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April 12, 1996

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

Re: **CC Docket No. 96-45; Federal-State Joint Board on Universal Service**

Dear Mr. Caton:

Enclosed herewith for filing are the original and four (4) copies of MCI Telecommunications Corporation's Comments in the above-captioned proceeding.

Please acknowledge receipt by affixing an appropriate notation on the copy of the MCI Comments furnished for such purpose and remit same to the bearer.

Sincerely yours,

Chris Frentrup

Chris Frentrup
Senior Regulatory Analyst

Enclosure
JCF

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Before the
FEDERAL COMMUNICATIONS COMMISSION
Washington, DC 20554

In the Matter of	)	
	)	
Federal-State Joint Board on	)	CC Docket No. 96-45
Universal Service	)	
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MCI COMMENTS

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EXECUTIVE SUMMARY

This proceeding is integral to the development of the new competitive framework for competition specified by the Telecommunications Act of 1996. A competitive market will, over time, drive down today's above-cost price of local exchange service to economic cost. For some areas of the country, however, the economic cost of serving customers in high cost areas likely exceeds a rate that those customers are willing to pay or exceeds a rate that regulators find acceptable. In addition, rates set at economic cost may be unaffordable for low-income consumers. Universal service mechanisms must address these issues in order to maximize the number of customers connected to the public switched network, even in a market that is fully competitive.

Current universal service subsidy flows are incompatible with the development of competition in several respects:

- subsidy flows that are internal to incumbent LECs prevent competition in areas that receive subsidies
- since the statute mandates that all carriers must contribute to universal service, the system must be designed so that a contribution does not simply guarantee the revenues of the incumbent LEC
- competition will eliminate the source of today's subsidy payments
- the statute prohibits subsidy of competitive services by noncompetitive ones, a prohibition that cannot be enforced under today's system

MCI recommends that the Joint Board and the Commission "de-link" the universal service subsidy from LEC revenue requirements, and create a competitively-neutral universal service mechanism, consistent with statutory requirements. Our recommendations include:

- define basic universal service to include single party service to the first point of switching, local usage, touch tone, white pages listings, access to 911, E911, operator services directory assistance, and telecommunications relay service, at a rate no higher than the current nationwide average rate for basic telephony, about $20;

- calculate the subsidy -- the difference between the total service long run incremental cost (TSLRIC) of basic universal service, determined separately for different geographic cost zones reflecting distinctive cost characteristics, and the revenues generated by rates set at the current nationwide average;

- provide a "block grant" of the subsidy amount to the states and require the states to determine the distribution among eligible carriers; the Commission must then remove all subsidies that are built into interstate access rates;

- mandate a "carrier of last resort" auction for any area that is or becomes unserved, allowing auction participants to determine at what subsidy level they would provide service.

Regardless of which approach is taken, this basic subsidy mechanism should not replace or diminish the Life Line and Link Up targeted subsidy programs.

The Commission should adopt a pilot program to gather more information on the services that schools, libraries, and hospitals need.

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In the Matter of	)	
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Federal-State Joint Board on Universal Service	)	CC Docket No. 96-45
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MCI COMMENTS

MCI Telecommunications Corporation ("MCI") believes a properly designed universal service mechanism can contribute to the development of competition for exchange service, ensure that current high levels of subscribership are preserved and enhanced, and maintain high quality, affordable telephone service for all Americans. The Telecommunications Act of 1996 (1996 Act) mandates a complete revision in the existing system of implicit, hidden subsidies and inefficiently-targeted explicit subsidy flows, such as the High Cost Fund. MCI advocates that the Joint Board and the Commission re-engineer universal service support flows to accommodate competition and improve the levels of subscribership.[1]

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1 Federal-State Joint Board on Universal Service, Notice of Proposed Rulemaking and Order Establishing Joint Board, CC Docket 96-45, FCC 96-93, released March 8, 1996 ("NPRM").

I. MCI'S UNIVERSAL SERVICE PROPOSAL

This proceeding is integral to the development of the new competitive framework specified by the 1996 Act. [2] A competitive market will, over time, drive down today's above-cost price of local exchange service to economic cost. For some areas of the country, however, the economic cost of serving customers in high cost areas likely exceeds a rate that those customers are willing to pay or exceeds a rate that regulators find acceptable. In addition, rates set at economic cost may be unaffordable for low-income consumers. Because the value of a network is affected by the number of people who can be reached on it, there is a strong policy rationale for universal service mechanisms which will maximize the number of customers connected to the public switched network, even in a market that is fully competitive.

