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April 16, 2012

VIA ELECTRONIC SUBMISSION

Ms. Marlene H. Dortch, Secretary
Federal Communications Commission
445 12th Street, SW
Washington, D.C. 20554

Re: *Connect America Fund; A National Broadband Plan for Our Future; Establishing Just and reasonable Rates for Local Exchange Carriers; High-Cost Universal Service Support; Developing a Unified Intercarrier Compensation Regime; Federal-State Joint Board on Universal Service; Lifeline and Link-Up; Universal Service Reform – Mobility Fund*, WC Docket Nos. 10-90, 07-135, 05-337, 03-109, CC Docket Nos. 01-92, 96-45, GN Docket No. 09-51, WT Docket No. 10-208

Dear Ms. Dortch:

On April 13, 2012, Hank Hultquist, David Hostetter, and I met with Deena Shetler, Randy Clarke, Rhonda Lien, Doug Slotten, and Richard Kwiatkowski of the Wireline Competition Bureau, regarding the above-referenced proceeding. During the meeting, AT&T used the attached presentation as the basis of our discussion. This presentation was previously filed as an *ex parte* presentation on April 2, 2012, and the purpose of the meeting was further discussion of items listed in the presentation.

In addition, AT&T raised one new issue not previously discussed with the staff. Rules 51.907(b) (for price cap carriers) and 51.909(b) (for rate-of-return carriers) provide that the Step 1 reduction of Transitional Intrastate Access Service will be based on rates in effect on December 29, 2011, calculated as provided in the respective rules. AT&T noted that some state-ordered intrastate access reductions will be implemented between December 29, 2011 and July 1, 2012. While Step 1 reductions could be calculated using intrastate switched access rates that were in effect on December 29, 2011, AT&T raised a concern about the appropriate revenues to be included in Eligible Recovery in these cases, where states have already required intrastate access reductions to be taken. Such intrastate switched access revenues should not be included in Eligible Recovery.

If you have any questions or need additional information, please do not hesitate to contact me. Pursuant to section 1.1206 of the Commission's rules, this letter is being filed electronically with the Commission.

Sincerely,

Christi Shewman

Attachment
cc: Deena Shetler
Randy Clarke
Rhonda Lien
Doug Slotten
Richard Kwiatkowski

March 29, 2012

Intercarrier Compensation Transformation Implementation Issues

1. **§ 51.907(b)(2)** – This rule calculates total revenue for the Step 1 Transitional Intrastate Access Service rate reductions using intrastate rates that were in effect on December 29, 2011 and Fiscal Year 2011 intrastate demand. This could be interpreted to mean that interstate access rate levels would apply to any intrastate toll VoIP traffic in the base period. If so, the rule would not allow a price cap carrier to recover the revenue difference between the rates that were in effect on December 28th and the lower rates that became effective on the 29th. Is that the intent of the rule or does the rule assume that intrastate FY2011 demand will be treated consistently for rate application purposes?

2. **§ 51.907(b)(2) –** Price cap carriers may require intrastate rate structure flexibility at Step 1 to establish separate originating and terminating rates. Similar structural flexibility should be granted for interstate rates as well to minimize billing system changes and to ensure intrastate rate structures can be converted to the interstate structure as required by § 51.907(c)(1). For example, price cap carriers should be permitted to convert their terminating End Office Access Service rate structure to a single per-minute rate as described in § 51.907(d)(2)(iii). A per-minute rate structure also should be permitted for originating local switching rates.

3. **§ 51.907(b)(2) & § 51.907(c)(1)** – The Commission should clarify that Step 1 and Step 2 rate reductions apply to jointly provided intrastate tandem switching and common transport access rates. The rate reductions in Steps 6 and 7 do not apply to interstate and intrastate jointly provided tandem switching and common transport access rates because the tandem owner is not the terminating carrier.

4. **§ 51.907(b)(2)** – This rule calculates total revenue for Step 1 Transitional Intrastate Access Service using interstate rates that were in effect on December 29, 2011 and Fiscal Year 2011 intrastate demand. This methodology will understate the total revenue reduction if any of the intrastate rate element prices are lower than the functionally equivalent interstate rates. FY2011 revenues at interstate rates will be overstated in this scenario because the intrastate rate elements were capped as of December 29, 2011 by § 51.907(a) and § 51.907(b)(2)(vi) will not permit intrastate rate increases when they are lower than interstate. When FY2011 revenues at interstate rates are overstated, the total revenue reduction required to reduce Transitional Intrastate Access Service rates to interstate rate levels will be understated.

