Separations Freeze Proposal

- Promotes competitive neutrality and administrative simplicity
- Significant streamlining of the regulatory process
- Continues to allow for the processing of cost data through the FCC Parts 32, 64, 36, and 69 rules
- Easily auditable
- Continues to provide required data for Federal and State Monitoring Reports
- Continues to provide required data for FCC's ARMIS 43-04 Report

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Other Issues

- Internet
- Sales/Acquisitions

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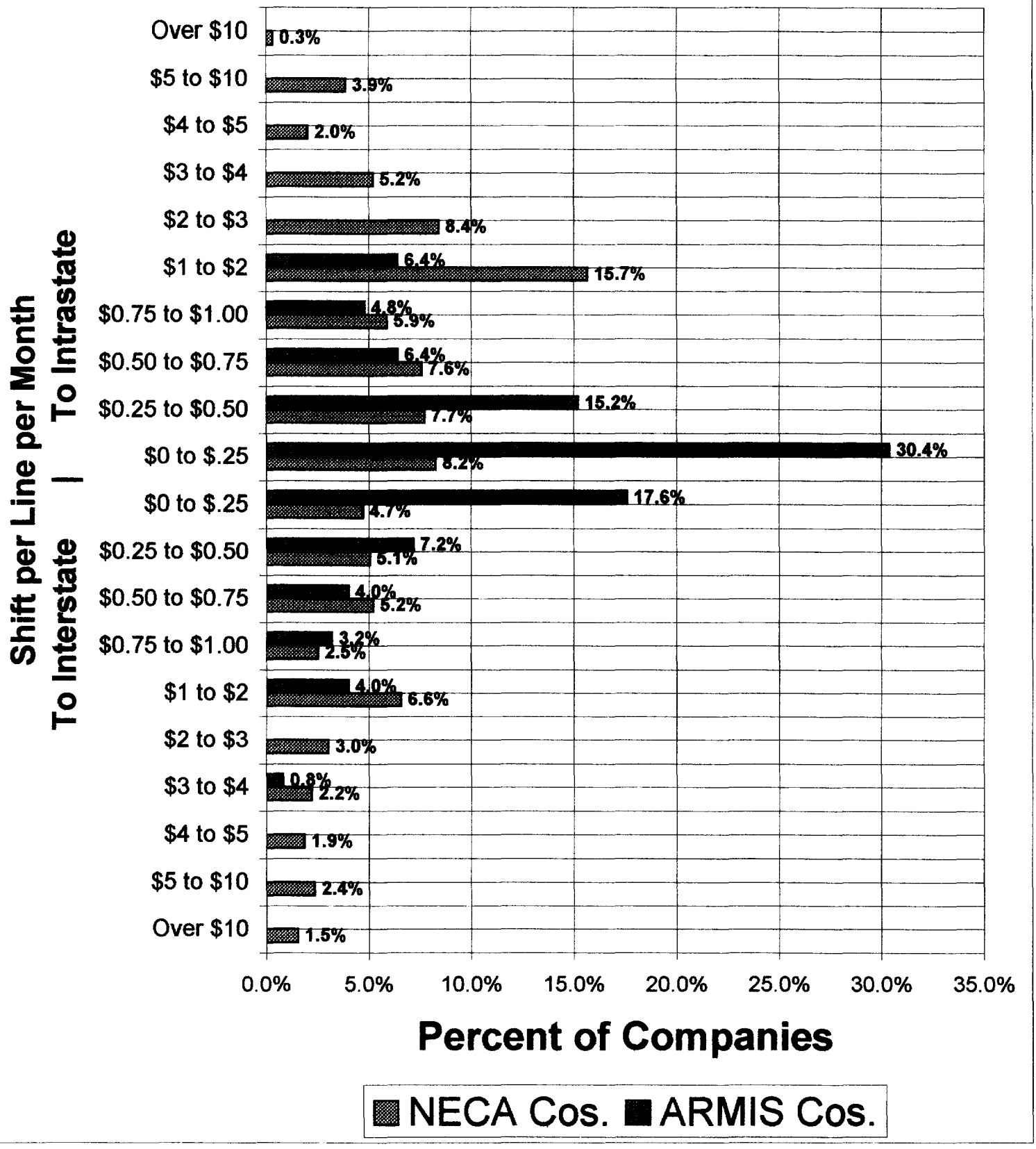
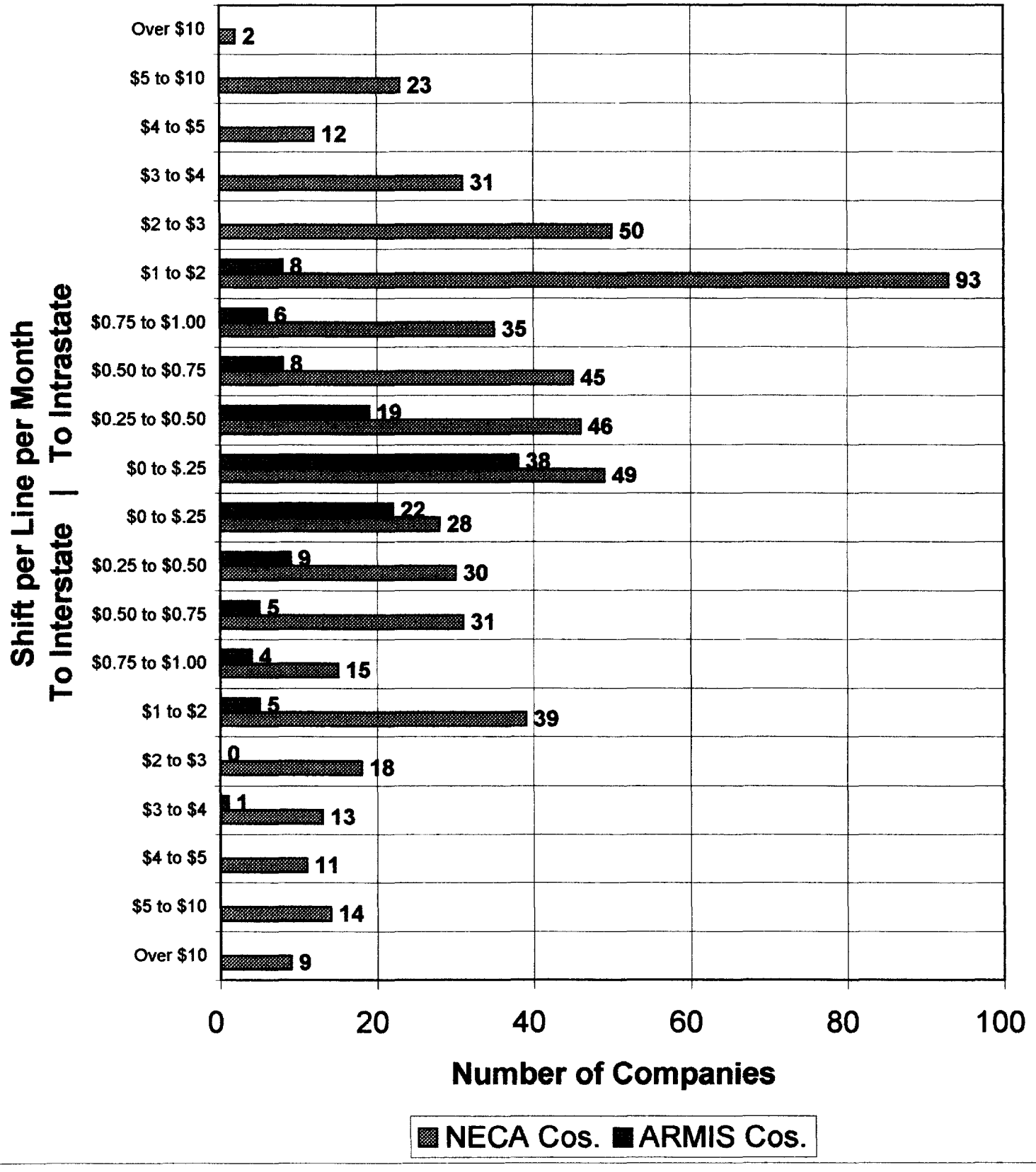
USTA Freeze Proposal
Distribution of Shifts



USTA Freeze Proposal
Distribution of Shifts