

tremendously by medical specialty and the current state of technology being deployed.

**2. Any telecommunications policy to promote telemedicine should be considered in a larger context of the infrastructure promoting the development of the entire community. To be most effective in providing medical and related health services to the point of need, telemedicine should be integrated into a telecommunications infrastructure that is a shared community resource for healthcare, education, commerce, banking, shopping, and entertainment. This takes advantage of economies of scale and promotes integration of different applications as part of a larger community-wide telecommunications network.**

**3. Finally, it is important to recognize that telemedicine, like telecommunications, is a rapidly changing field. Policy actions affecting telemedicine should recognize this by building in a periodic review and redirection of established policy. Telemedicine is becoming of great interest to investment capitalists and the health and communications industries. We expect this interest will yield substantially increased investments in research and development leading to rapid progress in the design and delivery of medical care over the next decade with developments that are unforeseen today.**

The following summarizes the comments that ATA has submitted to the FCC under the current Notice of Rulemaking regarding universal service.

Physicians and allied health providers currently use practically all forms of telecommunications services in providing health care from plain old telephone service to advanced T1 connections through ATM switches. The level of telecommunications service that are necessary depends on the type of medical service needed. Providing follow-up consultations between physicians or between patient and health care provider may only require a simple conversation on the phone, or use of the internet. However, direct real-time examination of a patient in an emergency situation may require high quality interactive video with parallel high speed digital imaging. Also, the actual communications link may originate at either end and, therefore, include both incoming and outgoing calls.

ATA believes that the Commission should consider two approaches to ensuring appropriate telecommunications services are available for rural health services. First, the FCC should take steps to ensure that all rural health providers have local ACCESS to certain core communication services that are not now available in many rural areas. Second, special urban-comparable rates for providers of rural health care should be applied to all levels of available telecommunications services for qualified health care providers.

We suggest that the Commission consider, within this Rulemaking, ways to guarantee local access to two core services for health care providers serving rural residents: access to the internet and the ability to send and receive high quality digital images. Accessing these two telecommunications services are fundamental to enabling all health providers, regardless of medical specialty or level of training, to render quality health care to rural populations.

The Commission is struggling to determine which telecommunications services should be made

available to health providers serving rural areas at "rates that are reasonably comparable to rates charged for similar services in urban areas in that State"<sup>1</sup>. We feel that eligible telecommunications services should cover the full array of telecommunications services that are available to eligible health providers and not be limited to outgoing or incoming calls. ISDN happens to be a popular choice of service for many involved in telemedicine at the moment. However, limiting discounted services to only ISDN service would artificially limit the choice of the health provider to one level of service for use in delivering medical care when services above or below ISDN may be a better choice. The choice of appropriate bandwidth or level of service to be used in delivering proper medical care, just as the choice for appropriate intervention strategies, should remain in the hands of the health care community.

In seeking to identify comparable rates the Commission should also be aware that many high speed lines are charged by the telephone companies on the basis of mileage from the local exchange. For rural facilities this greatly expands the cost of accessing such services. Providing comparable rates between urban and rural areas should include provisions eliminating or adjusting mileage charges.

It is disturbing that the definition of eligibility for discounted services does not specifically name individual health care practitioners serving rural residents through private practice. In the most remote areas of this country these individuals are often the only available source of medical care for many miles and are among the most in need of access to advanced medical care through the use of telecommunications technologies. We hope that the Commission allows enough flexibility in its final rulemaking to allow these individuals to participate in the benefits offered under this program.

#### Biography of Jay Sanders

Dr. Sanders is presently Professor of Medicine and Surgery at the Medical College of Georgia where he has an endowed Chair in Telemedicine. Prior to assuming his present responsibility as President of the American Telemedicine Association he was director of the telemedicine program at the Medical College of Georgia and was responsible for designing the statewide telemedicine program. He also serves as a Senior Research Scientist at the Georgia Institute of Technology, and a Senior Advisor to NASA on telemedicine. He has spent the majority of his professional career in teaching, health care research, and for over 27 years, in the development of interactive telecommunications as a means of addressing the problems related to quality, cost, and access to care. Dr. Sanders is presently involved in the design and implementation of an Electronic House Call system.

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<sup>1</sup> 1996 Act sec. 254 (b)(1)(A).

CC 96-45



**SUMMARY  
OF  
CAMERON TELEPHONE CO.'S PRESENTATION  
TO  
THE FEDERAL-STATE JOINT BOARD**

**REF: Health Care Providers Panel  
Shelby Hoffpaur - President  
Cameron Telephone Company**

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This presentation describes the Telemedicine Project Cameron Telephone Company is involved with between the South Cameron Memorial Hospital in Cameron, Louisiana and the Moss Regional Hospital in Lake Charles, Louisiana.

