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FEDERAL EXPRESS

Mr. William F. Caton  
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 Room 222  
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 Washington, DC 20554

DOCKET FILE COPY ORIGINAL

Re: In the Matter of Establishing a Federal-State Joint Board on Universal Service, CC Docket No. 96-45

Dear Mr. Caton:

On behalf of our client, TELEC Consulting Resources, Inc. ("TELEC"), we have filed with the Federal Communications Commission comments to the Notice of Proposed Rulemaking in the above-referenced matter. As requested in such notice, we are filing an original and four copies of our comments to such notice. We are also serving our comments on the Federal-State Joint Board in accordance with the service list published in the notice, and we have submitted our comments on disk to Ernestine Creech, Common Carrier Bureau, Accounting and Audits Division. We have also sent one copy of the enclosed filing to the Commission's copy contractor, International Transcription Service.

The comments set forth by TELEC in the enclosed filing are made on behalf of 20 telephone companies located in Iowa, Nebraska and South Dakota. These companies are identified on pages 1-2 of the enclosed document.

Please acknowledge receipt of this filing by date-stamping the enclosed copy of this letter and returning it to the undersigned in the enclosed-addressed stamped envelope. Thank you for your interest and attention to this matter.

Sincerely,

*J. Scott Searl*  
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 FOR THE FIRM  
 No. of Copies rec'd  
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Before the  
**FEDERAL COMMUNICATIONS COMMISSION**  
Washington, D.C. 20554

APR 12 1996

FEDERAL COMMUNICATIONS COMMISSION

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

CC Docket No. 96-45

**COMMENTS OF TELECOM CONSULTING RESOURCES, INC.**

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**Before the  
FEDERAL COMMUNICATIONS COMMISSION  
Washington, D.C. 20554**

APR 12 1996  
FEDERAL COMMUNICATIONS COMMISSION

In the Matter of )  
 )  
Establishing a Federal-State ) CC Docket No. 96-45  
Joint Board on Universal Service )  
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**INTRODUCTION**

TELEC Consulting Resources, Inc. ("TELEC"), a Nebraska corporation, represents independent local exchange carriers ("LECs") in Nebraska, South Dakota, Iowa, North Dakota and Oklahoma. TELEC submits these comments in response to the Notice of Proposed Rulemaking adopted by the Federal Communications Commission (the "Commission") on March 8, 1996 (CC Docket No. 96-45) ("NPRM"). TELEC submits these comments on behalf of the following 20 telephone companies:

- Arlington Telephone Company, Nebraska
- Benkelman Telephone Company, Nebraska
- Beresford Municipal Telephone, South Dakota
- Cambridge Telephone Company, Nebraska
- Clarks Telephone Co., Nebraska
- Dakota Cooperative Telephone Company, South Dakota
- Eastern Nebraska Telephone Company, Nebraska
- Faith Municipal Telephone Company, South Dakota
- K & M Telephone Company, Nebraska
- Kennebec Telephone Company, South Dakota
- Nebraska Central Telephone Company, Nebraska
- Northwest Telephone Cooperative Association, Iowa
- Petersburg Telephone Company, Nebraska
- Roberts County Telephone Cooperative Association, South Dakota
- Rock County Telephone Company, Nebraska
- Southeast Nebraska Telephone Company, Nebraska
- Stanton Telephone Company, Nebraska

The Blair Telephone Company, Nebraska  
Three River Telco, Nebraska  
Wauneta Telephone Company, Nebraska

The telephone companies joining in these comments range in size from 280 access lines to 6,380 access lines, and each serve between one and 12 exchanges in rural Iowa, Nebraska and South Dakota.

Currently, telephone companies which serve small, rural communities, such as the companies listed above, provide excellent telecommunications services to their customers. In many communities, local telephone companies provide links to educational and medical facilities which greatly enhance the quality of life available in rural communities. Among other things, many telephone companies in rural America are active in bringing distance learning and educational interactive television to small communities. Many of the companies in Iowa, South Dakota and Nebraska have installed fiber optic cable for schools, libraries and hospitals.

