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ATTORNEYS AT LAW

April 14, 2000

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FEDERAL COMMUNICATIONS COMMISSION
OFFICE OF THE SECRETARY

EX PARTE – By Electronic Filing

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:

The attached letter was sent to Jack Zinman today.

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

Sincerely,

John T. Nakahata /KRS

John T. Nakahata

Counsel to the Coalition for Affordable Local and Long Distance Service

JTN/krs
Attachment

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April 14, 2000

VIA HAND DELIVERY

Mr. Jack Zinman
Common Carrier Bureau
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 Jack:

Enclosed please find, in response to your request, a further explanation of the CALLS Universal Service mechanism.

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

If you have any questions, please feel free to call me.

Sincerely,

John T. Nakahata /KRS

John T. Nakahata

Counsel to the Coalition for Affordable Local and Long Distance Service

JTN/krs
Enclosure

## CALLS Universal Service Mechanism

1. CALLS proposes to establish a new interstate access universal service fund ("Interstate Access USF") as an explicit mechanism to replace implicit subsidies that currently exist in access charges. The proposed fund level is targeted at $650 million per year.

2. The new mechanism, is designed to ensure that support flows to those carriers that are serving areas that are the highest cost to serve, and that support can be paid in a per line amount that is portable among competing eligible telecommunications carriers. This is done according to a three-step process. First, the $650 million total nationwide access USF support is preliminarily allocated to each study area based on price cap permitted CMT revenues per line geographically deaveraged according to state-approved, geographically deaveraged UNE prices.[1] Second, total support for a study area is then adjusted to provide greater per line support in those study areas that, given the caps set on the SLCs, have higher carrier common line and multiline business charges (as determined by the extent to which a study area's average CMT revenues per line exceed a benchmark of $7 per residential/single line business line and $9.20 per multiline business line.). Third, the total support for each study area is restated and distributed as a per line amount for each UNE zone and customer class, i.e. residential/single line business and multiline business.

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[1] CMT revenues include revenues from all common line rate elements, the marketing

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3. The CALLS proposal does not alter the basis for assessing the contribution amounts on telecommunications carriers. Universal service contributions by providers of interstate telecommunications would be determined in the same manner and as part of the same process for determining the contributions to be paid to support all other universal service support mechanisms, including support for intrastate high costs, support for connections to schools, libraries and rural health clinics, Lifeline/Linkup, and support for small telephone companies. Therefore, although the percentage contribution figure will change with the adoption of the CALLS plan, the administration will remain the same, ensuring that minimal additional burdens are placed on the existing universal service support mechanism.

4. All price cap LECs that wish to participate in the access USF proposed under the CALLS proposal would elect to participate by filing a written notice of intent to participate no later than five business days after the Commission released an order approving the CALLS plan.[2] If all or a portion of a study area that is receiving Interstate Access USF is sold to a non-price cap LEC, and if the area was not offered for sale prior to January 1, 2000, then the support that would have been provided to that area would no longer be collected or distributed.[3] All study areas served by participating

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charge and the residual TIC, as defined in 47 C.F.R. § 61.3(d).

[2] Proposed Rule § 54.802(c). In the case of a transfer of control occurring before December 31, 2000, the election must be made by January 1, 2001. *Id.*

[3] Proposed Rule § 54.801(b). Universal service mechanisms for non-price cap LECs are subject to separate consideration and would address the level of support for such areas.

price cap LECs are eligible to receive access USF, regardless of whether or when properties are transferred between participating price cap LECs.

## I. Study Areas with State-approved Zones

6. Pursuant to Commission rules, all states are required to establish at least three geographic zones for pricing unbundled network elements by May 1, 2000, and to deaverage UNE loop prices according to those zones.[4] The CALLS access USF plan is based on the price cap permitted CMT revenue per line and state-approved UNE loop and port prices. In each study area, price cap CMT revenues are geographically deaveraged to the level of the UNE zone, on the basis of state-approved UNE loop and port prices. Price cap common line rate elements, and accordingly total revenues permitted to be charged for a price cap CMT rate elements, are not today geographically deaveraged within a study area. For purposes of the access USF calculation, the relative level of CMT revenue per line in each zone is based on the relative level of the state-approved UNE loop and port rates in that zone, compared to the UNE rates in other zones.

