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November 8, 2000

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FEDERAL COMMUNICATIONS COMMISSION
OFFICE OF THE SECRETARY

Ms. Magalie Roman Salas
Secretary
Federal Communications Commission
445 12th St., SW, Room TWB-204
Washington, DC 20554

Re: Federal-State Joint Board on Universal Service
CC Docket No. 96-45

Dear Ms. Salas:

Yesterday, November 7, 2000, Joel Lubin, Mark Lemler and I met with Carol Mattey, Deputy Chief of the Common Carrier Bureau, Jack Zinman, Counsel for the Common Carrier Bureau, Katherine Schroder, Chief of the Accounting Policy Division of the Common Carrier Bureau, Anita Cheng, Associate Chief of the Accounting Policy Division, Praveen Goyal, Richard Smith, and Jim Lande, all of the Accounting Policy Division. The purpose of the meeting was to review AT&T's position regarding the changes necessary for the Commission to make the universal service cost assessment mechanism competitively neutral. In particular, AT&T representatives discussed how AT&T's proposal would be operationalized. Those mechanics were previously set forth in by AT&T during ex parte presentations made in this proceeding on January 14, 2000 and February 10, 2000, copies of which are attached hereto.

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The positions expressed by AT&T were consistent with those contained in the Comments and ex parte filings previously made in the aforementioned dockets. Two copies of this Notice are being submitted for each of the referenced proceedings in accordance with the Commission's rules.

Very truly yours,

Robert W. Quinn, Jr.

Robert W. Quinn, Jr.

Enclosure

cc: Anna Gomez, Legal Adviser, Chairman Kennard
Rebecca Beynon, Legal Adviser, Commissioner Furchgott-Roth
Kyle Dixon, Legal Adviser, Commissioner Powell
Jordan Goldstein, Legal Adviser, Commissioner Ness
Deena Shetler, Legal Adviser, Commissioner Tristani
Carol Mattey, Deputy Chief, Common Carrier Bureau
Jack Zinman, Counsel, Common Carrier Bureau
Katherine Shroder, Chief, Accounting Policy Division
Anita Cheng, Associate Chief, Accounting Policy Division
Praveen Goyal, Accounting Policy Division
Richard Smith, Accounting Policy Division
James Lande, Accounting Policy Division

AT&T

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January 14, 2000

Magalie Roman Salas
Secretary
Federal Communications Commission
445 12th Street, SW Room TWB-204
Washington, DC 20554

RE: Notice of Ex Parte Meeting
In the Matter of the Funding Mechanism of the Universal Service Fund
CC Docket No. 96-45

Dear Ms. Salas:

Yesterday, Mark Lemler and I, both of AT&T met with Lawrence Strickling, Chief of the Common Carrier Bureau, Jack Zinman, Counsel to the Bureau Chief and Katherine Schroder, Deputy Chief, Accounting Policy Division. During that meeting, we discussed matters related to the referenced proceedings using the attached document as an outline.

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

Sincerely,

Joel Lubin/pa

cc: L. Strickling
J. Zinman
K. Schroder

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THE USF LAG ADVANTAGES CARRIERS THAT ARE GROWING MARKET SHARE AT THE EXPENSE OF CUSTOMERS OF CARRIERS THAT ARE LOSING MARKET SHARE

- **Mechanism sets up an effective 12-month lag between a carrier's assessed revenues and its contributions to the USF.**

  - The average contribution a carrier makes in the first half of 2000, centered on April 1, 2000, is based on its average retail revenues in the first half of 1999, centered on April 1, 1999. *(See Illustrative Example 1)*

  - Similarly, the average contribution a carrier makes in the second half of 2000, centered on October 1, 2000, is based on its average retail revenues in the second half of 1999, centered on October 1, 1999.

  - Carriers must recover these obligations from their *current* year operations.

- **The lag advantages new entrants' future provision of LD by avoiding USF obligations for the first 12-months of operation.**

  - Problem has become more critical in light of 5^{th} Circuit Court Order which requires the entire federal USF be assessed on End-User Interstate and International Revenues.

- **Carriers with growing LD market share are able to "buy" market share through the USF recovery rate.**

  - USF obligations are a real cost of doing business and cannot be competed away.