The success of the project and the benefits that the community has obtained are pointed out.

The presentation is concluded by stating that Cameron Telephone Company strongly supports the charges of Telemedicine in the rural areas being offset by the U.S.F. Fund, however, they have a concern of the mechanics of the procedure. Specifically, if the rural telephone companies are required to bill their Telemedicine customer no more than the urban areas are billed, Cameron Telephone Company respectfully encourages this Board to give consideration to the complications of the rural telephone companies determining the urban charge.

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**Testimony Offered  
by Dr. James D. Parry, Director, South Dakota  
Technology and Innovations in Education Center  
to the FCC's Federal-State Joint Board on Universal Service  
April 12, 1996**

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As with the rest of rural America, South Dakota seeks to meet the basic, remedial, and enhanced educational needs of our K-12 students as we approach the new millennium, preparing them with not only a basic education but also the skills to compete effectively in the global economy and to excel in a workplace where a myriad of information technologies have become common tools. Rural education leaders face this challenge while confronting the realities of limited physical and human resources in addition to isolation from many cultural and learning assets.

Telecommunications has played a central role in efforts to address these needs. It has been identified as a critical tool to address current and future educational challenges. Therefore, there is a paramount need for a common, ubiquitous telecommunications infrastructure that economically meets the specific technical needs of current and foreseeable educational applications. The financial contributions of the Universal Service Fund will certainly facilitate this endeavor, but only in so far as it helps to address the need for a robust public infrastructure upon which to establish a "Smart School and Classroom" learning environment. Equally important, that infrastructure must flow to the classroom level. That is, access to school buildings is only part of the solution. Connections to telecommunications resources must extend to classrooms to ensure an adequate level of access for ongoing, relevant teaching and learning experiences. Thus, the overall universal access plan should balance the importance of access to school buildings with access to classroom environments where staff and students conduct the day-to-day business of schools.

Clearly, telecommunications tools and resources are vital to the teaching and learning process associated with the Information Age. American schools have made progress with acquiring new tools such as computers and peripherals, but the goal must be to provide appropriate access for all students. Much like students of the past have needed their own textbooks to gain adequate access to information for learning, today's students need ready access to current information tools such as computers. Currently, the computer density in America's schools is about one computer for nine students. While gains in computer density are applaudable, the only acceptable density is ongoing computer access for all students. Much like nine farmers could not successfully share one tractor, nine students can not share one computer or a school can not share one telecommunications access point to accomplish meaningful learning experiences for the Information Age.

At the current time, the biggest barrier for schools and libraries across rural America is the lack of affordable access to bandwidth capable of supporting current and emerging data and video networks. Virtually any school or library could achieve

dial-up access offering a limited level of data networking capability. However, this access comes with a high price given its limitations and the high costs associated with long distance calls necessary to access an appropriate point of presence. Regardless of how access is accomplished, whether by dial-up or higher bandwidth, the fact is that within rural areas carriers are forced to extend their lines great distances at great costs to provide service for a very limited number of users. The correspondingly high costs are generally passed on to users making access prohibitively expensive.

The needs of rural K-12 education and libraries are diverse and fundamental. Many school leaders perceive a robust public infrastructure will enable K-12 educators in rural settings to:

- leverage administrative, teaching, and educational tools & resources,
- overcome remoteness - from cultural and learning assets such as libraries, museums, and science centers, and
- use technology as a tool:
  - to better engage students in the learning process
  - to promote and heighten students' comfort level with technology as a tool
  - to facilitate more productive, authentic learning activities
  - to access enhanced learning resources no matter where those resources may be located.

Across rural America there is a need in our schools and libraries for a communication infrastructure capable of supporting applications far beyond the current capacity of the existing public voice networks. Applications such as distance learning, data networking, and videoconferencing require a vastly new and enhanced narrowband, wideband, and broadband network infrastructure that meets many specific technical and functional requirements. Such a network must be:

- Ubiquitous - universally accessible even from the remotest regions of rural America
- Feature Rich - providing specific features and functionality beyond mere data transport
- Robust - sustainable in the face of the rigors of growth and extensive public use
- Standards based - supporting universal interface and networking standards and protocols
- Secure - being able to preclude access to unwanted, inappropriate information and protecting privacy
- Survivable - exceeding standards of today's telephone network - the information network services must not be interrupted.
- Addressable - offering the ability to connect and communicate with a specific person or persons easily and securely on a dial up basis
- Switched - providing circuit, packet, channel type switching: each capable of meeting requirements of specific applications
- Symmetric - supporting two way or multi-point communication providing equal bandwidth both ways
- Cost Effective and Scalable - capable of meeting a broad range of locally

determined needs rather than providing a "One size fits all solution." This new network would operate at narrowband rates from 64 Kbps to 144 Kbps, wideband rates from 144 Kbps to 45 Mbps, and eventually at broadband rates of multiples of 50 Mbps.