The current regulatory system has largely eliminated significant disparities between the availability and reliability of telecommunications services in rural and urban America. Care must be taken that any policies adopted by the Commission do not create disincentives for companies to invest in and upgrade telecommunications plant and equipment in small communities which are costly to serve. The telecommunications industry in America has greatly contributed to the creation of a global telecommunications network which has allowed rural America to participate in and take advantage of new and exciting opportunities presented by a fast-developing national and global information infrastructure. In this regard,

telephone companies which serve small, rural communities in America have provided hope for the economic survival and growth of many communities by linking these communities to the rest of the world and allowing them to continue to contribute to the growth of the nation's economy. This link must not be severed or compromised. Any proposals ultimately adopted by the Commission must not create or provide economic incentives which discourage companies from investing in rural America, particularly high-cost service areas.

TELEC previously filed detailed comments in response to the notice of proposed rulemaking which the Commission released on July 13, 1995 in connection with CC Docket No. 80-286. Since many of the Commission's proposals in such earlier notice echo many of the sentiments expressed in the current NPRM, TELEC incorporates its earlier comments referenced hereby and encourages the Commission to review TELEC's earlier filing.

**COMMENTS OF TELEC CONSULTING RESOURCES, INC.**  
**TO NOTICE OF PROPOSED RULEMAKING<sup>1</sup>**

**III. SUPPORT FOR RURAL, INSULAR, AND HIGH-COST AREAS AND LOW-INCOME CONSUMERS**

**B. Support for Rural, Insular and High Cost Areas**

**1. What Services to Support**

TELEC agrees with the Commission that the following services should be

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<sup>1</sup> For ease of reference, all numbered section headings in this document directly correspond to the same section headings in the NPRM. The numbered section headings in this document do not appear in sequential order since, due to page limitation constraints, TELEC has elected not to respond to certain sections of the NPRM.

included among those core services receiving universal support: (1) voice grade access to the public switched network, with the ability to place and receive calls; (2) touch-tone; (3) single party service; (4) access to emergency services (911); and (5) access to operator services. NPRM at ¶ 16. The "core" services identified above should also include telephone relay service and directory listing. NPRM at ¶¶ 17 & 23.

Due to rapid changes in technology, the definition of "core" universal services should be considered an evolving one which is subject to change. Thus, the list of "core" services entitled to universal support should be reviewed and updated on a regular, periodic basis in order to ensure that critical advancements in technology may be made available to rural and high-cost areas.

## 2. How to Implement

In determining how to implement universal support for such "core" services, support should be provided for the ultimate benefit of all users in rural, insular and high-cost areas, and not just for the benefit of residential users or residential and single-line business users. NPRM at ¶ 24. Support for business users is necessary since many small communities rely upon the existence of high quality, affordable telecommunications services as an economic development tool.<sup>2</sup> Furthermore, support should be calculated based on inputs (facility costs), not outputs (the price of services). NPRM at ¶ 24. This ensures that support fosters the development of

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<sup>2</sup> Douglas A. Dawson, Linda M. Buckley & John N. Rose, *Keeping Rural America Connected: The Dynamics of Serving Rural America*, OPASTCO Roundtable 65,75 (Sept./Oct. 1995) (hereinafter "*The Dynamics of Serving Rural America*").

the essential infrastructure.

a. How to Determine "Affordable" and "Reasonably Comparable"

In implementing support for universal "core" services, the Commission could require recipients of Universal Service Fund ("USF") support to maintain a minimum pricing level. NPRM at ¶ 26. This would prevent USF from merely subsidizing rates which are significantly below median rates in a given area and would ensure the USF funding or support is not a vehicle to limit competition by holding prices to an artificially low level.

However, the Commission presently does not have authority to set local service rates, nor do telephone companies have the sole power to set their local service rates. Some state commissions control the increase of local service rates. Therefore, in order for such a proposal to be effective, state regulators must be required, to the extent possible, to allow providers to increase rates to the minimum level and not force providers to keep prices below competitive prices for similar services in similar areas.