  - IXCs with losing LD market share cannot afford to lower their USF charge to match competition as their USF obligations are fixed, having been based on the previous year's higher revenues. IXCs must increase their USF collection rate to make up for their lost market share. *(See Illustrative Example 2)*

- **This competitive advantage violates the competitive neutrality provisions of Section 254(d).**

ILLUSTRATIVE EXAMPLE 1: DEMONSTRATION OF A 12-MONTH LAG BETWEEN USF ASSESSMENTS AND CARRIER CONTRIBUTIONS

Assume USF Assessment rate of 5%

	Carrier A Retail Revenues ($M)		Carrier A USF Obligations ($M)
January 1999	20	January 2000	1
February 1999	17	February 2000	1
March 1999	22	March 2000	1
April 1999	19	April 2000	1
May 1999	23	May 2000	1
June 1999	19	June 2000	1
Total Revenues	120	Total Obligations	6

Average Monthly Revenue (April 1999) = $20M

Average Monthly Obligation (April 2000) = $1M

ILLUSTRATIVE EXAMPLE 2: DEMONSTRATION OF HOW IXC1 CUSTOMERS SUBSIDIZE IXC2 CUSTOMERS

Assume: USF Contribution Factor of .05 for First Quarter of 2000 which was assessed against January 1, 1999 – June 30, 1999 Revenues to determine Industry USF Obligations in 2000.[1]

Assume: IXC1 has $10,000 revenue base, but loses 5% of LD Revenues to IXC2 in current year

		Comment
Assessed IXC1 Historical Revenue Base	$10000	
Assessment Rate	5%	Assumed USF Contribution Factor of .05
IXC1 Current Year USF Obligations (Based on historical revenues)	$500	IXC1 owes this amount regardless of market share in current year
IXC2 Current Year USF Obligations	0	IXC2 had no historical LD revenues
Effective IXC1 collection rate with 5% Revenue share loss to IXC2	5.263%	IXC1 must charge a higher line-item from remaining customers to recover its $500 USF Obligation
Result is IXC2 collection rate is either:	0 or 5.263%	Either result is not competitively neutral; distorts the LD market place

[1] The Common Carrier Bureau proposed a 0.058770 universal service contribution factor for the first quarter of 2000. (Public Notice DA-99-2780, December 10, 1999)

THE COMMISSION CAN ACHIEVE COMPETITIVE NEUTRALITY BY REQUIRING CARRIERS TO CONTRIBUTE TO USF BASED ON *CURRENT* REVENUES

- **Elements of Proposal:**

  - Carriers complete USAC Form 499 twice a year as they currently do.

  - USAC calculates a quarterly factor reflecting USF support requirements divided by the appropriate Interstate and International Retail Revenues from the Form 499s.

  - The quarterly factor is converted to a monthly USF assessment rate that is applied to the Retail Revenues of each telecommunications service provider's monthly end-user billings to determine that service provider's obligation.[2]

  - Carriers would remit to USAC within 30 days of the end of each month their monthly assessments.

  - USAC performs a quarterly "true-up" and adjustments are reflected in the next quarter's factor.

  - USAC performs an annual reconciliation (April) with each telecommunications service provider to ensure that the total monthly revenues billed the previous year correspond to the March 31 Form 499 submissions. An officer of service provider certifies to the accuracy of the Form 499 submission.

- **Proposal is efficient and competitively neutral.**

  - USAC's assessment rate is based on historical revenues, but its assessments come from current revenues. No forecasts of revenues are in the process.

  - The quarterly true-up ensures that there are sufficient funds to meet the following quarter's funding obligations.

  - Carriers contribute to USF at the same rate from their current revenues, independent of their historical revenues.

- **Proposal eliminates controversy and confusion.**

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[2] In the Texas USF, the factor is converted to a monthly assessment rate. For the Colorado USF, the factor is applied to quarterly billings.

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Yesterday, Mark Lemler and I, both of AT&T met with Lawrence Strickling, Chief of the Common Carrier Bureau, Jack Zinman, Counsel to the Bureau Chief, Katherine Schroder, Deputy Chief, Accounting Policy Division, Carol Mattey, Chief, Policy and Program Planning Division, Jim Lande, Industry Economist, Industry Analysis Division, and Praveen Goyal, Attorney Advisor. During that meeting, we discussed matters related to the referenced proceedings using the attached document as an outline.

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

Sincerely,
Joel Lubin/pa

cc: L. Strickling
J. Zinman
K. Schroder
C. Mattey
J. Lande
P. Goyal

Recycled Paper

THE COMMISSION CAN ACHIEVE COMPETITIVE NEUTRALITY BY REQUIRING CARRIERS TO CONTRIBUTE TO THE USF BASED ON *CURRENT* REVENUES

- **Elements of Proposal:**

- Carriers complete USAC Form 499 twice a year as they currently do.

- USAC calculates a quarterly factor reflecting USF support requirements divided by the appropriate Interstate and International Retail Revenues from the Forms 499.

- The factors for the 1st and 2nd quarters are based on the 1st half of the previous year's revenues and the factors for the 3rd and 4th quarters are based on the 2nd half of the previous year's revenues.

- The quarterly factor is converted to a periodic USF assessment rate that is applied to the Retail Revenues of each telecommunications service provider's periodic end-user billings to determine that service provider's obligation.[1]

- Provider's can select either a monthly or quarterly assessment rate, based on their end-user billing cycles.