5. **§ 51.907(c)(1)** – This rule requires Transitional Intrastate Access Service rate reductions so that no rate exceeds the Price Cap Carrier's interstate access rates. § 51.907(c)(1) implements this mandate by converting Transitional Intrastate Access Service to the functionally equivalent interstate rate structure and rate levels. As described in the preceding item, when some intrastate rates are lower than interstate rates, the actual total revenue reduction to implement Step 2 will be greater than the total revenue reduction that was

calculated in Step 1. If the Commission is concerned about this disparity, it could allow individual intrastate access rate elements that are lower than interstate rates to increase to the interstate level when they are converted to the interstate rate structure at Step 2. Alternatively, the Commission could require intrastate rates to be used in the Step 1 rate reduction calculation described in § 51.907(b)(2) when they are lower than the functionally equivalent interstate rates.

6. **§ 51.907(d)(2) –** The methodology described in § 51.907(d)(2(i) could overestimate the intrastate 2014 Target Composite Terminating End Office Access Rate, which would understate the resulting intrastate access revenue reduction. The intrastate Baseline Composite Terminating End Office Access Rate should be calculated using intrastate terminating rates in effect on June 30, 2014, not December 29, 2011.

7. **§ 51.909(a)(2) –** This rule should cap a Rate of Return Carrier's terminating intrastate Dedicated Transport Access Service rate elements and all other terminating intrastate switched access rate elements – see the Figure 9 in paragraph 801 of the Order. Should this rule cite § 51.905(b)(2) instead of § 51.505(b)(2) or should the cite be deleted?

8. **§ 51.909(a)(2) –** Rate of Return Carrier originating intrastate Dedicated Transport Access Service rate elements are not capped by this rule. What safeguard prevents a Rate of Return Carrier from increasing these rates after they have been reduced in Steps 1 and 2?

9. **§ 51.911(a) –** The rule should cap all CLEC interstate and intrastate rate elements in the same manner described in § 51.907(a) when the CLEC operates in Price Cap Carrier service areas. When a CLEC operates in a Rate of Return Carrier's service area or is subject to the rural exemption, the rule should cap the CLEC's rate elements in the same manner described in § 51.909(a). § 51.911(a)(2) does not cap originating intrastate Dedicated Transport Access Service rate elements. What safeguard prevents a CLEC from increasing these rates after they have been reduced in Steps 1 and 2?

10. **§ 51.915(e)(5)(iii) –** If any of the Rate Ceiling Component Charges increase after January 1st, do the Residential Rate Ceiling and ARC rates have to be re-calculated? Are there any scenarios that would require a price cap carrier to re-file its ARC rates for a given tariff period? For example, the True-Up Revenues definition mentions adjustments to reflect any changes in tariffed rates for the ARC.

11. **§ 51.915(d)(1)(i)B. & C. –** It is unclear whether this rule uses the actual reductions to non-CMRS contract rates that will be made prior to July 1, 2012 as a result of § 51.705 or whether it uses hypothetical reductions to reciprocal compensation revenues and payments in

the calculation of net reciprocal compensation. If it is the latter, and Eligible Recovery includes all reciprocal compensation minutes in the net reciprocal compensation calculation regardless of whether rates were actually reduced, this could run afoul of the Commission's intent to avoid duplicative recovery. How should this rule be interpreted? This question arises in each Step of the transition.

12. **§ 51.915(d)(1)(i)C. –** Clarify that the FY2011 non-CMRS reciprocal compensation demand used to calculate the reduction in net reciprocal compensation revenues should not include demand that is already at bill and keep.

13. **§ 51.915(b)(13) –** The definition of True-up Revenues for Access Recovery Charge should be revised to say True-Up Revenues are equal to (projected ARC demand minus actual realized ARC demand) times the tariffed ARC.