Of equal significance, the current universal service subsidy flows are incompatible with the development of competition. First, as long as the universal service funding mechanism involves subsidies that are internal to the incumbent LEC, potential competitive providers of exchange service -- even if more efficient -- would find it difficult to compete with the incumbent local exchange carrier (LEC) in areas that receive subsidies. Second, since the statute mandates that all telecommunications carriers must contribute to

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2 Telecommunications Act of 1996, Pub. L. No. 104-104, 110 Stat. 56 (1996) (to be codified at 47 U.S.C. Section 151 et seq.). For consistency with the NPRM, we refer to provisions of the 1996 Act using the sections at which they will be codified.

universal service, and the existing subsidy flows are not targeted to high cost areas and low income customers, a contribution from a new entrant simply serves to guarantee the revenues of the incumbent LEC. Third, the current system cannot be sustained because as competition drives rates to cost, the source of today's subsidy flows -- above-cost rates -- is eliminated. Finally, the current system cannot survive under the Section 254(k) provision banning the subsidy of competitive services by those not subject to competition.[3]

Re-engineering a universal service support system for a competitive environment requires that the Joint Board and Commission "de-link" universal service from existing LEC revenue requirements. A universal service subsidy based on the serving LEC's historical costs would protect the LEC from the market discipline on its prices that competition should provide. MCI therefore proposes that the Joint Board take the following steps, consistent with the statute, to design a new universal service mechanism:

- define universal service -- the provision of single-line residential access to the first point of switching in a local exchange network, unlimited usage within an exchange area, touch-tone service, white pages listings, and access to 911 and E911 service, operator services, directory assistance, and telecommunications relay service, at a rate no higher than the current nationwide

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3 The existing cost allocation rules assign all LEC overheads to existing services. If the LECs also provide interexchange service, any charge for access above economic cost will allow the LEC a discriminatory advantage, because the LEC can set its access rates so as to advantage its interexchange services and disadvantage its competitors.

average rate for basic telephony, about $20;[4]

- calculate the subsidy -- the difference between the total service long run incremental cost (TSLRIC) of basic universal service, determined separately for different geographic cost zones reflecting distinctive cost characteristics, and the revenues generated by rates set at the current nationwide average;[5]

- provide a "block grant" of the subsidy amount to the states and require the states to determine the distribution among eligible carriers; the Commission must then remove all subsidies that are built into interstate access rates;

- mandate a "carrier of last resort" auction for any area that is or becomes unserved, allowing auction participants to determine at what subsidy level they would provide service.

MCI believes that this approach is fully consistent with Section 254, and recognizes the federal-state partnership that will be required to create single efficient mechanism to subsidize universal service needs.

Alternatively, if the Joint Board and Commission decide that a unified approach to universal service is not practical, MCI proposes the following:

- after defining the services that constitute universal service, selecting a national average, and calculating a total universal service requirement based on TS-LRIC as above, determine the portion of the subsidy that should be collected from interstate

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4 MCI believes that the current nationwide average local service rate represents the most defensible definition of an "affordable" rate for the purposes of this proceeding.

5 MCI has in the past advocated either the use of geographic cost zones or the use of census tracts to separate areas requiring high cost assistance from those that need no assistance. In either case, the concept of identifying high cost areas to target support flows is the same.

services based on the current 25 percent gross allocator, and use the proxy cost model to assign the residual state portion among the states;

- for the interstate portion, mandate a competitively-neutral method to collect revenues -- a percentage assessment on common carrier revenues of each telecommunications service provider, net of payments made to other carriers;[6]

- for the interstate portion, create provider-neutral distribution of revenues -- the provider selected by the customer should be entitled to the per-line subsidy;

- for the intrastate portion of the subsidy, refer the creation of the revenue collection and revenue distribution mechanisms to the state commissions, for their action consistent with the 1996 Act, and the principles and rules established by the Joint Board and Commission.[7]

The chief downside of this alternative process is that it creates a dynamic that makes it difficult to reduce the subsidy flowing from interstate services today, and to create an environment in which all services bear an equitable share of the universal service burden.

