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FEDERAL COMMUNICATIONS COMMISSION
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December 6, 2000

EX PARTE OR LATE FILED

Ms. Magalie Roman Salas
Secretary
Federal Communications Commission
445 Twelfth Street, SW
Room TWB-204
Washington, DC 20554

Re: Notice of Ex Parte Presentation: Federal-State Joint Board on
Universal Service, CC Docket No. 96-45.

Dear Ms. Salas:

Yesterday, James Cicconi, General Counsel and Executive Vice President of Law & Government Affairs, sent the attached letter to Chairman William E. Kennard. Copies of the letter were also provided electronically to Dorothy Attwood, Carol Mattey and Glen Reynolds. Please include a copy of the attached letter in the record of the referenced proceeding.

In accordance with Section 1.1206 of the Commissions rules, I have submitted two copies of this Notice for each referenced proceeding.

Sincerely,

cc: D. Attwood
R. Beynon
K. Dixon
A. Gomez
J. Goldstein
C. Mattey
G. Reynolds
D. Shetler

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James W. Cicconi
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1120 20th St. NW
Washington, DC 20036
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December 5, 2000

Chairman William E. Kennard
Federal Communications Commission
445 Twelfth Street, SW, Room 8B201
Washington, D.C. 20554

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

Dear Chairman Kennard:

I am writing to underscore the urgency of revising the existing method by which the Commission assesses carriers' universal service obligations. Because the Commission assesses those obligations on the basis of prior-year revenues, AT&T and its customers bear a disproportionately large share of the burden of universal service, currently amounting to an 8.6 percent surcharge on our residential end user bills. As we have previously discussed, we anticipate that this surcharge will increase substantially on January 1, perhaps exceeding 11 percent or resulting in the introduction of an additional surcharge. An increase of this size would be unnecessary if the Commission takes immediate steps to mitigate the effects of its assessment methodology.

Preliminarily, the Commission should revise its assessment methodology to eliminate its use of prior-year revenues. Section 254(d) of the Telecommunications Act explicitly directs that carriers shall contribute on "an equitable and nondiscriminatory"

basis to the universal service fund. Yet, as the Commission knows, the existing assessment method systematically disadvantages interexchange carriers with declining revenues and advantages carriers with increasing revenues. This distorts competition among all carriers and imposes disproportionate burdens on customers of different carriers. It also has permitted Verizon in New York and SBC in Texas to charge their in-region long distance customers a USF fee, notwithstanding that those carriers pay no corresponding universal service support based on first-year in-region long distance revenues. All of this is flatly inconsistent with the requirements of Section 254(d), and there is no sound policy basis for it. It clearly cannot be justified, as some have claimed, on the basis of the administrative ease of the current methodology. As AT&T has demonstrated in its *ex parte* submissions and recently filed comments, a methodology based on current revenues is workable and can be implemented promptly in a manner that would ensure the integrity of the USF program.

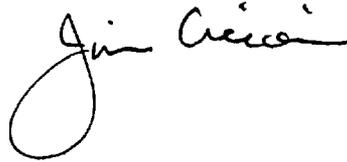
I realize that the Commission is reviewing its assessment methodology pursuant to a notice of proposed rulemaking that appeared in the Federal Register in November. But AT&T has raised this issue with the Commission for more than a year, and repeatedly urged that it be addressed in order to avoid unnecessary increases in charges to our customers. Absent Commission action implementing fundamental reforms in its assessment mechanism before January 1, our customers will continue to face a substantial increase in USF-related charges as a result of the Commission's current assessment methodology.

Even now, however, should implementation be delayed beyond January 1, the Commission can take immediate steps to minimize increases in USF-related charges. Specifically, the Commission should freeze, at its current level, the USF contribution factor until implementation of a revised assessment mechanism. This freeze would apply only for any limited time that may be needed to complete the current proceeding and implement the new methodology. In addition, any Commission order revising the assessment factor should provide, by way of subsequent true-up if necessary, that all payments made after December 31, 2000 shall be based on current revenues. This will further the goal of an equitable and nondiscriminatory contribution to the universal service fund for 2001, even if the Commission order is delayed beyond the first of the year.

Mr. Chairman, I want to assure you that AT&T shares your concerns about these charges and the viability of the universal service system. The current assessment mechanism leads to unnecessarily high rates for many customers, and jeopardizes the viability of the system by distorting competition and unnecessarily taxing consumer

tolerance for these charges. The actions proposed above would limit the disparate burdens borne by customers as a result of the prior-year assessment methodology.

Sincerely,

A handwritten signature in black ink, appearing to read "Jim Cicci". The signature is written in a cursive style with a large, looping initial "J".

cc: Commissioner Ness
Commissioner Furchtgott-Roth
Commissioner Powell
Commissioner Tristani
Kathryn C. Brown, FCC Chief of Staff
Dorothy Attwood, Chief, Common Carrier Bureau