14. **§ 51.915(d)(1)(iii)F. –** This rule should be revised to say "An amount equal to True-Up Revenues for the year beginning July 1, 2012." This change should be made in each subsequent Step of the transition. True-Up Revenues should be calculated on a Holding Company basis consistent with the calculation of ARC prices. Holding Company True-Up Revenues should be allocated to each study area because they are an input to Eligible Recovery which is calculated on a study area basis.

15. **§ 51.907(d)(2) –** Does this rule require calculation of a separate interstate Baseline Composite Terminating End Office Access Rate and another for intrastate? Is the same true of the 2014 Target Composite Terminating End Office Access Rate?

16. **§ 51.915(b)(5) –** The definition of Initial Composite Terminating End Office Access Rate should have the same meaning as our suggested revision to the Baseline Composite Terminating End Office Access Rate methodology in No. 6 above. The Initial Composite Terminating End Office Access Rate definition could be replaced by the Baseline Composite Terminating End Office Access Rate is used in § 51.915(d)(1)(iii).

17. **§ 51.915(d)(1)(iii)B. –** This rule should use the interstate Baseline Composite Terminating End Office Access Rate in the calculation. It also should add "FY" to 2011 to provide context for the demand period.

18. **§ 51.915(d)(1)(iii)C. –** It is not clear why this rule is qualified. The rate reductions required by § 51.907(d)(2)(ii) did not appear to be qualified and § 51.907(d)(2)(iii) states that the intrastate Composite Terminating End Office Access Rate cannot exceed the 2014 Target Composite. This issue is repeated in subsequent Steps of the transition.

Intercarrier Compensation Transformation Implementation Issues

19. **§ 51.907(g)(2) –** Interstate and intrastate terminating Tandem-Switched Transport Access Service will require separate rate elements (if they have not been established) so that the rates for terminating traffic are not reduced to $0.0007 when the tandem owner is not the terminating carrier.

20. **§ 51.709(c) –** The interim transport rule should only apply to locally dialed ILEC-originated non-access traffic. When a rural rate of return ILEC's customer and the called party are in different rate centers within the same MTA, the rural rate of return ILEC hands the call to an IXC and does not incur the cost of transporting these calls outside its service area. It also collects originating switched access charges from the IXC.

21. **§ 51.709(c) –** The interim transport rule should only apply if the rural rate of return ILEC offers direct interconnection. When a rural rate of return ILEC chooses not to offer direct interconnection, it should bear the financial obligation for the tandem-switched local transit service used for indirect interconnection.

22. **§ 51.711 –** This rule requires transport and termination rates for non-access traffic to be symmetrical (subject to exceptions). Beginning July 1, 2012, the rate transition described in § 51.705(c) appears to override the symmetry rule. As a practical matter, § 51.711 should continue to apply to reciprocal compensation arrangements between LECs and CMRS carriers. Is this understanding correct? § 51.715(b) also has a symmetry requirement.

23. **§ 51.905(b)(1) –** This rule requires LECs to follow Part 61 except as expressly superseded. Some price cap carrier areas have not reached ATS target rates. Were the ATS rules superseded?

24. **§ 51.909 –** Many of the price cap carrier issues identified that are identified also apply to rate of return carrier rate reductions.

25. **§ 51.909(b)(1) –** Should this rule cite § 51.905(b)(2) instead of § 51.505(b)(2)?

26. **§ 51.911(b) –** Should this rule cite § 51.905(b)(2) instead of § 51.505(b)(2)?

27. **Other issues.** The ARC is an interstate end-user charge. Should ARC revenues be reported to USAC for federal USF assessment purposes? Will ARC revenues and CAF ICC support be allocated to the intrastate jurisdiction? If the answer is yes, will the ARC revenues reported to USAC USF assessment be adjusted?

28. **Other issues.** Footnote 1818 discusses the need to develop an approach to determine the amount of CAF ICC support to provide to each study area. It directs USAC to attribute ARC revenues to study areas in proportion to the Eligible Recovery associated with each study area. There is another alternative that will be available to the Commission. To determine whether a price cap carrier is eligible to receive CAF ICC support, the maximum ARCs that could be assessed under § 51.915(e) must be imputed. A maximum ARC revenue shortfall could be calculated for each study area by subtracting the maximum study area ARC revenues from the study area Eligible Recovery. CAF could be allocated to those study areas that have a maximum ARC revenue shortfall.