

October 25, 2001

EX PARTE – Via Electronic Filing

Ms. Magalie Roman Salas
Secretary
Federal Communication Commission
The Portals
445 12th Street, SW
Washington, DC 20554

Re: CC Docket Nos. 96-45, 98-77, 98-166 and 00-256

Dear Ms. Salas:

Your office has informed us that an ex parte previously electronically filed on October 4, 2001 was missing portions of the text. We are, therefore, refiling that ex parte. This step is being taken to ensure that the record is complete.

On October 4, 2001, Joel Lubin (of AT&T) and I (on behalf of Western Wireless, GCI and AT&T) spoke with Kyle Dixon, Legal Advisor to the Chairman. In that conversation, we stated that as far as we could tell, the main objection being raised by many of the non-price cap companies came down to complaints that the Commission would be creating an explicit, portable universal service fund to replace support implicit in access charges. That, however, is the law. In addition, we discussed the attached slides, and made the point that unless the Commission provides some portable universal service support for traffic sensitive costs, it will not sufficiently ameliorate incentives for the marketplace to seek to deaverage rates. We urged that if the Commission did not adopt explicit support for traffic sensitive costs, it should consider issues related to such support in a further notice of proposed rulemaking. We also stated that failure to at least consider further additional support to reduce access charges to a target price, which was a key component of the Rural Task Force's recommendations and part of the compromise struck in the Task Force, would greatly diminish the incentives for parties to participate cooperatively in such collaborative efforts in the future. We provided Mr. Dixon with a copy of the attached slides.

In addition, I also spoke with Mr. Jordan Goldstein, Senior Legal Advisor to Commissioner Copps. I told Mr. Goldstein that if there were issues related to the recovery of "stranded" costs that the Commission felt it needed to consider, it should do so as part of a further notice of proposed rulemaking, but that such issues should not delay adoption of this order. I further stated that no non-price cap ILEC has put in the record any written specific, credible arguments that the actions the

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FCC may be considering taking would have adverse consequences other than reducing implicit subsidies as a barrier to competition.

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

Sincerely,

A handwritten signature in black ink, appearing to read "John T. Nakahata". The signature is fluid and cursive, with a prominent initial "J" and a long, sweeping tail.

John T. Nakahata
Counsel for AT&T, GCI and Western Wireless

Attachment

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.