Regardless of which approach is taken, this basic subsidy mechanism should not replace or diminish the Life Line and Link Up targeted subsidy

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6 Section 254(b)(4) states that all providers of telecommunications services should contribute to the preservation and enhancement of universal service. Section 254(d) states that the Commission's obligation is to ensure that providers of interstate services shall contribute, unless the Commission determines the contribution would be de minimis.

7 Pursuant to Section 254(f), the states may also decide to increase the intrastate portion of the universal service subsidy, in response to state interests and needs. However, states must create specific, predictable, and sufficient mechanisms that "do not rely on or burden Federal universal service support mechanisms."

programs that are explicitly intended to allow low income customers to receive basic service at reduced rates. However, these programs need to be modified to allow all carriers to participate, and to allow low income consumers to apply credits toward any service they wish. This will ensure that competitive provision of service to low income consumers will also occur, thereby lowering its overall cost.

This proposal envisions that the current system of support flows would be entirely replaced, by explicit and targeted subsidy systems at the state and interstate level. Concurrent with identifying the universal service support necessary under this method, existing support flows would be removed from LEC rates. In the interstate jurisdiction, this would require reduction or elimination of the Carrier Common Line (CCL) charge, the current Universal Service Fund (High Cost Fund) charge, Long Term Support, triple-DEM weighting, the Subscriber Line Charge (SLC), and the Local Switching charge.

Any universal service subsidy is the functional equivalent of a tax on one class of customers for the benefit of another. Such a tax will raise the price of telecommunications service (in a given area or for a specific service) above its economic cost, in order to keep the price somewhere else, or for another service, below its economic cost. Setting rates at a level other than their economic costs will distort telecommunications markets, inducing customers to consume more of the service which is priced below its cost and less of the service which is priced above its cost. If LEC access charges are set well above economic cost to fund universal local service, for example, this will increase the vulnerability of telecommunications carriers that must purchase access to anti-competitive tactics by the LECs.

Finally, the Commission must design the support for schools, libraries, and rural health care providers in such a way as to foster the development of new infrastructure for serving those entities. If the Joint Board and Commission, in partnership with the state commissions, replace the existing universal service subsidy flows with the explicit, targeted, cost-based subsidy fund that MCI is recommending, and thereby bring rates to cost, there is ample ability to increase the size of the universal service fund to accommodate advanced telecommunications for schools, libraries, and hospitals. This additional money for advanced telecommunications is only made possible, however, by regulatory decisions that replace existing subsidy mechanisms, and avoiding a decision that will ensure recovery of current LEC revenue requirements.

The Commission needs to gather more information on the services that schools, libraries, and hospitals need. One possible method for doing this could be to establish a fund at some defined level, which would be used to fund pilot programs for these entities. The Commission could then evaluate these programs after two years to determine what services were needed, and determine at that time what further subsidies, if any, were needed. These steps will ensure that this support will improve service to these entities, rather than merely serving as a regulatory funding mechanism for support these entities already receive.

II. DEFINITION OF UNIVERSAL SERVICES

In developing a list of services which are to receive universal service support, the Commission should consider that any subsidy provided to a service runs the risk of distorting that and other related markets. Before adding services to the list of services eligible for universal service support, the Commission must quantify the cost of the service and the effect of the subsidy on the demand for that service. The Commission must also determine the effect of the subsidy payment on demand for the services that are paying the subsidy. Only if the benefit of the increased subscribership of the subsidized service exceeds the cost of the reduced subscribership of the subsidizing service should the Commission add the service.

The Commission seeks comment on the effect on competition of its proposed definition of services that receive universal service support, and on whether the support will serve as a barrier to entry to new entrants, or favor a particular technology. So long as all LECs are eligible to receive universal service support, the services on the Commission's proposed list should not serve as a barrier to entry. However, if universal service support is available only to the incumbent LEC, any competing LEC will find it more difficult to enter the market, because its cost structure will have to be lower than the incumbent LEC's by the amount of the subsidy. To avoid this barrier to entry, the support must be available to all LECs serving an area.

The Commission seeks comment on whether it should add a number of other services to its list of services eligible for universal service support, including Internet access, data transmission capability, optional SS7 features (or blocking of those features), enhanced services, and broadband services. None of these features should be added to the list at this time. When these services are purchased by a substantial majority of subscribers, and none of them currently are, consideration can be given to adding them to the list of eligible services, if they meet the cost/benefit test described supra.