The impact of the Telecommunications Act and its universal service provision on rural America's schools is tremendous. The strongest scenario seeks the balance between the needs and resources of corporate America and the needs and resources of schools and libraries. Generally, private competition has generated favorable pricing once an infrastructure is in place. However, past efforts such as creation of the railroad or highway system in America have required the infusion of public resources to establish an infrastructure. In light of this historical perspective, forcing corporate America to absorb much of the cost of infrastructure deployment for high level, universal service to schools and libraries could be counterproductive.

On the other side of the balance, the assumption that schools and libraries currently have the necessary resources to achieve adequate universal access is simply untrue. The balance that achieves adequate universal access must extend sufficient support to schools and libraries to bridge the resource gulf that currently prevents many educators and students from using telecommunications tools that are so vital for success in today's teaching and learning process.

Given that it may be counterproductive to impose the costs of infrastructure on corporate America, and that schools and libraries do not possess the resources for this task, it is imperative that government resources be available to establish the high level infrastructure stipulated by specific sections of the Telecommunications Act.

When my farmer grandfather made a decision to shift from horse-powered farming to tractor-powered farming, he discovered that the transition required an infusion of more resources, not just shifting current resources. In addition to a tractor, he needed to buy fuel, oil, tires, plows, planters, and cultivators. He needed to view his expenditures as a long term investment leading to significant benefits. Schools face a similar dilemma. Shifting from textbooks, pencils, and paper to computer and telecommunications tools requires more resources as well as new thinking about what are vital tools for accomplishing relevant education in the Information Age. In the long term, expenditures for a telecommunications infrastructure establishes a school environment that provides students with learning experiences that are critical to America's continued productivity and success.

Also, certain realities cause consternation in rural states such as South Dakota.

- First, rural America lacks the market and resources to support the competitive environment envisioned by the Telecommunication Act. Without appropriate state and federal incentives, establishment of the robust public telecommunications infrastructure will likely be delayed in those rural areas most in need of these benefits.

- **Second, the universal service provisions designed to help schools and libraries meet their communication needs by providing supplemental funding are a positive and much needed first step. However, further initiatives are required to insure that the communications infrastructure to be established will adequately support the demands of present and emerging applications.**

**The Telecommunications Act with the Universal Service Provision holds out tremendous hope for schools and libraries across rural America. For decades, visionary school leaders have worked to extend information resources and opportunities to students in rural, isolated settings. The Telecommunications Act can serve as the equalizer for meaningfully bridging the information gap between rural and urban students. As an educational leader in a rural state, I thank you for the opportunity to share my perspective and I look forward to interacting with you in coming months.**

CC 96-45

**Hearing of the Federal-State Joint Board on Universal Service:  
The Education Provisions of the Telecommunications Act of 1996**

**Testimony Submitted by Senator Olympia J. Snowe**

**April 12, 1996**

Good morning. The Federal-State Joint Board on Universal Service has been given an extremely important task in the months ahead. Not only will the recommendations you make greatly impact the final manner in which the Telecommunications Act of 1996 is implemented — but you will be shaping the future of telecommunications services in the United States.

Within the universal service section of this revolutionary law is the Snowe-Rockefeller-Exon-Kerrey provision that pertains to schools, libraries, and rural health care providers. This morning's hearing is focusing on the educational component of this provision, and I am grateful that I have the opportunity to share my thoughts on this issue.

During the crafting of this legislation in the Senate, I and other members recognized that we had an opportunity to do more than simply open the telecommunications market to competition -- we also had an opportunity to prepare our children and grandchildren for the future. One of the most important aspects of the information superhighway is its potential to transmit information across traditional boundaries of time and space. This has dramatically changed the way American school children learn and its influence will only increase in the future. As a result, telecommunications can help us provide a world class education to children across America.

I believe that providing our students with access to the Internet and other telecommunications services is critical because although education is *still the great equalizer* in our society, education *on its own* will not be enough to prepare today's students for the global economy they will enter. If the next generation of American workers is going to win

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the economic "tech wars" of the 21st century, we must ensure that today's students -- who are *tomorrow's workers* -- have equal access to the remarkable power and resources of the technological revolution that is sweeping the country. Our children will be competing in a global economy where knowledge is power. Our future as a nation depends on our children's ability to master the tools and skills needed in that economy.

