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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 September 13th, Saikat Sen, Christi Shewman, and I of AT&T Services, Inc. met with Randy Clarke and Doug Slotten of the Wireline Competition Bureau. During the meeting, we discussed issues related to the implementation of Step 3 of intercarrier compensation reform adopted in the *USF/ICC Transformation Order*. The attached presentations formed the basis of the discussion.

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,

/s/ Brian J. Benison

cc: Randy Clarke
Doug Slotten

ICC Transition issues for discussion with the FCC Staff on Friday, September 13, 2013

- Rules for computing Carrier's Step 1 True-up Revenue to be included in their Step 3 Eligible Revenue. Rules, as written, produces counter-intuitive outcome and therefore should be modified [See attached write-up with illustrative examples].

- Setting Step 3 Terminating End Office Target Rates:
  - Single (Intra plus Inter-State) Baseline and Target Composite Rates
  - Separate Baseline and Composite Target Rates for Intra and Inter-State (as per rules)
  - Parity in Composite Rate doesn't mean parity for individual rate elements due to the traffic mix issue (assuming carriers have option to continue with their current EO tariff structures).
  - Using existing Local Switching rates as a surrogate for "Composite End Office" rates

- Calculating Step 3 Eligible Recovery Associated with EO Rate Transition
  - Interstate: Compare 2011 Baseline with 2014 Composite Target Rate
  - Intrastate: Compare "**2014 Intrastate Composite Terminating EO Rate**" with 2014 Composite Target Rate

- Overarching goals for individual transition steps varies:
  - Step 1 : Goal was to set rates to reach 50% of the yield – parity in rate level and structures wasn't the primary objective
  - Step 2 : Goal was to reach 100% rate and structural parity – unless rates for some "functionally equivalent" rate elements are already below interstate. Reaching 100% of the Step 1 yield wasn't the primary objective
  - Step 3 : Goal is to reach "Composite Targets" for Terminating End Office Access Services (which would be analogous to yield if current structures are kept).

RULES FOR COMPUTING AND INCORPORATING TRUE-UP REVENUE:

51.915(b)(4) Expected Revenue for Access Recovery Charges. Expected Revenues for Access Recovery Charges are calculated using the tariffed Access Recovery Charge rate for each class of service and forecast demand for each class of service.

51.915(b)(13) True-up Revenues for Access Recovery Charge. True-up revenues for Access Recovery Charge are equal to Expected Access Recovery Charge Revenues minus ((projected demand ***minus*** actual realized demand for Access Recovery Charges) ***times*** the tariffed Access Recovery Charge). This calculation shall be made separately for each class of service and shall be adjusted to reflect any changes in tariffed rates for the Access Recovery Charge. Realized demand is the demand for which payment has been received, or has been made, as appropriate, by the time the true-up is made.

51.915(d)(1)(iii) Beginning July 1, 2014, a Price Cap Carrier's eligible recovery will be equal to the CALLS Study Area Base Factor and/or the Non-CALLS Study Area Base Factor, as applicable, multiplied by the sum of the amounts in paragraphs (d)(1)(iii)A-
(d)(1)(iii)E, **and then adding the amount in paragraph(d)(1)(iii)F to that amount:**

51.915(d)(1)(iii)(F) An amount equal to True-up Revenues for Access Recovery Charges less Expected Revenues for Access Recovery Charges for the year beginning July 1, 2012.

Calculations based on above rules:

Let's assume:

- **Projected ARC Demand for a class of service = P**
- **Actual Realized Demand ARC Demand for that class of service = A**
- **Tariffed Access Recovery Charge Rate for that Class of Service = T**

Expected Access Recovery Charge Revenue = **[P x T]**
Projected Demand ***times*** Tariffed Access Recovery Charge

True-up Revenues for Access Recovery Charge:

= [P x T] – [(P – A) x T]
= [P x T] – [P x T] + [A x T]
= [A x T]
Expected Access Recovery Charge Revenue ***minus*** [(Projected Demand ***minus*** Actual Realized Demand) ***times*** Tariffed Access Recovery Charge]

As a result, per strict interpretation of the rules, the amount associated with 51.915(d)(1)(iii)(F) would be:

= [A x T] – [P x T]
= [(A – P) x T][1]

NOTE: A company may decide not to charge ARC to certain customer class or lines (e.g. Centrex). However, for the purpose of determining true-up revenues, they have to include all eligible lines "as if " they are charging ARC to all of them..

Alternative Calculations:

[1] Per this rule, any study area that had over-forecasted their eligible ARC lines, but actually received less revenue from lower actual demand, will have negative adjustment to their Step 3 Eligible Recovery Revenue. This outcome is counter-intuitive.

This calculation requires all other sections of the rules to be the same, but rewrite 51.915(d)(1)(iii)(F) as:

51.915(d)(1)(iii)(F) An amount equal to Expected Revenues for Access Recovery Charges for the year beginning July 1, 2012 less True-up Revenues for Access Recovery Charges.

As a result, the amount associated with 51.915(d)(1)(iii)(F) would be:

$$= [\, P \times T \,] - [\, A \times T \,]$$
$$= [\, (P - A) \times T \,]$$ [2]

Following illustrative examples are based on this alternative interpretation of rules:

Example A: Under-forecasted Lines	As Filed		Actual
Eligible Revenue (Base Period)	$ 10,000.00		$ 10,000.00
Projected ARC Lines	9,000.00		10,000.00
Filed ARC Rates	$ 0.50		$ 0.50
ARC Revenue	$ 4,500.00		$ 5,000.00
CAF Funding	$ 5,500.00		$ 5,500.00
Revenue from ARC & CAF	$ 10,000.00		$ 10,500.00
True-Up Revenue	$ -		$ (500.00)
Total Revenue with True-up	$ 10,000.00		$ 10,000.00
Example B: Over-forecasted Lines	As Filed		Actual
Eligible Revenue (Base Period)	$ 10,000.00		$ 10,000.00
Projected ARC Lines	11,000.00		10,000.00
Filed ARC Rates	$ 0.50		$ 0.50
ARC Revenue	$ 5,500.00		$ 5,000.00
CAF Funding	$ 4,500.00		$ 4,500.00
Revenue from ARC & CAF	$ 10,000.00		$ 9,500.00
True-Up Revenue	$ -		$ 500.00
Total Revenue with True-up	$ 10,000.00		$ 10,000.00

[2] Per this new rule, any study area that had over-forecasted their eligible ARC lines, but actually received less revenue from lower actual demand, will have positive adjustment to their Step 3 Eligible Recovery Revenue which will allow them to recover those "under-recovered revenue."