

MEMORANDUM

TO: ACUTA

FROM: Jeff Linder

DATE: June 2, 2000

RE: Analysis of CALLS order

This memorandum provides a brief analysis of the CALLS order. I will send you our general client summary as soon as it is ready. My bottom line is that the new access reform measures should be moderately favorable for ACUTA members, particularly those located in densely populated areas. The reasons for this conclusion are as follows:

The ILECs' traffic-sensitive access charges, which currently are approximately 1.1 cents per minute on average, will be reduced over time by 50 percent for the RBOCs and GTE. Mid-sized price cap-regulated ILECs will reduce their traffic-sensitive access charges to 0.65 cents per minute, and small, rural price cap ILECs will reduce these charges to 0.95 cents per minute. AT&T and Sprint have committed to passing these reductions on, although there is no guarantee they will do so. Nonetheless, one analyst has suggested that users should enjoy a decrease of approximately one cent per minute in switched long distance rates (e.g., MTS and certain SDN rate schedules), with much of the decrease coming in July.

The multi-line business PICC is capped at \$4.31 per line and is expected to be eliminated for most users by July 2003 or 2004 (the Order is inconsistent on this point). The Commission expressed concern about allegations that some IXCs were marking up the PICC and committed, before July 2002, to re-examine whether the multi-line business PICC should be combined with the SLC and billed directly by LECs to end users. The Ad Hoc Users Committee had sought this latter measure in order to prevent the opportunity for such mark-ups.

Once the multi-line business PICC and the carrier common line charge have been eliminated and states have established geographically deaveraged unbundled loop rates, ILECs will be permitted to deaverage their SLCs. No multi-line business SLC will be permitted to increase above the \$9.20 cap, but ILECs can decrease the SLC in lower cost areas - primarily cities and other densely populated areas where they face greater competition.

Special access rates have been placed in their own price cap "basket." Those rates will be adjusted in 2000 by the inflation rate minus three percent, and in 2001-2003 by the inflation rate minus 6.5 percent, presumably resulting in decreases. Placing special access rates in their own basket will make it easier to deregulate them as competition continues to develop.

Everything comes at a price, of course. There will be two new charges as part of the reforms, although the overall impact on ACUTA members still should be positive:

First, a new universal service charge will be established to recover \$650 million per year to replace the carrier common line charges and multi-line business PICC, as well as an additional amount (initial \$60 million) to cover increased Lifeline funding for low-income consumers. This charge will be recovered from all telecommunications carriers. There are no definitive estimates, but back-of-the-envelope calculations suggest the new charge will represent a slightly-less-than one percent increase incremental addition to the existing USF surcharge.

Second, ILECs will now be able to recover their universal service contributions directly from end users, on either a flat or percentage-of-revenue basis. This probably is a net benefit to users. ILECs previously had been required to recover their contributions from IXCs through access charges, and the IXCs reflected those charges, almost certainly with a mark-up, in their long distance rates. Accordingly, the shift to direct end-user billing should result in a nominal cost decrease for customers.

The CALLS reforms are immensely complicated and may yet prove to have unanticipated consequences. Nonetheless, the foregoing represents my best guess of how colleges and universities will fare under the new rules. Please feel free to call me if you have any questions.