And how actively involved are our students at preparing for the economy of the future today? Sadly, the average middle school student now only uses a computer for *two hours per week*. This number is even lower among rural students. Considering the fact that *sixty percent* of all jobs in the year 2000 will require a working knowledge of information technologies, this number must be increased.

Earlier this week, the Chairman of the Federal Communications Commission, Reed Hundt, came to my home State of Maine to view the applications of these information technologies at a local middle school already connected to the "information superhighway." As he was able to observe, the placement of these technologies in the classroom serves a critical role in increasing student usage -- and ultimately student understanding.

I agree with House Speaker Newt Gingrich who said that if the country doesn't figure out a way to bring the information age to the country's poor, then we are buying ourselves a 21st century of enormous domestic pain. Therefore, if we want young people to actively use the technology of the future so it becomes second nature to them, we must ensure that schools are full partners in the National Information Infrastructure.

As I am sure others will emphasize this morning, 50 percent of all schools in the United States have some access to the Internet. However, only *nine percent of individual classrooms* in public schools are actually connected to the Internet. Among schools with fewer than 300 students, access to the Internet is only 39%. And fully 52% of the rural schools in America have no access to the Internet whatsoever. In my home State of Maine, a survey by the Maine Department of Education is currently underway to determine the "hook-

up rate" in the State. Although this survey is not yet completed, we do know that more than 26 school districts representing 35 schools have direct access to the Internet through the University of Maine system.

And the role of libraries in the education process is equally important. Not only do numerous students access local public libraries for research, but for many adults, access to information technologies may only be available at local libraries. However, the U.S. National Commission on Libraries and Information Services found that only 21 percent of America's libraries have access to the Internet, and of those libraries serving fewer than 5,000 people, only 13 percent are on-line. In Maine, of the 192 libraries that have responded to a recent Maine Department of Education survey, 97 do not have any computers at all. And of the 95 that do have computers, we do not yet know how many are "on-line." Fortunately, the access of Maine's schools and libraries will increase dramatically in the months ahead as the result of a recent ruling by the Maine Public Utilities Commission. Beginning this summer, NYNEX will be funding the establishment of a data communications network in the State that will connect 1,200 schools and libraries to the Internet, fund student and teacher training, and provide at least one computer for those facilities that currently have none.

But nationally, what is the reason for this gap between access and connection, or between having access or not having any access at all? More than a third of all schools cite costly telecommunications rates as the primary barrier to maximizing the use of their telecommunications capabilities.

In addition, rural schools and libraries usually pay more for access to information services than schools and libraries in urban areas because the information service providers do not have access points in local calling regions, meaning that rural schools and libraries must make a long distance telephone call to access the Internet and other information services. Therefore, it is imperative that access the information superhighway be affordable, because America's schools and public libraries operate on very slim, inflexible budgets.

And in the spirit of Teddy Roosevelt, the Snowe-Rockefeller-Exon-Kerrey provision was designed to give *all of America's students* -- urban *and* rural -- a "Square Deal" in school by ensuring equal access to the wonderful technology of the future that we see here *today*. While this provision laid out the broad parameters of affordable access, your Joint Board on Universal Service is now assigned with the responsibility of "filling in the details" on this portion of the law that is now governing our nation's telecommunications providers.

As you craft your recommendations for the types of services that will be available to schools and libraries within the universal service fund, I would encourage you to focus on the needs of our children as we enter the 21st Century. A wide variety of services will become commonplace in the workplace of tomorrow, much as the fax and desktop computer have become commonplace today. Therefore, the broader your vision -- the better prepared the students of tomorrow can be. In addition, because of the specific needs of rural areas, I would also encourage that you fulfill this law's requirements -- and one of its underlying goals -- in a manner that ensures we do not create a nation of technological "haves" and "have nots" based on economic or rural-urban boundaries. Not every school may want precisely the same services, but as with the intent of the Snowe-Rockefeller-Exon-Kerrey provision, the goal is affordable access. Let's be sure that a lack of sufficient access is never the reason given for our children being unprepared in the future. Thank you.

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COMMISSION ON SECURITY AND  
COOPERATION IN EUROPE

Congress of the United States  
House of Representatives  
Washington, DC 20515-2107

April 10, 1996

The Honorable Reed Hundt  
Chairman, Federal Communications Commission  
1919 M Street, N.W.  
Washington, D.C.

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Date	4-10	# of pages	2
To	Ira Fishman	From	Dan Phylthyan
Co./Dept.	OGC	Co.	
Phone #		Phone #	418-1900
Fax #	418-2822	Fax #	

Dear Mr. Chairman:

I am writing with respect to implementation of the universal service provisions of the Telecommunications Act of 1996. In particular, I want to comment on Section 254(h) of the Act which provides for special universal service funding mechanisms to ensure access to telecommunications services for schools, libraries and hospitals.