Notwithstanding the above, in determining whether rates are "affordable" and "reasonably comparable" the Commission must evaluate the extent to which consumers in rural, high cost areas incur increased toll usage which may offset artificially low local rates. For example, many rural customers must pay toll rates to place routine daily calls, such as calls to stores, schools, doctors and government services. As a result, while some rural customers may have lower local service bills, they are forced to incur higher long distance bills which

ultimately may make the total telephone bill for rural and urban customers about the same. The Commission must consider and address these factors before adopting any proposal relating to the proper method for calculating "affordable" and "reasonably comparable" rates for telecommunications and information services.

b. How to Calculate the Subsidy

The Commission has inquired whether the dial equipment minute (DEM) weighting assistance program continues to be consistent with the pro-competitive, deregulatory policies set forth in the Telecommunications Act of 1996, Pub. L. No. 104-104, 110 Stat 56 (1996) (the "Act"). NPRM at ¶ 29-30. TELECOM believes the existing DEM weighting rules are in fact consistent with such pro-competitive, deregulatory policies because, among other things, strong, compelling evidence supports the cost allocation principles which underlie DEM weighting. See Appendix 1 attached hereto. Thus, the existing DEM weighting rules should not be materially altered.

Without DEM weighting, companies which serve small communities would have to recover the increased switching costs from local subscribers. In order to provide the toll access which benefits toll carriers, LECs must purchase switches which have toll switching capabilities. However, in order to simply provide local services, LECs would, in the absence of having to provide toll access, be able to purchase a much less costly switch. A minute of local service usage utilizes none of the advanced switching functionality purchased in order to provide toll access.

However, a minute of interstate usage on such a switch will utilize and take advantage of much of the processing capability and functionality of the switch purchased by the LEC in order to allow for toll access.

The elimination of DEM weighting would not allow smaller telephone companies to recover the increased costs which such companies are forced to incur in order to provide for toll switching functionality. In fact, the elimination of DEM weighting will result in the imposition of disproportionately high and burdensome costs on local companies and their local users, and will relieve toll carriers of their obligation to fund switching investments undertaken to primarily benefit them. See Appendix 2 attached hereto.

Faced with the loss of such dollars, many small companies would be forced to substantially increase local service rates. According to the Office of Technology Assessment (the "OTA"), the reduction of "toll settlement payments to small telephone companies... may not only hinder rural network modernization and service quality, [but] may also threaten the very survival of many rural telephone companies." OTA, *Rural America at the Crossroads: Networking for the Future* at 65 n.28 (1991) (citing Bruce Egan, *Bringing Advanced Telecommunications to Rural America: The Cost of Technology Adoption*, contractor report prepared for the OTA (Oct. 1990)). In essence small companies and their customers would be forced to pay for the disproportionately high switching investment costs which smaller companies must incur to satisfy the needs of interstate toll providers. Thus, the Commission should retain DEM weighting in substantially the same form

as it exists today.

In addition to inquiring about the possible revision or elimination of DEM weighting, the Commission inquires whether a proxy methodology, such as the Benchmark Costing Model proposed by US West, Inc., NYNEX Corporation, MCI Communications Inc. and Sprint/United Management Co., should be employed to calculate USF support. NPRM at ¶ 31. TELEC does not believe such a proxy model could or should be used in order to determine USF eligibility or support.

One of the biggest problems with imposing proxy factors is that with respect to rural areas where no competition exists or can be sustained, the use of proxy factors would provide little incentive for companies to upgrade facilities. Under the existing system, a company which could not otherwise afford to upgrade its plant and equipment to deliver better and improved telecommunications services to its customers can afford to make such improvements because of USF assistance.

Furthermore, a proxy system would, by its very nature, fail to accurately assess the costs actually incurred by LECs. Although larger companies may be able to absorb the shock of inaccurate levels of USF assistance generated by a proxy system, small companies would have a difficult time adjusting to lower levels of USF assistance resulting from faulty proxy methodology.

In addition to these considerations, the Commission would inevitably have to confront and address in some administrative fashion complaints and concerns of those companies which feel they have been improperly treated under a proxy system or which request special exemptions from the operation of such a system.

As a result, the creation and on going administration of a proxy system would likely result in significant additional administrative burdens upon the Commission. This, of course, violates the Commission's admonition that any method adopted to determine USF support "should be as simple to administer as possible ..." NPRM at ¶ 27.

