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March 15, 1996

**EX PARTE**

William F. Caton  
Acting Secretary  
Federal Communications Commission  
Mail Stop 1170  
1919 M Street, N.W. , Room 222  
Washington, D.C. 20554

RECEIVED  
MAR 15 1996  
FEDERAL COMMUNICATIONS COMMISSION  
OFFICE OF SECRETARY

Dear Mr. Caton:

Re: CC Docket No. 96-45, Universal Service

At the request of the Joint Board Staff, we are distributing one copy of the attached material, cited at footnote 81, Notice of Proposed Rulemaking and Order Establishing Joint Board, Federal-State Joint Board on Universal Service, CC Docket No. 96-45 (Mar. 8, 1996) to the Joint Board service list. This material is already part of the record in CC Docket No. 80-286.

We are submitting two copies of this notice in accordance with Section 1.1206(a)(1) of the Commission's rules. Please stamp and return the provided copy to confirm your receipt. Please contact me should you have any questions.

Sincerely,



Gina Harrison

Attachment

cc: See Attached Pages

No. of Copies rec'd 021  
List ABCDE

The Honorable Reed E. Hundt, Chairman  
Federal Communications Commission  
1919 M Street, NW, Room 814  
Washington, DC 20554

The Honorable Andrew C. Barrett, Commissioner  
Federal Communications Commission  
1919 M Street, NW, Room 826  
Washington, DC 20554

The Honorable Susan Ness, Commissioner  
Federal Communications Commission  
1919 M Street, NW, Room 832  
Washington, DC 20554

The Honorable Julia Johnson, Commissioner  
Florida Public Service Commission  
Capital Circle Office Center  
2540 Shumard Oak Boulevard  
Tallahassee, FL 32399-0850

The Honorable Kenneth McClure, Vice Chairman  
Missouri Public Service Commission  
301 W. High Street, Suite 530  
Jefferson City, MO 65102

The Honorable Sharon L. Nelson, Chairman  
Washington Utilities and Transportation Commission  
P.O. Box 47250  
Olympia, WA 98504-7250

The Honorable Laska Schoenfelder, Commissioner  
South Dakota Public Utilities Commission  
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Pierre, SD 57501

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Jefferson City, MO 65102

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Truman State Office Building  
Jefferson City, MO 65102

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Idaho Public Utilities Commission  
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Denver, CO 80203

Alex Belinfante  
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Washington, DC 20554

Larry Povich  
Federal Communications Commission  
1919 M Street, NW  
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February 29, 1996

**EX PARTE**

William F. Caton  
Acting Secretary  
Federal Communications Commission  
Mail Stop 1170  
1919 M Street, N.W., Room 222  
Washington, D.C. 20554

Dear Mr. Caton:

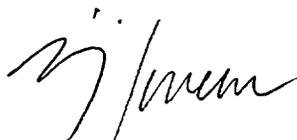
Re: CC Docket No. 80-286 - Amendment of Part 36 of The Commission's Rules and  
Establishment of a Joint Board

Rex Mitchell, Regulatory Vice President, Pacific Bell, and I met on Wednesday, February 29 with Kathleen B. Levitz, Deputy Chief, Gary Seigel, Accounting and Audits Division, and Dan Gonzalez, Legal Assistant to the Chief, Common Carrier Bureau; and Todd Silbergeld, Legal Advisor to Commissioner Barrett, to discuss issues summarized in the attachments. Please associate this material with the above-referenced docket.

We are submitting two copies of this notice in accordance with Section 1.1206(a)(1) of the Commission's Rules.

Please stamp and return the provided copy to confirm your receipt. Please contact me should you have any questions or require additional information concerning this matter.