As you may know, establishing "learning links" to America's schools has long been a priority of mine. Section 254(h) was preceded by legislation I authored in the 103d Congress (H.R. 3636) and which was approved overwhelmingly by the House of Representatives in June of 1994. That legislation established "preferential rates" for K-12 schools, libraries, and non-profit hospitals. The recently-signed Telecommunications Act contains provisions granting "discounted rates" for such entities and allows the amount of such markdown to count toward telecommunications carriers' universal service obligations.

The policies that gave people universally available, affordable phone service provide the model for our modern telecommunications network. In hindsight, it is now apparent that this wasn't simply good social policy - it was good economic policy as well. America cannot leave the bottom 20 to 30 percent of its population out of the "knowledge-based" economy and still hope to retain its economic standing in a fiercely competitive global environment.

I know you share my concern about the possibility that we will develop into a society of information "haves" and information "have-nots." Indeed, a recent Department of Education survey indicated that students from households with incomes above \$75,000 per year are seven times as likely to have a home computer as those from households earning less than \$20,000. As I mentioned to you and the other Commissioners at the Subcommittee's FCC oversight hearing on March 27th, there is perhaps no provision of the Telecommunications Act that can so mitigate against a growing "digital divide" in our country.

The Honorable Reed Hundt

April 10, 1996

Page 2

With this in mind, I am making three recommendations to the Commission and members of the Federal-State Joint Board on universal service:

- 1) Define a group of basic, core services available to all schools and libraries in the country;
- 2) Identify advanced services that such entities may avail themselves of the opportunity to receive at discounted rates; and,
- 3) Establish an education rate, or "E-rate", for both the core and advanced services.

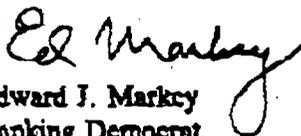
In order to ensure that "learning links" truly become a universal service, I believe the "E-rate" should be free for core, basic telecommunications services. I want to emphasize that I am not talking about free phone service for the principal's office, but rather the provision of core telecommunications services to the classroom for student use.

We must recognize that even with a free "E-rate" for core services, many schools will struggle to purchase or obtain needed software and hardware for the classroom. In addition, teacher training and other costs will also retard the ability of many schools to integrate high technology into the classroom experience. For these reasons I believe that only by making the "E-rate" for core services free can we hope to put this technology within reach of all of America's schools and libraries.

The "E-rate" for advanced services should ensure affordability of such services. This "E-rate" should be set in a manner that keeps advances in telecommunications technologies within reach of school districts and libraries. In this way, as technology evolves so will its universal provision to schools and libraries over time.

I thank you for the opportunity to comment on the implementation of Section 254(h) and commend you for making links to schools a high priority of your tenure as chairman of the Commission. I look forward to discussing this issue with you and your colleagues in the future.

Sincerely,



Edward J. Markcy  
Ranking Democrat  
Subcommittee on Telecommunications  
and Finance

EJM:cc

CC: Commissioner Quello  
Commissioner Ness  
Commissioner Chong

CC96-45

**Summary of Remarks  
of**

**Charles C. Townsend, III  
Chairman  
Atlantic Cellular Company**

**Before the April 12, 1996 Meeting  
of the  
Federal-State Joint Board on Universal Service**

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**Primary Themes:**

- 1. The Federal Communications Commission (Commission) should implement its universal service program in a competitively neutral manner. All telecommunications carriers, including Commercial Mobile Radio Service (CMRS) providers, are required to contribute to the preservation of universal service. Moreover, all carriers, including CMRS, carriers should be permitted to participate in the provision of universal service, including having access to the subsidies established by the Commission.**
- 2. While CMRS carriers are required to contribute to the universal service, state administration of universal service, with respect to CMRS carriers, must not involve regulation of CMRS rates. Pursuant to the mandates of Section 332 of the Communications Act, CMRS carriers should be subject to the Federal mechanisms created for universal service.**
- 3. The Commission should consider instituting a "reverse auction" for the provision of universal services, i.e., the low bidder should be eligible to provide service and gain access to the subsidies established. In high cost rural environments, CMRS may become an attractive and cost-effective alternative to wire-based service.**

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**Federal-State Joint Board on Universal Service**  
**April 12, 1996**  
**Outline of Comments of Ron Binz, Competition Policy Institute**

When enacting the Telecommunications Act of 1996, the United States Congress relied greatly on the promise of effective federal and state universal service mechanisms to ensure that rates for basic telecommunications service remain just, reasonable and affordable. This Congressional reliance is longstanding: strikingly, in each year and in each draft of legislation leading up to the final version, the first section written down was the universal service section.