Notwithstanding the above concerns, TELECOM acknowledges the current system under which average schedule companies receive USF assistance is, in essence, a proxy-like system. USF assistance for average schedule companies is based on a formula designed to emulate the assistance provided to similar cost reporting companies. The current USF system provides high cost assistance to average schedule companies based solely on their number of lines per exchange. In 1995, no average schedule company with more than an average of 507 lines per exchange received any money from the USF. This ceiling on lines per exchange is a burdensome restriction on average schedule companies that does not apply to the vast majority of USF recipients.

Many small, rural telephone companies elect average schedule status in order to avoid the burdens and costs inherent in complying with reported cost methodology. Nevertheless, these average schedule companies still have high loop costs, and they all function as carriers of last resort. Recognizing the frailties of the average schedule USF formula, the Commission should continue to allow average schedule companies to obtain USF assistance without converting to a cost reporting methodology for settlements.

Although TELEC opposes the use of any proxy methodology to determine universal support, in the event a proxy model, such as the Benchmark Costing Model, is adopted it should not be based upon local service within a census block group area. NPRM at ¶ 34. Among other things, companies currently do not disaggregate costs on the basis of census block group areas and such areas would not have the same boundaries as a LEC's service area. Thus, implementing such a cost accounting procedure would be extremely costly and burdensome for companies to establish and maintain. Once again, this would also frustrate the Commission's goal of adopting a USF distribution system which is "as simple to administer as possible...." NPRM at ¶ 27.

Furthermore, census information is only compiled every 10 years. In the course of a decade, a small rural community can experience a significant percentage increase or decrease in population, income, etc. If eligibility for USF assistance utilizes census block group data (*e.g.*, population density), the data used to determine such assistance could quickly become outdated and incorrect. In fact, many groups criticized the 1990 census results and even challenged the results in court on the basis that the census undercounted many minority groups and low income households. The use of such unreliable data would clearly undermine the Commission's goal of establishing "specific, predictable and sufficient Federal and state mechanisms to preserve and advance universal service." NPRM at ¶ 3 (*quoting* Section 254(b)(4) of the Act).

In discussing how to calculate USF support, the Commission also solicits

comment on whether a competitive bidding process can be established to set the level of support in rural, insular and high-cost areas. NPRM at ¶ 35. The Commission goes on to acknowledge that market conditions may not warrant the introduction of this plan [*i.e.*, competitive bidding] at present. Nevertheless, we [*i.e.*, the Commission] believe competitive local exchange markets may develop even in high-cost areas, and, therefore, request comment regarding distributing high-cost assistance on the basis of competitive bids." *Id.* at ¶ 37.

The Commission has recognized "at present, there may be only one eligible carrier in some rural, insular or high-cost areas [and] [b]idding to set the level of support payments cannot take place until competitors enter the market." *Id.* at ¶ 35 n.84. Therefore, with respect to rural areas, the Commission must be careful to avoid creating competition for competition's sake. If no competition presently exists, adopting a system to foster competition would only artificially create competition which the market could not otherwise sustain. The end result would be a system that may unnecessarily encourage a local market to support the infrastructure of two competing companies when such duplicative investment and infrastructure is not required and is inefficient. In the end, local customers would be forced to foot the bill for this uneconomic duplicative investment in infrastructure. If duplicate infrastructures cannot be supported economically, a community could possibly end up without even a single viable infrastructure provider.

Furthermore, the regulation and paperwork that would be required in order to

administer and process a system designed to foster competition in areas where no competition exists would be futile and expensive. In any event, the imposition of such minimum service responsibilities, particularly the assumption of carrier of last resort obligations, must occur in any system utilizing competitive bidding in order for such system to operate fairly and not greatly disadvantage incumbent carriers of last resort.<sup>3</sup> However, TELEC seriously questions whether a workable system can be developed to implement such a requirement.

With respect to carriers of last resort, a number of problems exist in administering a competitive bidding system. For example, carriers of last resort must offer uniform business rates and uniform residential rates. However, competitors who have not assumed carrier of last resort obligations would not have to offer uniform rates.