For this same reason, support should be limited to residential customers. Extending support of universal service to business customers would greatly expand the scope of universal service subsidy, thereby increasing the risk of unintended adverse effects. It would also provide subsidy to customers who are less likely to need the reduced rates the subsidy makes possible.

The Commission seeks comment on whether the 1996 Act requires that all regions of the country have access to all telecommunications services, and if so how can this be done in a "pro-competitive, de-regulatory environment." A competitively-neutral universal service mechanism will promote the market competition that will ensure all consumers a choice of providers and services. So long as the Commission's rules allow effective competition, advanced services will be made available to all.

III. COMPUTATION OF THE UNIVERSAL SERVICE SUBSIDY SHOULD BE BASED ON THE DIFFERENCE BETWEEN ECONOMIC COST AND AN ACCEPTABLE RATE

A universal service subsidy based on the difference between economic cost and the nation-wide average rate would ensure that the subsidy payment reflected only the cost of service, rather than also funding current LEC inefficiencies. Because the current separations-based universal service support mechanisms are not related to the incumbent LECs' economic costs, they give LECs no incentive to control their costs, thereby increasing the ultimate cost of universal service to end users. In addition, use of separations-based universal service fund mechanisms in a competitive environment would require all eligible LECs to compute their local service costs, and would give a lower subsidy amount to the more efficient companies. In a competitive market, the price is determined by the most efficient firm; providing a higher subsidy to less efficient firms would simply ensure that local access rates would not fall as much as they should.

A forward-looking model of the economic cost of the network such as the Benchmark Cost Model (BCM) can be used to determine the universal service support level. The BCM is an engineering cost model that computes the cost by Census Block Group (CBG) of serving every area in the country except Alaska, based on data on terrain and soil conditions and number of households.[8] Because the BCM is based on the cost of building the network today, it more closely reflects the economic cost of the network.

There are a number of modifications that could be made to the BCM to make it more useful. First, as the Commission suggests, it should have a cap based on wireless technology. In its current state, the BCM assumes use of the current wireline technology to serve every area, even though some areas could be more economically served by wireless technology. Placing a cap based on the cost of wireless technology would help ensure that the universal service support mechanism was technology-neutral.

In addition, there are further assumptions that the BCM makes which need to be revised. First, the BCM assumes that households are uniformly distributed throughout the CBG. This assumption is probably least true in the more rural areas, which are likely to have population centers with concentrated customers, with some customers scattered in outlying areas. Second, the BCM looks only at residential lines. The presence of business lines will increase the economies of scale, and may result in a lower cost per loop. The Joint Sponsors of the BCM have indicated that they plan to file revisions to the BCM to reflect some of these changes.[9]

Once the Commission has determined the size of the required subsidy

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8 The data necessary to run the model are unavailable for Alaska.

9 See Letter from Glenn Brown to William F. Caton, Ex Parte RE: CC Docket 80-286, filed February 21, 1996.

using BCM or some other proxy cost model, it must determine from whom to recover that subsidy. MCI believes that the Commission should use a proxy cost model such as the BCM to set the total amount of the subsidy. That subsidy should then be recovered from all telecommunications carriers based on their relative revenues, net of payments for the services of other telecommunications carriers. The funds would be provided to the states in the form of "block grants" for allocation among the eligible carriers. The Commission would then take steps to remove all excess allocations of cost to the interstate jurisdiction, because those allocations are no longer needed to ensure affordable local service.

In the alternative, the total subsidy could be allocated between the interstate and intrastate jurisdictions based on the current 25 percent gross interstate allocator. The remainder would then be allocated to the states for recovery in a state fund. The Joint Board and Commission should require the state commissions to allocate the subsidy for their states among the eligible carriers in their state on a competitively neutral basis, consistent with the governing principles adopted by the Commission and Joint Board.

Setting the state-specific subsidy amount at the Commission will ensure that the universal service subsidy on interstate telecommunications companies reflects national goals, while allowing the state commissions to determine the distribution of the subsidy will ensure that the agency with greater direct experience of the cost of local service determines which company receives support. States that wish to subsidize a rate lower than the nationwide average can do so for their intrastate universal service support mechanism, which will be recovered from telecommunications carriers in the state.