During the debates in Washington on this fundamental change of course in telecommunications policy, the concern was sometimes raised that additional competition would cause local rates, especially rural rates, to rise as "subsidies" were removed from a system of administered prices for telecommunications service. The concern was consistently answered by a congressional commitment to keep the price of local exchange rates affordable through a system of universal service support.

We are all now poised to follow through on this commitment which Congress expects and which telecommunications consumers deserve.



When considering how to spend my five-to-eight minutes before this Board, I thought the most useful testimony might also be somewhat general. This Board will receive many detailed recommendations in comments filed today and in reply comments filed on May 3. I offer the following five points as a structure into which those comments can be placed.

**Five Principles to Guide Joint Board Recommendations for Universal Service Support for Rural, High Cost and Insular Areas**

- 1) *The Federal-State Joint Board on Universal Service should adopt a long-term view of its duty. It should not be misled by the short-term exigencies of revenue recovery by incumbents. Instead, it should construct a universal service system that will serve both during the transition to competition and beyond.*

Chairman Reed Hundt is fond of saying: "it's the end of the world as we know it (in telecommunications, that is)." The Chairman is correct. Local exchange competition will change the public switched network forever. Competition will also transform the industry, changing its structure, ownership, costs, efficiency and products. New services and

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functionalities will be added at a rapid rate, increasing the value of existing facilities, and affecting the costs which are the subject of this proceeding. In short, competition is going to do what regulation could do only very imperfectly: stimulate efficiency and market choice.

The national commitment to universal service in the legislation is a direct descendent of the commitment which has guided U.S. telecommunications policy for the past sixty-two years. Our task is to craft a system of universal service support which will employ the new tools of market growth and competition in telecommunications. Stated another way, **the task of this Joint Board is to capture, in present value terms, those future cost reductions, efficiencies and new revenues in order to maintain just, reasonable and affordable local exchange service for all consumers today**, especially those in rural, insular and high-cost areas.

Issues:

- Nature of the Costs to be Recovered
- Course of Regulation
- Future Effects of Competition
- Transition for USF Responsibility

2) *The Joint Board must establish a firm foundation in 1996 for the set of services deserving of support and for a predictable mechanism for the future development of Universal Service. The three watchwords must be: achievable, comprehensive and flexible.*

The Telecommunications Act of 1996 provides the Commission with guidance as to the components of universal service. The largest unknowns are i) the future course of consumer demand; ii) the degree to which future services become important to consumers; and most generally, iii) the effects of local exchange competition. The Joint Board should craft an achievable definition of universal service, concentrating first on the core issues of affordability for today's essential services. The definition should recognize the realities of today's network usage, yet remain open for change. Again, the Board must harness competition to its task.

Issues:

- What Services to Support
- Size of the Federal Universal Fund
- Structure of the Support Mechanism
- Who Pays -- On What Basis
- Future Changes In the Definition of Universal Service

- 3) *The Joint Board should craft its recommendations to fit together easily with state regulatory efforts and should look to the states in determining the meaning of affordability for local exchange rates.*

State Public Utilities Commissions have been striving to keep rates affordable levels for years. The Commission should seek to complement those efforts in its universal service plan.

There's an obvious rule of thumb available for the measure of affordability: today's rates may be taken to be just and reasonable. In most cases, thanks to a combination of supports programs, these rates are affordable. A reasonable goal for this Joint Board would be to attempt to maintain rates at or below current levels for comparable services.

Consumers will likely experience some dislocation and confusion as local exchange competition develops, and will accept some such confusion. But they will find it incomprehensible and unacceptable if rates for basic service rise as a result of competition.

Issues:

- Meaning of Affordability
- Target Rates
- Size of Federal USF
- State Discretion

- 4) *The Joint Board should develop and enforce a consistent vision of future competition combined with the public support of rural and high-cost areas. Where available, the Board should select pro-competitive options and decline to accept those which retard competition.*

Federal and state universal service plans will stand mid-stride between a competitive marketplace and a system of regulated, administered prices. Yet universal service support can be a consistent extension of a system into which competition has been introduced. There will always be pressure to "allow prices to go to costs" in rural and high-cost areas. Yet there is a countervailing incentive which is the economic basis for a universal service policy: the network externality. All consumers have a real and quantifiable preference that consumers in rural and high-cost areas have and use telephones.

This Joint Board has choices in the construction of a universal service support mechanism which will affect the future of the competitive market.