Therefore, in the absence of any requirement to the contrary, competitors of carriers of last resort could offer lower specialty rates to desired business customers. As a result, the competitor would be allowed to "cherry pick" the carrier of last resort's largest customers leaving the carrier of last resort with its least profitable customers and those most expensive to serve, thereby forcing a

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<sup>3</sup> High-cost assistance programs such as USF are designed to encourage universal service - namely, the provision of reliable and affordable telephone service to all subscribers in a service area. Therefore, an axiomatic and self-evident principle of USF assistance should be that only those companies with universal service obligations can receive universal service funding. Companies which can discriminately offer service to only low cost or high profit customers do not even attempt to provide universal service. Therefore, these companies should be ineligible for USF assistance because the USF was designed to promote universal service at affordable rates.

further increase in local rates. Even if a competitor proposes to assume carrier of last resort obligations, procedures must be enacted to assure the competitor actually fulfills such obligations because a critical difference exists between merely stating one is willing and able to assume obligations and actually fulfilling such obligations.

c. Transition Issues

With respect to transition issues, the cap on USF which is scheduled to expire on July 1, 1996 should not be extended. NPRM at ¶ 40. Despite concerns about growth in the USF, the total size of the USF has actually decreased over time in relation to actual minutes of usage. Currently, USF represents a relatively small portion of overall interexchange carrier revenue requirements, approximately less than \$0.005 per interstate minute of use. The total cost of the USF must be measured against the enhanced economic value generated by USF funding. The United States has the best telecommunications infrastructure and service in the world, and USF is partly responsible for such service.

Extending the cap could potentially ignore and frustrate the primary principles which support the advancement of universal service - *e.g.*, quality services should be available at just, reasonable and affordable rates; and access to advanced telecommunications and information services should be provided in all regions of the nation. NPRM at ¶ 3. Extending the cap also frustrates the goal of the new Telecommunications Act to expand universal service.

With respect to transition issues, if any change is adopted with respect to

DEM weighting or USF, any change must be phased in gradually over time. NPRM at ¶ 40. Unforecasted reductions in settlements resulting from an abrupt change in DEM weighting or USF could be very difficult for small companies to absorb. In fact, since small LECs rely upon DEM weighting and USF payments in setting their budgets and financing improvements, a significant, unscheduled reduction in such payments could delay or halt on going investment projects and could discourage companies from making any necessary equipment upgrades. This of course violates the fifth principle set forth in Section 254(b) of the Act in support of universal service - namely, that there should be specific, predictable and sufficient federal and state mechanisms to preserve and advance universal service. NPRM at ¶ 3.

### 3. Who Is Eligible for Support

Universal service support should only be provided to facilities-based LECs which have assumed carrier of last resort obligations in a given community. In order to ensure that support dollars are efficiently used in high cost areas, support should be directed to a single telecommunications provider in a particular area. Providing support to "multiple carriers of last resort" will not facilitate the necessary maintenance and improvement of the advanced telecommunications infrastructure in rural America.

#### **C. Support for Low-Income Consumers**

### 2. How to Implement and Who is Eligible for Support

The Commission should continue to utilize the Lifeline Assistance Plan and

Link Up America to support the provision of basic telephone services to low income households. However, low income support should be kept separate from the cost allocation and infrastructure support resulting from DEM weighting and USF.

**D. Insuring That Supported Services for Rural, Insular and High-Cost Areas and Low-Income Consumers Evolve**

As suggested by the Commission, any universal service definition ultimately adopted by the Commission "should be revisited at fixed intervals" such as every two or three years. NPRM at ¶ 67. Such a periodic review would be consistent with the policies set forth in the Act for the preservation and advancement of universal service. Among other things, such a review would advance the second and third principles set forth under Section 254(b) of the Act - namely, that access to advanced telecommunications and information services should be provided in all regions of the nation, and consumers in all regions of the nation, including low-income consumers and those in rural, insular and high-cost areas, should have access to telecommunications and information services that are reasonably comparable to those services provided in urban areas. NPRM at ¶ 3.