Sincerely,



Attachments

cc: Dan Gonzalez  
Kathleen B. Levitz  
Gary Seigel  
Todd Silbergeld

# Jurisdictional Issues

The Act places responsibility on the FCC to address the universal service issue. It also encourages states to have consistent additional plans

- The FCC could address universal service by reallocating the interstate subsidy defined through the separations process -- the 25% issue
  - Create a competitively neutral method to collect the subsidy amount
    - The CCL is not a viable collection method alternative because it is not competitively neutral, i.e., only a subset of people are paying it and it is collected only by incumbent LECs
    - An industry-wide surcharge is a viable alternative
    - Bulk billing the CCL should be considered as well
  - Create a competitively neutral, geographically deaveraged method to distribute the subsidy amount
    - Proxy cost modeling is a method to calculate the deaveraged support necessary by geography
  - There can be compatible State/Federal universal service mechanism each supporting a portion of the geographically deaveraged loop costs
- The FCC/Joint Board could adopt a comprehensive Federal/State program that addresses the entire difference between the total price charged (basic rate and EUCL) and the cost of service for each geography.

# Calculation of the Amount of Support and Targeting Support

- Proxy cost models have been developed to approximate the widely differing costs of providing service in each geography
  - The US West Benchmark Cost Model was the first such attempt
  - Pacific Bell has filed a Cost Proxy Model in California which can be adapted to federal use
- Pacific Bell's model uses customer specific location data, business customer data and location of facilities to calculate the costs of providing service to a locality -- can be used by Census Blocks, by Wire Center or even by specific customer
- It is critically important that subsidies be highly targeted to geographic areas -- Wide variations in costs have been shown to exist. Proxy cost modeling is the most reasonable approach to identifying these cost differences
- Cost models should calculate the reasonable cost of providing service, including a reasonable allocation of joint and common costs.