MCI does not believe the Joint Board and Commission should rely on Pacific's proposed cost model, incorporating data showing the location of business and residence customers in its territories. While the inclusion of business customer data should improve the results from a BCM-type model, the use of LEC-specific proprietary data will give the LECs the potential to manipulate the data in a way that favors their interest, thereby reducing the confidence that the public can have in the reasonableness and fairness of the cost model.

The Commission asks whether it should extend the interim USF cap until it completes this proceeding, and whether it can or should transition between any new universal service support mechanism adopted in this docket and the current USF and DEM mechanisms. When the Commission resolves the issues in this docket, it should institute the new support mechanism without delay. The reduction in the subsidy burden will bring an immediate reduction in rates to millions of consumers, and the LECs have made no showing that delay is necessary to protect any legitimate interest.

IV. CARRIER COMMON LINE AND SUBSCRIBER LINE CHARGES SHOULD BE REDUCED TO ECONOMIC COST

The Commission proposes to eliminate the CCL charge and increase the Subscriber Line Charge (SLC). The Commission also asks whether the current Long Term Support (LTS) mechanism is consistent with the 1996 Act.

The CCL and SLC charges were originally adopted over a decade ago to reduce the recovery of non-traffic sensitive costs from IXCs on a traffic-sensitive basis. The CCL charge was retained as an interim measure to soften the transition to a more economically efficient pricing structure.[10] The D.C. Circuit upheld the CCL solely and explicitly because the Commission warranted that it was a transitional measure.[11] Any reasonable transition period to eliminate the CCL would have ended long ago.

Eliminating the CCL does not, however, mean that an increase in the SLC is justified. The prices for the local loop, including the CCL and SLC charges, are currently well in excess of their economic cost. An increase to the SLC coupled with an exactly offsetting reduction of the CCL will allow

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10 See MTS & WATS Market Structure: Third Report and Order, 93 FCC 2d 241, modified on reconsideration, 97 FCC 2d 682 (1983), modified on further reconsideration, 97 FCC 2d 834, aff'd and remanded in part, National Ass'n of Reg. Util. Com'rs v. FCC 737 F. 2d 1095 (1984) ("NARUC"), cert. denied, 469 U.S. 1227 (1985).

11 NARUC, 737 F. 2d at 1134-35, and Rural Telephone Coalition v. FCC, 838 F.2d 1307, 1314-15 (D.C.Cir. 1988).

the LECs to continue to recover more than the true cost of the loop. The CCL and SLC should be replaced with a system of universal service support based on the difference between an acceptable rate and economic cost, and funded by all carriers based on their interstate revenues net of payments to other carriers. The result will be a decline in the total subsidy needed, and over time, a reduction in the cost of local service.

As the Chart in Appendix A shows, the total subsidy required for universal service under the method MCI proposes equals approximately $5 billion. The current interstate contribution, from traffic sensitive switched rates, CCL charges, SLC charges, and the current Universal Service Fund is about $14 billion. Thus, the interstate access charges are already more than funding the true universal service requirement. If these access charges are driven to cost, there will be a substantial reduction in the total cost of telecommunications services, to the benefit of consumers.

V. UNIVERSAL SERVICE SUPPORT SHOULD BE PAID BY ALL TELECOMMUNICATIONS CARRIERS

Funding the current federal universal service mechanisms falls only on purchasers of interstate access. Section 254(b)(4) of the 1996 Act requires universal service subsidy to be funded by all telecommunications carriers. MCI advocates that any universal service funds be recovered from all providers of telecommunications services, based on their relative revenue shares, net of payments to other carriers subject to the funding requirement.

Netting out payments made to other providers of interstate services will avoid double-recovering from those services. Recovering universal service support from all carriers would eliminate current incentives for interexchange carriers to avoid those services that pay for the universal service programs.

VI. SUPPORT SHOULD GO TO ALL CARRIERS THAT PROVIDE A MINIMUM LEVEL OF FEATURE FUNCTIONALITY

A major drawback of the existing universal service support mechanisms is that they funnel money to the LECs without requiring that the LECs make any modifications to their network to receive that money. To help ensure that the LECs use any universal service support they receive to improve their networks, the Joint Board and Commission could adopt a list of network features that the LECs must provide to receive a full universal service support payment. Failure to provide the network functions on the list would result in a commensurate reduction in the universal service support payment.