7. In each UNE zone, the CMT revenues per line geographically deaveraged on the basis of state-approved UNE loops and port prices are compared to universal service support benchmarks of $7.00 per line for residential and single line business lines and $9.20 for multiline business lines.[5] The differences between the deaveraged

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[4] Federal-State Joint Board on Universal Service, Ninth Report and Order and Eighteenth Order on Reconsideration, CC Docket No. 96-45, FCC 99-306, at 46-47(released Nov. 2, 1999) ("Ninth Report & Order").

[5] The CALLS proposal continues to use the $7.00 benchmark for determining Interstate

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price cap CMT revenues per line and the universal service support benchmarks are "Above Benchmark Revenues."[6] Step one of the CALLS access USF methodology allocates to each study area a uniform nationwide percentage of these Above Benchmark Revenues, with the uniform percentage set at a level necessary to stay within the $650 million total nationwide target for price cap access USF. This allocation is termed the "Preliminary Study Area Universal Service Support" ("PSAUSS").

8. Step two of the CALLS access USF allocation process separately calculates the amount of support necessary to reduce study area averaged CMT rates per line down to the universal service support benchmarks of $7.00 for residential and single line business lines and $9.20 for multiline business lines. This serves as the basis for an alternative calculation of support. In areas where the effect of targeting the fund to $650 million is to drive an area's PSAUUSS below the support that would be calculated

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Access USF support, despite the fact that the last step of progression of residential and single line business SLC caps during the five year period is at $6.50. This permits use of the same benchmark for primary and non-primary residential lines and also is consistent with maintaining a fund size of $650 million which did not change from the original proposal. Memorandum in Support of Revised CALLS Plan at 8 (Mar. 8, 2000). The Commission can subsequently determine the appropriate primary resident and single-line business SLC caps and universal service support benchmarks to apply after the end of the five year period.

[6] Above benchmark revenues are computed in each UNE zone by taking the difference between the Zone Average Revenue Per Line and benchmarks of $7.00 for residential and single line business lines and $9.20 for multi-line business lines (hereinafter "$7.00/$9.20") for all lines in all zones and then aggregating that figure into a study area total. Proposed Rule § 54.805. Zone Average Revenue Per Line is computed based on state unbundled UNE loop and line port prices, adjusted to reflect the CMT revenue for the study area. *Id.*, § 54.800(p). Study Area Above Benchmark Revenues are the total above benchmark revenues for all zones in the study area. *Id.*, § 54.805(b).

on an average basis, the plan supplements the support that is provided. The CALLS methodology first calculates a study area's Preliminary Minimum Access support ('PMA"). The PMA is the amount by which the study area's geographically averaged CMT revenues per line exceed the universal service support benchmarks.[7] The PMA is then compared with the PSAUSS. To the extent that the PMA exceeds the PSAUSS, the study area's allocated universal service support is increased. The total amount of this increase, called the Minimum Adjustment Amount ("MAA"), is limited to $75 million nationwide to preserve distributional equity among regions, and the amount of the MAA adjustment is phased in over a three year period.[8]

9. In those study areas where the PMA is greater than the PSAUSS, the amount of access USF finally allocated to that study area is the Preliminary Study Area Universal Service Support adjusted upward by the Minimum Adjustment Amount.[9] In those study areas where the PSAUSS is greater than the PMA, the amount of access USF support allocated to that study area is that study area's PSAUSS, adjusted downward by a uniform percentage to offset the upward adjustments in study areas that received a Minimum Adjustment Amount.[10] This methodology gives first priority to those study areas that qualify for minimum support through the MAA, and then allocates the remainder of the fund to the study areas without minimum support requirements while maintaining the overall access USF fund target of $650 million.