Issues:

- Portability of Support
- Cost Models
- Competitors and Efficiency
- Distribution of Cost Responsibility

- 5) *The Joint Board must strike a balance between equity and economic efficiency. Universal service is describe in the Act as being provided at rates which are “just, reasonable, and affordable.” If Congress had meant for our decisions to be driven by economic efficiency alone. it probably would have specified “efficient, exact and perfectly discriminatory.”*

The Commission’s NOPR and the FCC Staff’s paper “Preparation for Addressing Universal Service Issues: A Review of Current Interstate Support Mechanisms” frequently reflect the tension between economic efficiency and equity. There are political, equitable and mundane limits on the degree to which prices can further economic efficiency.

Issues:

- The CCLC and SI C
- Universal Service and Its Share of Common Costs
- Consumer Acceptance

CC 96-45

**PRESENTATION**

by

**REX G. MITCHELL  
REGULATORY VICE PRESIDENT  
PACIFIC BELL**

to

**THE FEDERAL-STATE  
JOINT BOARD  
on  
UNIVERSAL SERVICE**

SECRETARY OF THE COMMISSION

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**I. Question** Is competition and universal service compatible? The answer is yes. But, it is a qualified yes.

**II. Introduction** During the seventies and early eighties this same question was asked regarding long distance competition and universal service. AT&T's answer was at first no. AT&T explained that long distance services, which were priced far above cost, were supporting local exchange prices, which were priced far below cost. AT&T explained that local service prices would have to rise significantly and long distance prices would have to fall considerably to rid the system of implicit subsidies. They also explained that MCI was not offering a service at a lower cost than AT&T, they were just offering a service that was not burdened with the subsidy that burdened AT&T's long distance prices. Those of you who were involved in the regulation of that day will recall the battle cry of AT&T -- and I was a part of it as a regulatory attorney for Nevada Bell -- "Basic exchange prices will double or triple or go through the roof."

A. Basic exchange prices did not go through the roof, however, as we prophesied. Why not? Was it because there really was no subsidy from long distance to basic service? No. To describe the solution arrived at using the vernacular of today, the subsidy was identified, made explicit and a competitively neutral funding mechanism was developed to fund it. The FCC and the state commissions developed and implemented the system of access charges that are in place today. Under the new plan, all long distance companies, rather than just AT&T, pay an equal contribution on a per minute of use basis. This was necessary in order to avoid a failure of either competition or universal service. If a new subsidy mechanism had not been developed, universal service would have been in jeopardy. If the subsidy mechanism applied only to the existing carrier -- AT&T -- then AT&T would have been at a decided disadvantage to MCI and competition would have failed. Happily, the mechanism worked and was competitively neutral and universal service and competition have existed harmoniously for these 12 years.

B. The creation of access charges was not the creation of basic exchange subsidy. Subsidies existed in the system prior to 1983 and were paid 100% by long distance services provided by AT&T and Local Exchange Companies through the settlements process. The subsidy was identified by the creation of access charges and made explicit.

C. Today those subsidies are still in place although they have been reduced significantly. In 1982, when divestiture was announced, Pacific Bell's basic exchange price was \$8.25. Today, it is \$14.75 (including the EUCL). The cost to provide basic exchange service has also decreased, although not significantly. Pacific Bell's interstate access charge, however, has fallen from over 9 cents per minute to under 2 cents per minute -- an 78% decrease.

D. As competition enters new markets, universal service does not have to fail, but the mechanism supporting universal service must change to match the competitive landscape. As competition was introduced to the long distance market, the system had to change to a mechanism that recognized that

competition. As competition is entering the access and local markets, the mechanism must change again.

**II. Collection Mechanism** What will the new mechanism look like? While Pacific Bell has proposed a specific solution in the comments it will file today, let me talk generally about three possible solutions.

A. First, there could be the continuation of the current contribution within access charges if the mechanism is expanded to include all types of access. To make that competitively neutral the subsidy must be collected across all kinds of access as provided by all carriers. Just as AT&T could not have supported the universal service burden alone as it entered a competitive environment, the incumbent LECs cannot support universal service alone. We must find a way to spread that burden across all providers.

B. Second, the subsidy could be collected across pre-subscribed access lines the way that the current USF is collected.

C. Third, there could be the creation of a revenue surcharge across all interstate revenues of all providers. Let me emphasize here that this would not be raising new contribution money. The contribution exists today and would only be collected using a new mechanism.

D. Whatever the mechanism, it must be a mechanism that cannot be bypassed or avoided by the choice of provider or by the technology used. The subsidy is real. The twenty-five percent of non-traffic-sensitive costs that are allocated to the interstate jurisdiction are real costs that are born by local exchange carriers today and must be recovered or universal service will be in jeopardy

**III. Disbursement Mechanism** Now a few words on how the fund should be disbursed.

A. The fund should be disbursed to any provider willing to take on universal service-like commitments for a given geography. We recommend that to be consistent with a competitive environment, it be disbursed on the basis of customers served.