**IV. SCHOOLS, LIBRARIES, AND HEALTH CARE PROVIDERS**

LECs work very hard to provide excellent and discounted telecommunications services to schools, libraries and health care providers. In many small communities, local telephone companies constitute one of the main benefactors of these institutions. In order to properly encourage and further the goal of establishing an advanced telecommunications infrastructure and network

throughout all regions of the nation, any proposals relating to the provision of telecommunications services to schools, libraries and health care providers should require that support for any such service must be directed toward the owner of the telecommunications network facilities.

To the extent any USF support is directed specifically to schools, libraries or health care providers, restrictions should exist. First, institutions which receive telecommunications services from others should not be allowed to resell or provide those services to third parties and still receive USF support. Second, no USF support should be given to support schools, libraries or health care providers which operate on a for-profit basis. Furthermore, any support directed to these institutions should be kept separate from the USF.

## **VI. OTHER UNIVERSAL SUPPORT MECHANISMS**

The Commission inquires whether the existing caps on the flat monthly subscriber line charges ("SLCs") should be increased. TELEC and its clients oppose any such increase. Any SLC increase would unfairly and disproportionately shift too much of the funding burden from high volume users to low volume users who are typically residential, small business and low income users who can least afford a rate increase. Any SLC increase would of course increase consumers' telephone rates and ultimately would cause some of these low volume users to disconnect. This would hinder the goal of expanding universal service and directly violate the first principle enumerated under Section 254(b) of the Act - namely, providing quality telecommunications and information services at just, reasonable

and affordable rates. NPRM at ¶ 3. In lieu of increasing the SLC the Commission should require all telecommunications customers, including cellular customers, to pay the SLC.

## **VII. ADMINISTRATION OF SUPPORT MECHANISMS**

### **B. Administration**

#### **1. Who Should Contribute**

All telecommunications providers, including wire line and wireless providers, should be required to contribute to the USF. NPRM at ¶¶ 118-120. However, the Commission should seek funding from other sources. For example, additional funding could be obtained based on interexchange carrier revenue instead of presubscribed customers. This proposal constitutes a more equitable method for generating USF funds because all interexchange carriers (including wireless carriers providing interexchange service) which benefit from the ability to originate or terminate a call would be required to contribute to the USF based on revenue. In essence, the Commission could simply expand the base of companies which contribute to the USF.

#### **2. How Should Contributions Be Assessed**

Contributions to the USF should be calculated based upon a percentage of interexchange carrier revenue as reflected on TRS reports. Under the current system, only those companies with over a certain number of pre-subscribed users have to pay funds to the USF and the calculation of such payment is not based on revenue but simply upon the number of pre-subscribed users regardless of revenue.

Instead, the Commission should require all companies which use the LECs' subscriber plant to pay a proportionate share of USF funds based on revenue.

This proposal would alleviate the current inequity in USF funding whereby only the subscribers of those carriers which have an excess of a certain number of pre-subscribed lines must fund the entire amount of the USF, while subscribers for competing companies have no obligation to do so. Such a proposal could be relatively simple to administer because TRS reports currently reflect revenue amounts and a percentage fee could be applied against such revenue for purposes of funding the USF.

### 3. Who Should Administer

USF administration on the national level should be performed by a nongovernmental organization in an efficient, fair and competitively neutral manner. The National Exchange Carrier Association ("NECA") has developed, managed and administered the current USF funding mechanism since its inception in 1984. During NECA's administration of the current program, the organization has developed extensive internal systems, procedures and controls to insure the integrity of data collections, calculations, and the collection and distribution of funds. NECA has a proven track record in the management of data collections, fund and/or pooling administration in an environment containing specific rules and responsibilities. NECA has also demonstrated its ability to develop and manage large-scale information and data base systems.

NECA's current membership is limited to only LECs and is governed by 14

directors including four (4) outside directors. In light of the 1996 Telecommunications Act, it is very apparent a national fund will involve organizations beyond the current scope of local and interexchange carriers. Should NECA continue to administer USF funds, the structure of the organization would need to transform to a membership that involves a representation of all telecommunications providers.