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[7] Proposed Rule § 54.804.

[8] The MAA is phased in over three years, as follows: 50 percent as of 7/1/2000, 75 percent as of 7/1/2001, and 100 percent as of 7/1/2002. Proposed Rule § 54.800(e).

[9] Proposed Rule §§ 54.806(g) & (i)(1).

## II. Areas Without UNE Zones

10. Not all study areas will have state-approved UNE zones initially. For study areas that do not have UNE zones, The amount of access USF allocated to that study area is equal to the lesser of 1), the amount as determined for study areas with state-approved zones as described in 9 above using a set of model-based hypothetical UNE zones and zone prices or 2), the PMA.[11] This methodology ensures that a company that does not have UNE zones will receive no more than the preliminary minimum amount represented by the PMA, unless the amount allocated by creating hypothetical UNE zones is less than this amount. This will encourage companies and states to establish UNE zones as requires by the rules.

## III. Portability to Competitors

11. Step three in the CALLS access USF methodology is to restate study area universal service support as a per line support amount so that access USF can be distributed in a portable and competitively neutral manner.[12] The per line support established by the Administrator from the Interstate Access USF is portable to a competing carrier in the same amount that the participating price cap carrier receives. This is consistent with the way portability operates for high cost support for non-rural carriers.[13] In all calculations of per line support, total lines are adjusted to reflect the

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[10] Proposed Rule § 54.806(i)(2).

[11] Proposed Rule § 54.806(*j*).

[12] Federal-State Joint Board on Universal Service, 12 FCC Rcd. 8776, 8801 (1977).

[13] Ninth Report & Order at 119-24.

lines in service during the period the support is in effect by a growth factor based on the average annual growth in eligible lines during the three previous years.[14] This keeps the interstate access USF targeted to $650 million annually.

12. For study areas with no deaveraged UNE loop rates, the portable support per line is equal to the total access USF finally allocated to that study area divided by the total lines of all eligible telecommunications carriers in the study area.

13. For study areas with deaveraged UNE loop rates, support is provided in a cascading hierarchy depending on the zone average revenues per line targeted to the UNE zones with the highest average revenue per line. The per line portable amount is allocated in the following manner: (1) to all lines in the highest zone, to eliminate the amount per line by which the Zone Average Revenue per Line exceeds the higher of the applicable benchmark or the Zone Average Revenue per Line in the next highest zone; (2) if the Zone Average Revenue per Line in the next highest zone is greater than the applicable benchmark, then to all lines in both zones to eliminate the amount by which the Zone Average Revenue per Line exceeds the applicable benchmark: and (3) to the next highest cost zone in the same manner, until this "cascading" process assigns all available support to lines by zone.[15] This cascading process in essence is designed to apply Interstate Access USF to the zones in the order of their highest costs first, leaving lower cost zones not eligible for support if the total amount of support is exhausted at an earlier stage in the cascading process.

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[14] Proposed Rule § 54.807(b).

[15] Proposed rules § 54.807(c).

14. The CALLS draft universal service rules also provide that "An eligible telecommunications carrier shall receive payment of support pursuant to this Subpart only for such months as the carrier is actually providing service to the end user. The Administrator shall ensure that there is a periodic reconciliation of payments." To provide carriers with universal service support as close in time as possible to the actual time service is provided to the end user, all eligible telecommunications carriers would receive universal service support payment based initially on the number of lines served at the end of the preceding quarter. However, paying universal service solely on historic line counts would mean that a carrier who lost a customer would continue to receive universal service support attributable to that customer for some months after service terminated, and a carrier gaining a customer would have to wait up to several months in order to begin receiving universal service support attributable to that customer. To ensure that an eligible telecommunications carrier only receives payments for the months in which it is actually providing service, the proposed rules would require USAC to reconcile the number of lines actually reported in subsequent line count reports with the number of lines for which support was initially paid, and USAC "true-up" support amounts to reflect its best approximation of the lines actually served during a particular quarter.