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In the Matter of:)
)
Federal-State Joint Board on)
Universal Service)
)

CC Docket No. 96-45

To: The Commission

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COMMENTS OF FREDERICK & WARINNER, L.L.C.

Background

1. Frederick & Warinner, L.L.C., hereby submits Comments pursuant to the Notice of Proposed Rulemaking and Order Establishing Joint Board, released March 8, 1996, (NPRM and Order) in the above-referenced matter. This NPRM and Order, as required by Section 254(a)(1) of the Telecommunications Act of 1996 (Act), initiates a rulemaking to accomplish the following: (1) define the services that will be supported by Federal universal service support mechanisms; (2) define those support mechanisms; and (3) otherwise recommend changes to the Commission's regulations to implement the universal service directives of the Act.

2. Frederick & Warinner, L.L.C., is a certified public accounting firm specializing in the provision of accounting services to telephone companies. These services include assisting clients in conducting jurisdictional separations cost studies, aiding in the preparation and issuance of interstate access services tariffs, and advising clients regarding accounting requirements under Parts 32, 36, and 69 of the Commission's Rules. These comments are filed by Frederick & Warinner, L.L.C., on behalf of several of its telephone company clients.

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Support for Rural, Insular, and High Cost Areas - How to Calculate the Subsidy

3. In Paragraph 27 of the NPRM and Order, the Commission seeks comment on identifying methods for determining the level of support required to assure that carriers are financially able to provide the services identified for inclusion among those to be supported by universal service funds in rural, insular, and high cost areas. This method should be simple to administer, technology-neutral, and designed to identify the minimum subsidy required to achieve the goal of affordable and reasonably comparable rates. It should be equitable and non-discriminatory in the burden that it imposes upon contributors, and its distribution procedures should be direct, explicit, and specific.

4. Frederick & Warinner, L.L.C., strongly supports the continuance of support based on the actual costs incurred and reported by carriers in providing universal service to subscribers in rural, insular, and high cost areas. This mechanism alone ensures the continued economic viability of local exchange carriers who have entered into social contracts with regulators to invest in the plant necessary to make universal service to these areas a reality. Any material departure from this concept can result in stranded investment and undue economic burden on companies whose historic investment decisions were grounded in an assurance of recoverability over the economic life of the investment.

5. In those areas where multiple eligible carriers are designated by a State commission to provide universal service, the non-facilities-based eligible carrier(s) should lease facilities from the incumbent local exchange carrier at wholesale rates designed to recover the fully distributed cost of the local exchange carrier (less any costs determined not to be relevant to the leased facilities, such as certain sales and marketing costs, etc.). The leasing eligible carrier

would then include the lease cost as a portion of its claim for universal service support, while the incumbent local exchange carrier would offset its claim for support by the same amount.

6. In our view, this approach satisfies the requirements of simplicity of administration and technological neutrality as it is little more than a possible modification of existing administrative procedures and treats all competitors equally. Furthermore, its application would be direct, explicit, and specific.

7. In Paragraphs 31-34 of the NPRM and Order, the Commission also seeks comment on the proxy model submitted to the Commission by several telecommunications carriers. The purpose of the model is to identify areas where the cost of service can reasonably be expected to be so high as to require explicit high-cost support for the preservation of universal service. The model produces a benchmark cost range for a defined set of residential telecommunications services assuming efficient wireline engineering and design, and using current technology.

8. This model may be well suited for large carriers with diverse service areas, different density patterns, and a disparate mix of operating characteristics within their serving areas, where averages, or benchmarks, can cause shortfalls in one area to be recovered in another. For many smaller incumbent local exchange carriers, however, this mechanism would be inadequate to ensure full recovery, as their service areas do not fit the pattern of the proxy model. Further, proxy factors simply cannot reflect the wide variations in costs among smaller local exchange carriers. As mentioned above, Frederick & Warinner, L.L.C., believes that the only mechanism adequate to ensure the continued economic viability of small local exchange carriers providing universal service is reimbursement for actual costs incurred.

Administration of Support Mechanisms - Who Should Administer

9. In Paragraph 127 of the NPRM and Order, the Commission seeks comment on the best approach to administer the universal service mechanisms fairly, consistently, and efficiently. Frederick & Warinner, L.L.C., believes that the appropriate administrator already exists in the form of the National Exchange Carrier Association (NECA). NECA is currently in place. It is staffed with industry professionals. And it possesses the body of knowledge and experience necessary to implement the results of this proceeding efficiently and effectively.

Respectfully Submitted,

FREDERICK & WARINNER, L.L.C.

By:


Victor A. Hurbert

Dated: April 4, 1996