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ATTORNEYS AT LAW

September 14, 2001

EX PARTE – Via Electronic Filing

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

Re: CC Docket 96-45 (Rural Task Force Recommendation), and
CC Docket Nos. 00-256, 96-45, 98-77, and 98-166 (Multi-Association Group Plan for Regulation of Interstate Service of Non-Price Cap Incumbent Local Exchange Carriers and Interexchange Carriers)

Dear Ms. Salas:

On September 13, 2001, Joel Lubin (of AT&T), Mark Rubin (of Western Wireless) and I (on behalf of AT&T, Western Wireless and GCI), met with Chairman Powell and Kyle Dixon, Legal Advisor to Chairman Powell. The substance of our presentation is summarized in the attached written ex parte.

In accordance with FCC rules, a copy of this letter and its attachments are being filed electronically in each of the above-captioned dockets.

Sincerely,

John T. Nakahata

JTN/krs
Attachment
c: Chairman Michael K. Powell
Kyle Dixon, Legal Advisor to Chairman Powell
Jane Jackson, Chief, Competitive Pricing Division, Common Carrier Bureau
Katherine Schroder, Chief, Accounting Policy Division, Common Carrier Bureau
Rich Lerner, Deputy Chief, Competitive Pricing Division, Common Carrier Bureau
William Scher, Attorney, Accounting Policy Division, Common Carrier Bureau

Rural Consumer Choice Plan: Securing Universal Service and Promoting Facilities-Based Choices for Rural America

AT&T, GCI, Western Wireless

September 13, 2001

Rural Consumer Choice Plan -- Objectives

1. Ensure affordable rates in areas served by non-price cap LECs.
2. Promote competition and choice for all Americans.
3. Remove implicit subsidies from access charges.
4. Support the national policy of toll rate averaging.
5. Promote broadband availability.

Rural America -- Two Implicit Subsidies Fund Network

- Rural Non-Price Cap ILECs have high loop costs, which receive substantial universal service support through carrier common line charges and toll rate averaging.
  - All consumers pay implicit support because long distance companies cannot pass high access charges back to rural consumers only.
- Rural Non-Price Cap ILECs have high switching and transport costs, which receive implicit universal service support through pooling and toll rate averaging.

Rural America -- Problems Needing Solution

- Reliance on implicit subsidies (access and toll averaging) blocks competitive entry into rural areas for facilities-based mass local services.
- Implicit subsidies encourage access-only or VoIP bypass by businesses.
- Increasing urban LD competition means toll averaging *discourages* rural LD entry in the absence of explicit support.
- Blocking entry through implicit subsidies hinders broadband deployment and service innovation.

Rural Consumer Choice – Baseline Access Charge Reforms

- Increase SLC caps to CALLS levels.
- Recover ILEC USF contributions through a line charge (same as price-cap LECs).
- "Catch-up" access rate reforms.
  - Move line port charges to common line.
  - Move marketing to common line.
  - GSF reallocated to billing & collection.
  - TIC reallocated to common line.
  - Move information surcharge to common line.
- Continue to calculate revenue requirements annually under ROR formulas.

Rural Consumer Choice – Universal Service (Loops)

- USF support for Common Line revenue requirement above $6.50 per line, paid on a per-line basis to ETCs (replaces non-transition CCL).
- Lifeline ensures low-income consumers pay no SLCs for Lifeline service.

Rural Consumer Choice – Universal Service (Switching and Transport)

- USF support for local switching charges above $.0025/minute, paid on a per line basis to ETCs.
  - Consistent with RTF principles.
  - Results in NECA access rates averaging $.0095, comparable to rural CALLS LECs.
  - Does not distort transport markets.
- Precedent -- Local Switching Support (DEM)
- Unsupported local switching ranges from ~$.0050 to $.0169/minute (after port reallocation of 30%).

Rural Consumer Choice – Incentive Regulation

- Incentive regulation is an *option*, but carriers can remain ROR.
- Permitted revenues don't increase faster than historically under ROR.
- Increased returns come from efficiency gains.
- Efficiency gains shared between carrier and the USF.
- Carriers opting for incentive regulation make an upfront reduction in permitted revenue.