# Relationship to Access Charge Reform

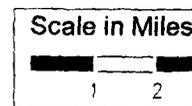
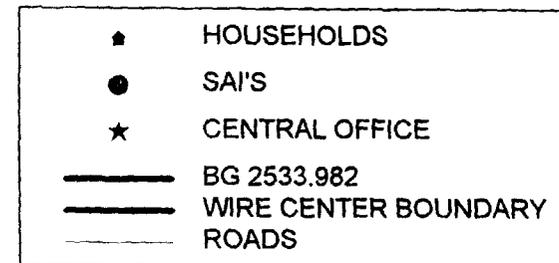
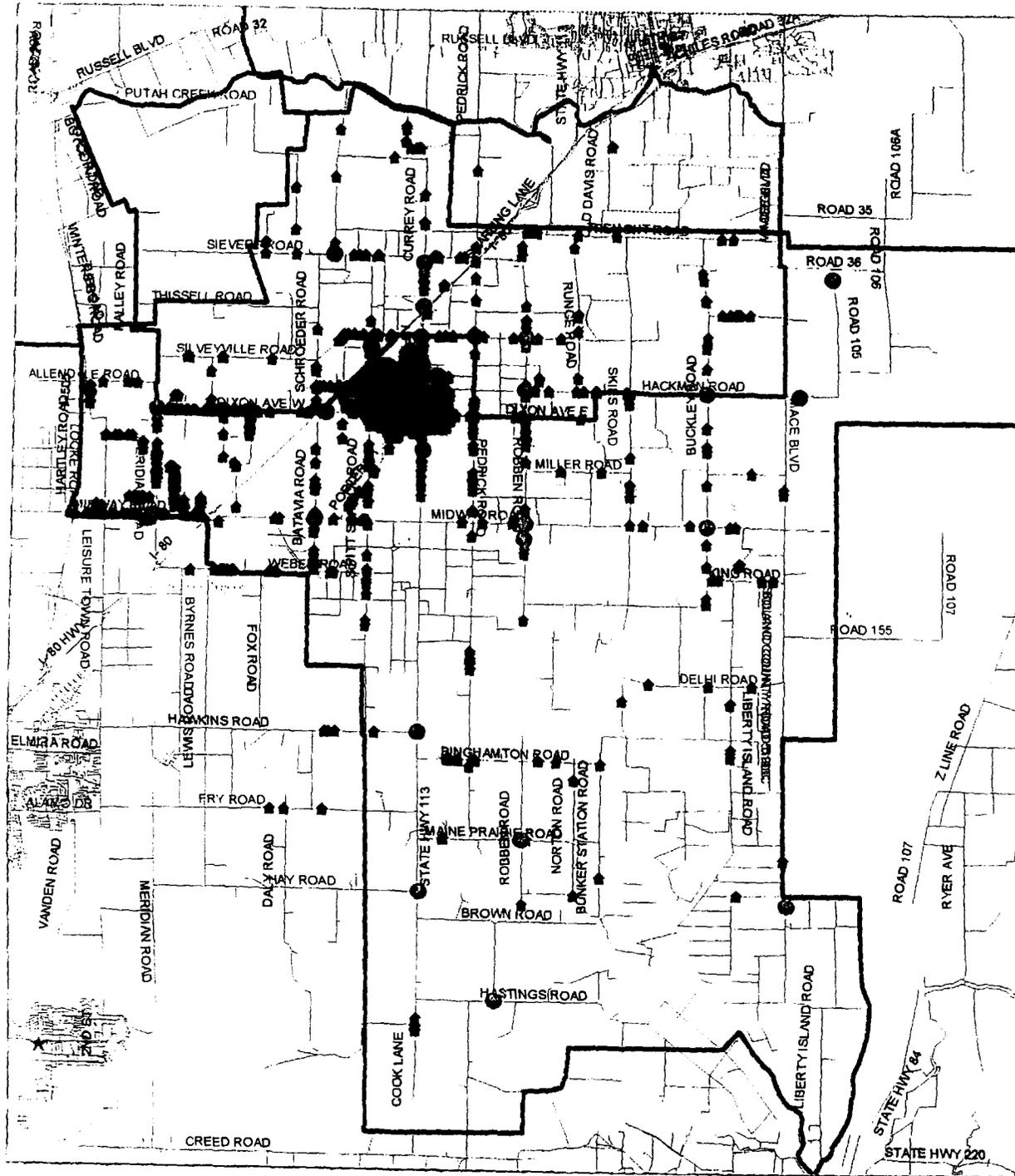
- Access reform addresses many of the same issues raised by universal service
  - Costs vary significantly from geography to geography
    - In a competitive environment, those cost differences must be reflected in prices and in subsidy mechanisms
  - The CCL is a large implicit subsidy mechanism
    - Customers can avoid paying CCL either by choosing a non-LEC provider or by choosing special access services provided by the LEC
    - CCL represents costs more accurately attributable to basic service, yet is recovered on a usage basis.
    - High toll customers (rich or poor) are paying several times their proportionate loop costs while low usage customers (rich or poor) are paying less than their loop costs
    - A new competitively neutral mechanism to recover the costs currently recovered by the CCL is required to solve the universal service issues and to address access reform
- An increase in the EUCL decreases the subsidy, but to be consistent with a competitive environment, should be done in a geographically deaveraged way -- in some areas it may be too high already

# Meaning of “Reasonable Comparability”

- The Telecommunications Act requires that all regions, including low income and rural areas have the type of services and rates that are “reasonably Comparable” to those in urban areas
- California has addressed the reasonable comparability issue in the subsidy context
  - The CPUC requires that prices for residential basic exchange service in rural areas should be 150% of the price charged by Pacific Bell in its urban areas (currently \$11.25) before the state High Cost Fund subsidizes rural customers