B. The solution should also include a mechanism to recognize what we have found to be huge differences in costs across geographies. We have developed a proxy cost model to estimate those differences in geographic costs. Deaveraging must occur in the payment mechanism or in the prices or both.

C. The funding should be tied to the characteristics of the areas served not to the incumbent serving the area.

**IV. Conclusion** In answer to the question, "Are universal service and competition compatible?" the answer is a qualified, "Yes." In fact, if the principles identified in the legislation are followed, universal service and competition are not only harmonious, but each will help the goals of the other. If the funding is adequate and portable, innovative solutions for universal service will be found in the competitive environment.

CC 96-45



# Consumer Federation of America

Statement of  
Bradley Stillman  
Telecommunications Policy Director

Before the Federal-State Joint Board on Universal Service  
April 12, 1996

I. Introduction

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My name is Bradley Stillman. I am the telecommunications policy director for the Consumer Federation of America. CFA has long been interested in advancing the consumer interest by expanding the concept of Universal Service and through the introduction of effective competition to all sectors of the telecommunications industry. Thank you for the opportunity to present CFA's views on these critical issues.

There are six major policy points I would like to leave you with this morning as you prepare to hear the rest of today's testimony:

- 1) We must have competition as soon as possible. Competition is the only way to squeeze out the tens of billions of dollars of excess profits and inefficiencies that have been built into the telecommunications network since divestiture.
- 2) There is no need for universal service to suffer from rate increases or rate re-

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balancing in order to achieve a competitive marketplace. The costs of telecommunications services have been plummeting in the past decade and these cost reductions have not been adequately passed through to consumers. In both the federal and state jurisdictions, profitability is at record levels.

3) There is no reason that competition should lead to rate increases for universal service. To the extent that incumbents lose market share as a result of competition, profitability will be restored to reasonable levels, inefficiencies will be squeezed out and market opportunities in newly opened industry segments will offset reductions elsewhere.

4) Competition poses no threat to universal service under the new law because it reaffirms the commitment to just and reasonable rates while adding an explicit commitment to affordability. In particular, the prohibition on cross subsidies and the requirement that universal service bear only a reasonable share of joint and common costs means that as the information age expands, the costs of basic or "core" services will be spread over an ever increasing base.

5) Usage and flat rate service must be part of universal service. Flat rate service is the clear preference of consumers. The vast majority of consumers for whom flat rate service is an option take it. It is also the preference for information age services on the superhighway.

6) Affordability, based on the impact on a consumers budget, is a measure for universal

service, not simply penetration rates. With the correct rules for competition and cost allocation, affordability will not be a problem. The Joint Board and the Commission must have affordability at the center of its universal service policy.

Regulators must be firm in their commitment to both competition and universal service, which are not conflicting goals. The FCC must be fair in its recognition of differences between the states in implementing a national policy of competition. But the FCC must also leave no doubt about the fact that effective competition is the only acceptable outcome.

## II. Overview of CFA/AARP Universal Service Comments

CFA, AARP, Consumers Union and others will be filing joint comments today on universal service. While we applaud the notice for looking in great detail at the issue of universal service as it relates to low-income consumers, consumers in high cost areas and institutional users, we believe the issues raised by the new legislation are far more broad. Section 254 applies to all consumers across the country. Under the law, every American consumer is entitled to rates that are "just, reasonable and affordable." The policy recommendations of this Board and the FCC must make certain that average American's are not forced to pay more for their telecommunications service, don't lose access to crucial services currently provided as part of basic service, and they receive access to new functionalities as we move toward a competitive market.

A key element that we found missing from the Notice's discussion of services to be included as part of the basic package, was some level of usage. Consumers, by far, prefer flat rate service when given a choice. While every American consumer should have access to the full panoply of services available over the telecommunication network, universal service is the guarantee that they will have some level of actual service as well.

The issue of affordability is critically important as well. This new requirement, which is added on top of and in addition to the requirement that rates be just and reasonable must be measured in a variety of ways. Affordability cannot be measured simply by looking at telephone penetration rates. The issue of how much of a burden routine daily communications places on a household's budget must be a fundamental part of the affordability review. Our joint comments outline in greater detail our responses to the Notice including what we believe must be included in the core package of services.

### III. Interdependence of Local Competition (§251) and Universal Service (§254)

The universal service obligation has historically been used by incumbent carriers to stave off competition. The new law takes this argument away. Any subsidies that exist need to be proven, and made explicit. When CFA and others have looked at this issue closely, we find the only subsidy that exists is from urban to rural consumers. By and large, residential telephone service is profitable for the telephone companies.