

October 3, 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 Nos. 96-45, 00-256, 98-77, and 98-166

Dear Ms. Salas:

On October 3, 2001, Mr. Joel Lubin (of AT&T) and I (representing AT&T, GCI and Western Wireless) met with Commissioner Kevin Martin and Mr. Samuel Feder, Senior Legal Advisor to Commissioner Martin regarding the above-captioned dockets. We urged that the Commission move forward at its October 11 meeting to adopt universal service and access reform for non-price cap LECs. We stated that there had been a full airing of these issues over the past year, both in comments filed with respect to the Rural Task Force Recommendations, and in comments filed with respect to the MAG Plan. The most common concerns we have heard appear to be objections to the concept that universal service support should be explicit and portable, rather than implicit and non-portable. We believe that the 1996 Act and subsequent court cases require support to be explicit.

We also discussed the attached charts. We made the point that the Commission must create explicit support to reduce traffic sensitive access costs if it seeks to implement 254(g) and its underlying policy goals. These charts demonstrate that without some support for switching and transport costs (which could be implemented through a switching subsidy as the Rural Consumer Choice Plan proposed), nationwide carriers face an artificial, regulatorily-imposed cost disadvantage vis-à-vis carriers serving customers only in areas with low access charges. These charts also demonstrate the extent to which explicit support for switching and transport costs is necessary to reduce artificial, regulatorily-imposed barriers to additional long distance competition in areas with high access charges.

In accordance with FCC rules, this letter has been filed electronically in each of the above-captioned dockets.

Sincerely,


John T. Nakahata

Attachment

c: Commissioner Kevin J. Martin
Mr. Samuel Feder, Senior Legal Advisor to Commissioner Martin

Access Rates, Rate Averaging and LD Competition

- Rate averaging without explicit support for high traffic sensitive (“TS”) costs places carriers serving both low cost and high cost areas at a significant, artificial cost disadvantage compared to carriers serving only low cost areas.
- Rate averaging without explicit support for high TS costs forecloses LD entry in high cost areas by both regional and national carriers.
- Rate averaging without explicit support will put market pressure on carriers to reduce service in high cost areas, or for the Commission to forbear.

Access Rates, Rate Averaging and LD Competition – Status Quo

Hypothetical Company	Price Cap - Price Cap MOU	Price Cap - NECA MOU	NECA - NECA MOU	Avg Access per Conv. Minute	% of Nationwide Carrier's Access Payments	% of Retail (\$07)
A (Nationwide carrier -- originates/terminates everywhere)	800	100	100	\$0.023130	100.00%	33.04%
B (Regional carrier -- originates in non-price cap/terminates everywhere)		50	10	\$0.055283	239.01%	78.98%
B' (Regional carrier -- originates in non-price cap/terminates everywhere)		20	40	\$0.073833	319.21%	105.48%
C (Regional carrier -- originates price cap/terminates everywhere)	400	25		\$0.014182	61.32%	20.26%
Access/Conv. Minute	\$0.012	\$0.049	\$0.086			
Access/Access Minute	\$0.006	\$.006 PC & \$.0431 NECA	\$0.043			

- Carrier A has substantial market incentives to reduce or eliminate service in high cost areas.
- Carriers B & B' face severe margin squeeze.
- Carrier C gets a substantial, artificial cost advantage.

Access Rates, Rate Averaging and LD Competition – Common Line & “Catch Up” Reforms Only

Hypothetical Company	Price Cap - Price Cap MOU	Price Cap - NECA MOU	NECA - NECA MOU	Avg Access per Conv. Minute	% of Nationwide Carrier's Access Payments	% of Retail (\$.07)
A (Nationwide carrier -- originates/terminates everywhere)	800	100	100	\$0.015600	100.00%	22.29%
B (Regional carrier -- originates in non-price cap/terminates everywhere)		50	10	\$0.026000	166.67%	37.14%
B' (Regional carrier -- originates in non-price cap/terminates everywhere)		20	40	\$0.032000	205.13%	45.71%
C (Regional carrier -- originates price cap/terminates everywhere)	400	25		\$0.012706	81.45%	18.15%
Access/Conv. Minute	\$0.012	\$0.024	\$0.036			
Access/Access Minute	\$0.006	\$.006 PC & \$.018 NECA	\$0.018			

- Carrier A has substantial market incentives to reduce or eliminate service in high cost areas.
- Carriers B & B' still face severe margin squeeze.
- Carrier C retains a substantial artificial cost advantage.

Access Rates, Rate Averaging and LD Competition – Adding TS Subsidy (RCC)

Hypothetical Company	Price Cap - Price Cap MOU	Price Cap - NECA MOU	NECA - NECA MOU	Avg Access per Conv. Minute	% of Nationwide Carrier's Access Payments	% of Retail (\$.07)
A (Nationwide carrier -- originates/terminates everywhere)	800	100	100	\$0.013050	100.00%	18.64%
B (Regional carrier -- originates in non-price cap/terminates everywhere)		50	10	\$0.016083	123.24%	22.98%
B' (Regional carrier -- originates in non-price cap/terminates everywhere)		20	40	\$0.017833	136.65%	25.48%
C (Regional carrier -- originates price cap/terminates everywhere)	400	25		\$0.012206	93.53%	17.44%
Access/Conv. Minute	\$0.012	\$0.016	\$0.019			
Access/Access Minute	\$0.006	\$0.006 PC & \$0.0095 NECA	\$0.010			

- Carrier A's cost penalty for serving high cost areas is greatly reduced.
- Carriers B & B' margin squeeze is greatly reduced.
- Carrier C's artificial cost advantage is greatly reduced.

Access Rates, Rate Averaging and LD Competition – MAG Track A

Hypothetical Company	Price Cap - Price Cap MOU	Price Cap - NECA MOU	NECA - NECA MOU	Avg Access per Conv. Minute	% of Nationwide Carrier's Access Payments	% of Retail (\$.07)
A (Nationwide carrier -- originates/terminates everywhere)	800	100	100	\$0.015000	100.00%	21.43%
B (Regional carrier -- originates in non-price cap/terminates everywhere)		50	10	\$0.023667	157.78%	33.81%
B' (Regional carrier -- originates in non-price cap/terminates everywhere)		20	40	\$0.028667	191.11%	40.95%
C (Regional carrier -- originates price cap/terminates everywhere)	400	25		\$0.012588	83.92%	17.98%
Access/Conv. Minute	\$0.012	\$0.022	\$0.032			
Access/Access Minute	\$0.006	\$.006 PC & \$.0160 NECA	\$0.016			

- MAG Track A recognized TS subsidies are necessary to continue toll averaging.
- MAG Track A is insufficient to reduce Carrier A's cost penalty, Carriers B & B' margin squeeze or Carrier C's artificial cost advantage.