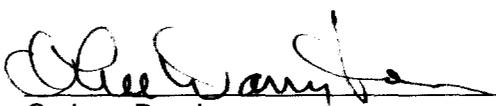
NECA's USF administration costs are assigned to the current fund using ratios developed through relationships of total funds or revenues managed to the individual categories of various funds or revenues. The ratios or factors are applied to total operating costs to determine an applicable assessment. These administrative fees may not be representative of actual costs. Administration costs should be based on the actual costs of the administration process rather than on a percentage of funds managed to expenses incurred basis.

In addition, a nongovernmental organization should administer the federal USF, rather than state regulators, because state administration would result in inconsistent application of support which violates the principle of establishing specific and predictable mechanisms to preserve and advance universal service. Also, administration of the federal USF in each of the fifty states would increase the cost to the industry.

DATED this 11th day of April, 1996.

Respectfully Submitted,

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## APPENDIX 1

A recent study comparing the switching costs incurred by companies which serve large and small communities clearly and unmistakably illustrates that companies which serve small communities incur significantly higher switching costs per line and per minute of use ("MOU") than large companies which serve densely populated urban areas.

As shown in the table below, statistics compiled by the National Exchange Carrier Association ("NECA") reveal telephone companies with over 50,000 access lines incur switching investment costs of approximately \$.019 per MOU or \$362 per line. However, companies with less than 10,000 access lines have switching investment costs of approximately \$.040 per MOU and \$549 per line. This represents over a 100% increase in per MOU costs and nearly a 50% increase in per line costs. With respect to telephone companies which have less than 1,000 access lines, the disparity in switching costs becomes even greater. The per MOU and per line switching costs of companies with less than 1,000 access lines amount to approximately \$.065 and \$799, respectively. These costs exceed the same type of costs incurred by telephone companies with 50,000 access lines by over 200% and 100%, respectively.

INDUSTRY TOTAL COMPANY CODE CATEGORY 3 INVESTMENT<sup>1</sup>

Number of Access Lines in Study Area	Switching Investment		Ratio of Investment to over 50,000 Investment	
	per line	per MOU	per line	per MOU
Source: 1992 ARMIS, 1992 Network Usage, 1992 Cost Studies				
Less than 1,000	\$799	\$.065	2.2	3.3
Less than 5,000	\$598	\$.046	1.7	2.4
Less than 10,000	\$549	\$.040	1.5	2.1
10,000 to 20,000	\$488	\$.033	1.3	1.7
20,000 to 50,000	\$462	\$.031	1.3	1.6
Under 50,000	\$500	\$.035	1.4	1.8
Over 50,000	\$362	\$.019	1.0	1.0

More recent data supplied by NECA reaffirms these findings.

According to 1994 data compiled by NECA, the local switching costs incurred by a company serving 500 lines is 3.7 times greater on a cost per MOU basis (and 3.1 times greater on a cost per line basis) than a company serving 10,000 lines.

Those cost companies joining in these comments<sup>2</sup> which have under 1,000 access lines have on average switching costs per line of \$1,086 and on average switching costs per MOU of \$.093.<sup>3</sup> As discussed above, nationally, companies with less

<sup>1</sup> Chart is excerpted from NECA Discussion Paper, *Interstate Traffic Sensitive Cost Recovery and DEM Weighting* at 5 (Oct. 6, 1994) (hereinafter, "NECA Discussion Paper").

<sup>2</sup> Switching costs are not available for the average schedule companies joining in these comments.

<sup>3</sup> These costs are derived from companies which on average have 359 access lines.

than 1,000 access lines have on average per line switching costs of \$799 and per MOU switching costs of \$.065.

Furthermore, those cost companies joining in these comments which have less than 5,000 access lines have, on average, switching costs per line of \$684 and switching costs per MOU of \$.057.<sup>4</sup> In fact, six companies have per line costs of over \$720, and the highest company has per line costs of over \$1,175. These same six companies have per MOU costs of over \$.065, and one company has per MOU costs exceeding \$.11. Once again, the costs for these companies exceed similar costs reported by NECA for other companies with less than 5,000 access lines. NECA reports that, on average, companies with less than 5,000 access lines have per line switching costs of \$598 and per MOU switching costs of \$.046.

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<sup>4</sup> The companies with under 5,000 access lines whose costs are discussed in these comments have, on average, 1,211 access lines.