There are a number of network features that should be included on this list. The first of these is single party service, because this has proven to be customers' preferred method of access in areas where it is offered. In addition, the LECs should be required to use all digital switches and provide SS7 signaling throughout their network. These will enable the LECs, and other carriers that use their networks, to provide more advanced features and more reliable service. The LECs should also be required to provide equal access and number portability. These steps would allow competition to flourish in both the local and interexchange market.

Adopting such a requirement would have several positive affects. First, it would give LECs the incentive to upgrade or build their networks in ways that would benefit their customers both directly, by improving the level of service they receive, and indirectly, by fostering the competitive conditions that will bring forth even greater improvements in quality. Second, it will ensure that those who pay into the universal service support fund are guaranteed some benefit from the use of those funds. Finally, it will ensure that the funds are used for the purpose for which they were intended, to provide quality service to end users.

The Commission seeks comment on how it can ensure that recipients do not use services that are not competitive to subsidize services that are. The LECs' rates for services, in a competitive market, would equal those services' economic costs. Where competition is sufficiently strong, the market will ensure that the prices charged reflect economic cost, and the Commission need take no special action. However, in those markets which do not face sufficient competition, the Commission must adopt regulations which will ensure that services are priced at economic cost. Only in this manner can the Commission ensure that the LECs do not subsidize competitive services by non-competitive services.

The Commission asks how it can ensure that all eligible, and no ineligible carriers get support, and how it should define the study area (especially in rural areas) for which a company will be eligible for support. All carriers willing and able to serve the entire area over which the support is computed, should be eligible for support. So long as the area used to compute the support coincides with the area the LEC must serve to be eligible for support, there should be no problem with ineligible carriers getting support.

The Joint Board and Commission should not adopt specific requirements for how a LEC is to advertise generally. Competition will ensure that LECs make known to their potential customers their offer of service. Setting standards for advertising would create a barrier to entry by imposing advertising standards that might not be necessary in every case.

VII. AUCTIONS SHOULD BE USED TO SET THE SUBSIDY IN AREAS WHERE NO CARRIER WILL OTHERWISE OFFER SERVICE

MCI has previously proposed an auction mechanism to determine the support level necessary in those few areas where the support computed under MCI's proposed method would not be sufficient to induce any carrier to offer service.[12] This auction mechanism is fully consistent with Section 214(e)(3) of the Communications Act, which allows the States and the

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12 See MCI Comments in Docket 80-286, filed October 10, 1995, incorporated herein by reference.

Commission to designate a carrier which will serve that area, without specifying how the Commission or the states are to select that carrier. Use of an auction mechanism will guarantee that the area is served at the minimum subsidy necessary. The Commission and the state should together hold the auction which will determine the level of support available to an area. The states would certify the carriers eligible to participate in the auction, and the eligible companies would bid the subsidy they would require to serve the area. The low bid would determine the subsidy for that area, and any carrier who wished to serve that area would be eligible to receive that subsidy.

VIII. SUPPORT FOR SERVICES TO LOW INCOME CONSUMERS SHOULD BE AVAILABLE TO ALL TELECOMMUNICATIONS SERVICE PROVIDERS

Whatever additional support is made available to low income households should be portable to any carrier. Under the current Lifeline and Link-Up plans, discounts are given from the incumbent LEC's rates. Whatever support is given to low income households should be given to the low income household directly, and be usable for the purchase of any telecommunications service provided by any telecommunications carrier. The Joint Board and Commission should allow the low income consumer to select the services he or she wants.

IX. SUPPORT FOR SCHOOLS, LIBRARIES, AND RURAL HEALTH CARE PROVIDERS

The 1996 Act establishes additional universal service obligations for provision of services to schools, libraries, and rural health care providers.[13] The advanced services these entities are likely to need will require greater bandwidth than that required by the residential user for whom the general list of services eligible for universal service support was developed. Before the Commission mandates support for these services, it must determine the cost of providing these services, and the likely effect of any proposed discount on the demand for these services. Only at that point can the Commission determine whether the value of the additional services subsidized in this manner are worth the cost to other services of subsidizing them.

The Commission seeks comment on the discount it should require to be offered for service to schools and libraries. The price of service to these entities should recover at least the capital costs of the plant used to provide the service.[14] A rate set at this level would ensure that these entities are paying for the network elements they use, but would provide no contribution to the LECs' joint and common costs.

The 1996 Act limits the eligibility for these universal service programs

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13 Section 254(h).

14 Capital costs include depreciation, return, taxes, and maintenance expenses.