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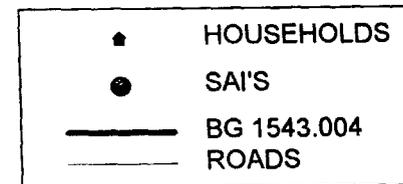
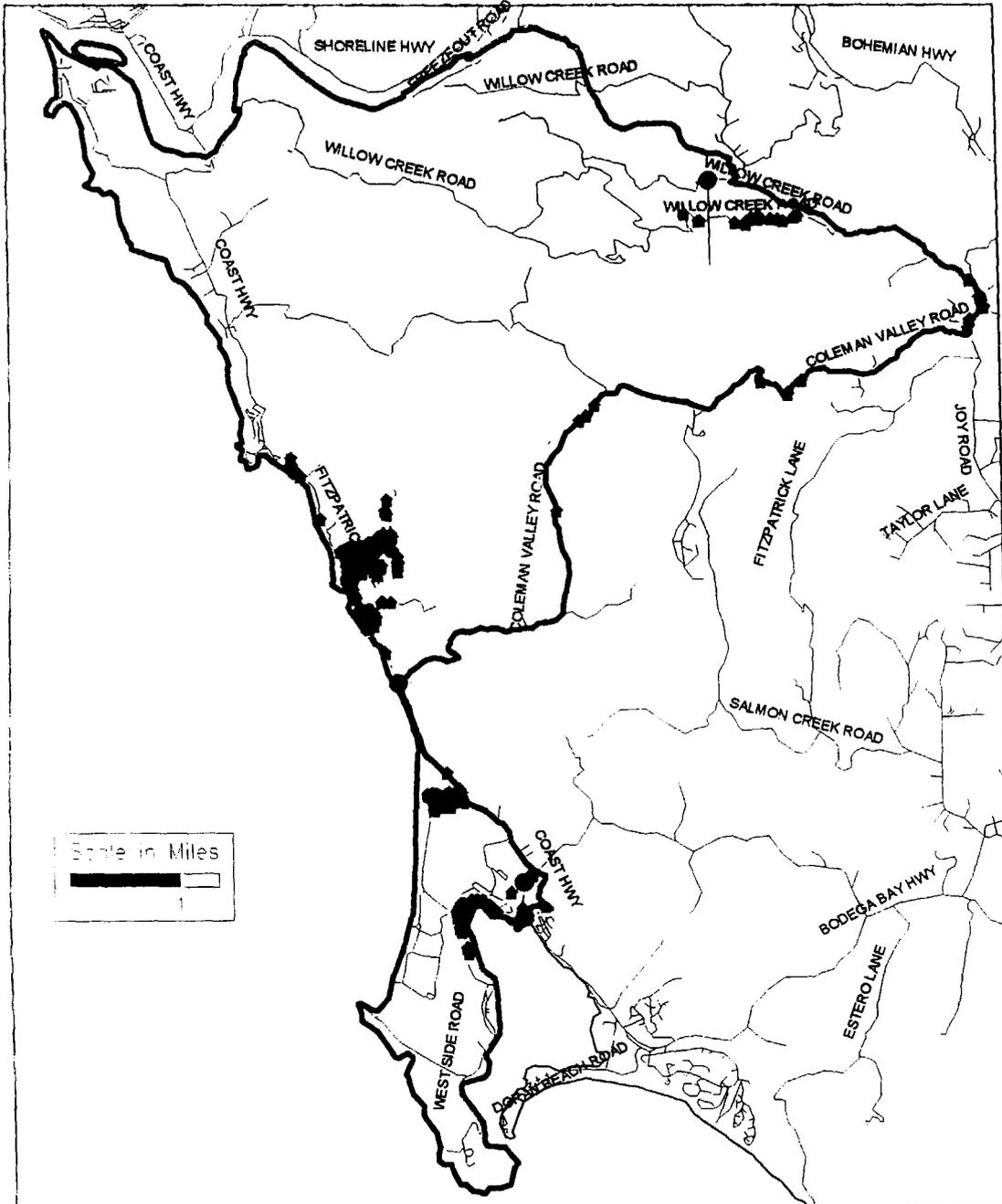