- Carriers remit to USAC within 30 days of the end of each period their periodic assessments.

- Example of Payment Schedules:

Quarter	Monthly Payment Schedule	Quarterly Payment Schedule
1st Quarter	Feb. 30, Mar. 30, Apr. 30	Apr. 30
2nd Quarter	May 30, Jun. 30, Jul. 30	Jul. 30
3rd Quarter	Aug. 30, Sep. 30, Oct. 30	Oct. 30
4th Quarter	Nov. 30, Dec. 30, Jan. 30	Jan. 30

- USAC performs a quarterly "true-up" and adjustments are reflected in the next quarter's factor.

- There is no need for USAC to create a "cushion" in the USF to mitigate concerns over a shortfall from collections. Historical year-to-year revenue growth by quarter (See Attachment) demonstrates that collections from *current* revenues should exceed the historical assessment base.

- If, in the spirit of ensuring fund integrity, the Commission wants to put in place procedures to allow for mid-quarter true-ups, it can:

1) Invoke Part 54.709(c), authorizing USAC to borrow funds in the middle of the quarter, or:

1 In the Texas USF, the factor is converted to a monthly assessment rate. For the Colorado USF, the factor is applied to quarterly billings.

2) Modify Part 54.709(a)(3), allowing the Commission to re-state the assessment rate for the remaining portion of the quarter within 3 days following release of a Public Notice.

- USAC performs an annual reconciliation (April) with each telecommunications service provider to ensure that the total monthly revenues billed the previous year correspond to the March 31 Form 499 submissions. An officer of each service provider certifies to the accuracy of its Form 499 submission.

TABLE 3.5 - QUARTERLY TOLL REVENUES REPORTED TO SHAREHOLDERS
(DOLLAR AMOUNTS SHOWN IN MILLIONS)

	Nominal	Half-Yr Avg	% Growth (n vs Avg n-4)		Nominal	Half-Yr Avg	% Growth (n vs Avg n-4)
1Q84	$9,524	9,790		1Q91	14,436	14,523	4.3%
2Q84	10,055	9,790		2Q91	14,611	14,523	5.6%
3Q84	9,995	10,130		3Q91	14,900	14,922	4.5%
4Q84	10,265	10,130		4Q91	14,945	14,922	4.8%
1Q85	10,543	10,802	7.7%	1Q92	15,214	15,285	4.8%
2Q85	11,060	10,802	13.0%	2Q92	15,356	15,285	5.7%
3Q85	11,038	11,147	9.0%	3Q92	15,811	15,698	6.0%
4Q85	11,255	11,147	11.1%	4Q92	15,584	15,698	4.4%
1Q86	11,462	11,469	6.1%	1Q93	15,917	15,972	4.1%
2Q86	11,476	11,469	6.2%	2Q93	16,027	15,972	4.9%
3Q86	11,514	11,474	3.3%	3Q93	16,599	16,649	5.7%
4Q86	11,435	11,474	2.6%	4Q93	16,699	16,649	6.4%
1Q87	11,156	11,236	-2.7%	1Q94	17,563	17,733	10.0%
2Q87	11,317	11,236	-1.3%	2Q94	17,904	17,733	12.1%
3Q87	11,694	11,727	1.9%	3Q94	18,181	18,181	9.2%
4Q87	11,759	11,727	2.5%	4Q94	18,181	18,181	9.2%
1Q88	11,748	11,857	4.6%	1Q95	19,208	19,521	8.3%
2Q88	11,965	11,857	6.5%	2Q95	19,833	19,521	11.8%
3Q88	12,377	12,549	5.5%	3Q95	20,517	20,632	12.8%
4Q88	12,722	12,549	8.5%	4Q95	20,748	20,632	14.1%
1Q89	12,906	12,952	8.9%	1Q96	$21,616	21,737	10.7%
2Q89	12,998	12,952	9.6%	2Q96	21,857	21,737	12.0%
3Q89	13,087	13,188	4.3%	3Q96	22,552	22,729	9.3%
4Q89	13,289	13,188	5.9%	4Q96	22,906	22,729	11.0%
1Q90	13,768	13,842	6.3%	1Q97	23,436	23,598	7.8%
2Q90	13,916	13,842	7.4%	2Q97	23,760	23,598	9.3%
3Q90	14,191	14,260	7.6%	3Q97	24,185	24,317	6.4%
4Q90	14,329	14,260	8.7%	4Q97	24,449	24,317	7.6%
				1Q98	25,521	25,756	8.1%
				2Q98	25,990	25,756	10.1%
Average	7.1%			3Q98	26,140	26,229	7.5%
Std Dev	3.4%			4Q98	26,318	26,229	8.2%

Source: Long Distance Market Shares Fourth Quarter 1998, March 1999