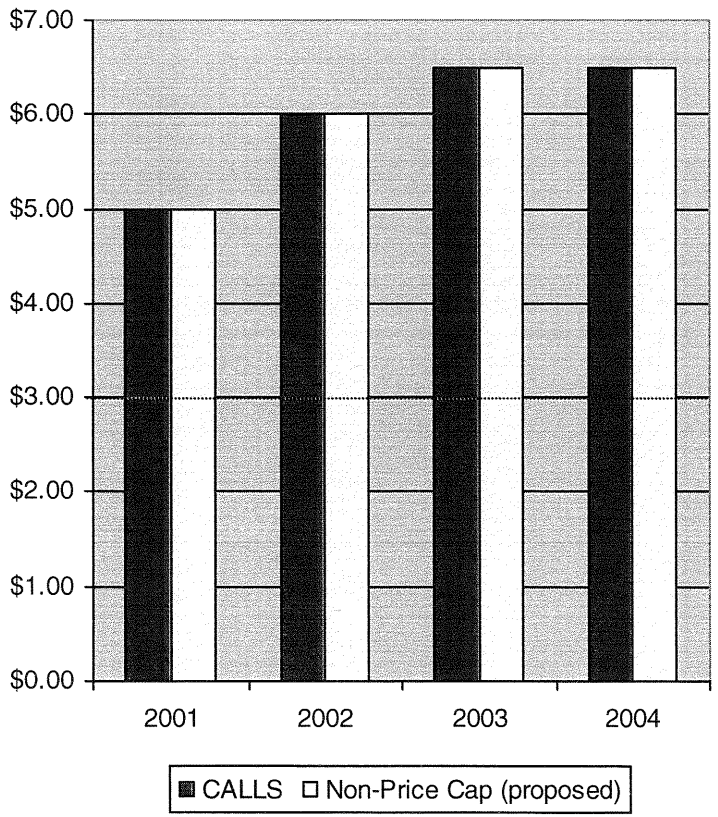
RCC Plan -- Solutions Address Problems

- Reduced reliance on access cuts vulnerability to targeted entry or voice/data integration.
- Explicit common line USF will keep end user charges reasonably comparable to, *but not lower than*, urban and rural price-cap LEC areas.
- Explicit rate averaging support creates an economically sustainable means to support toll rate averaging, and encourages new LD providers to extend service to non-price cap areas.
- All USF support is explicit, competitively neutral and sustainable as competition increases. Portable USF promotes local service choice, especially for residences.
- Competition means better calling plans and features.

Consumer Benefits MAG v. RCC

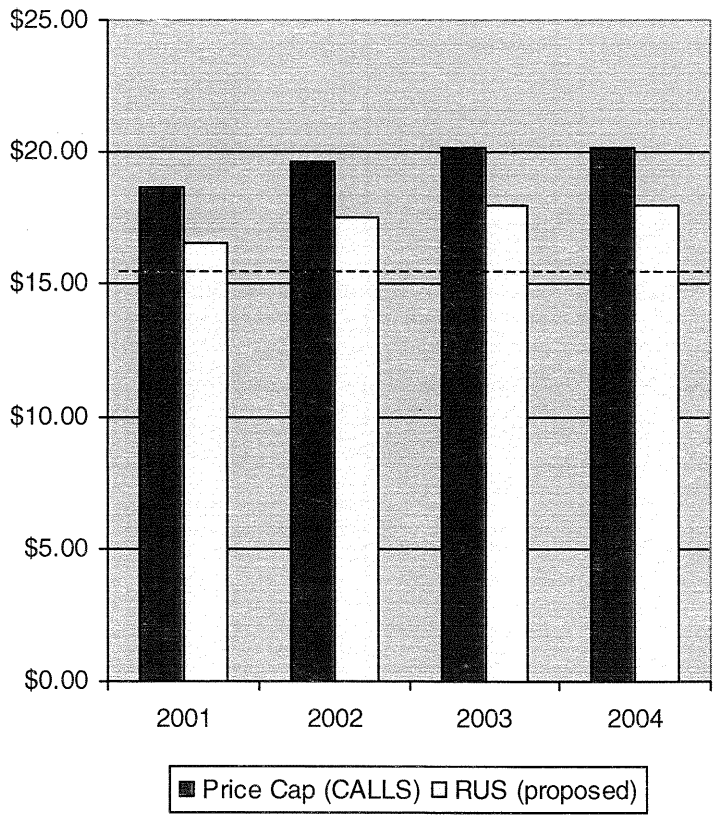
Benefit	MAG	RCC
Support universal service in all areas.	No. Track A only.	Yes.
Increase LD choice by cutting access rates.	Track A only, and only to $.0160.	Yes, to average $.0095 (NECA).
Promote residential local choice	Track A only.	Yes.
Promote broadband.	Track A only.	Yes.
Increase Lifeline support	Yes.	Yes.
Share efficiencies from incentive reg.	No.	Yes.

Comparable Rates – Primary Residential SLC Caps



- Without reform, non-price cap SLC rates will be permanently below price cap SLC rates.
- Proposal aligns price cap and non-price cap SLC caps.
- No loss of subscribership from CALLS SLC changes.

Comparable Residential Rates – Total Fixed Monthly Bill (RUS v. Urban)



- Rates remain comparable.
- CALLS Order increased RUS/Urban differential
- Even with SLC cap reforms, fixed monthly bills for RUS borrowers are *below* urban average plus SLC caps.