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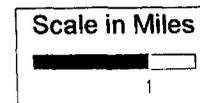
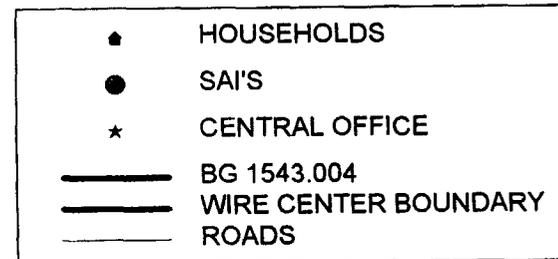
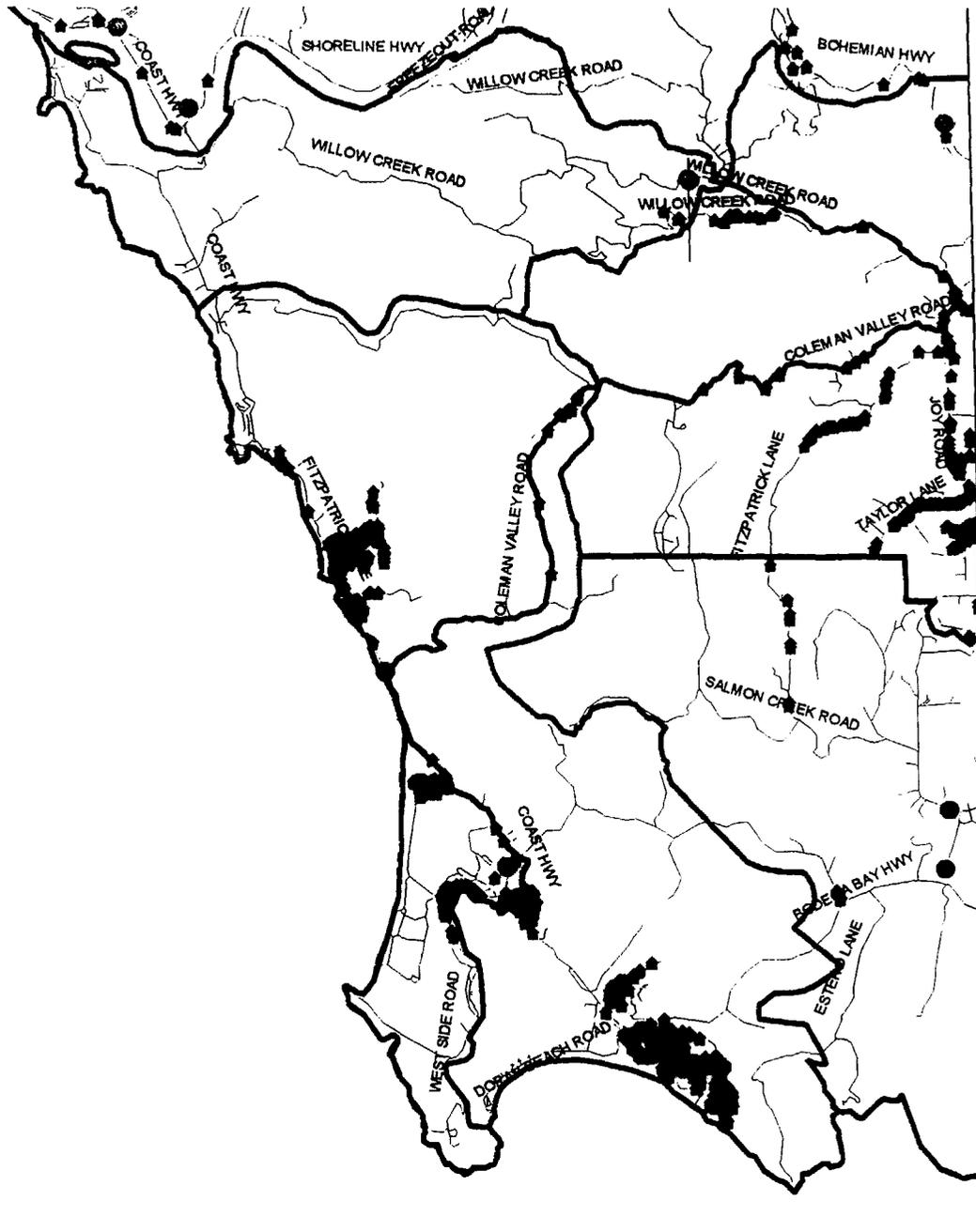


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