Rate re-balancing -- a euphemism for rate increases -- is completely unjustified, unnecessary, and anti-competitive. As competition develops, companies are going to have to drop their prices. That is what Congress promised the American consumer and that is what the law is designed to do. This does not necessarily mean their revenues will fall as well. You can ask AT&T about that In a competitive market, there should be no guaranteed revenues. No company can expect to remain "whole." When they ask for revenue replacement, this law says it's the job of the regulators at all levels to say, "No way."

Opportunity and risk go hand in hand in a competitive market. The risk for a monopoly local exchange carrier is that they will lose market share. This risk is minimized by the fact that the local companies are over-earning by $5 to $6 billion annually and have a great deal of inefficiency built into the network which should be squeezed out anyway.

The opportunity for these companies is also far greater than the risk. Usually, if someone tells you they can give you more for less, a good consumer wouldn't believe them. Telecommunications is different. There is an expanding pie -- more and more uses of the network are being created. Provided no service is getting a free ride by using part of the network without paying a reasonable share of joint and common costs, the price of core, universal services, should go down while overall industry revenues go up. If the regulators at all levels do their job right, consumers can, indeed, get more for less.

There will be an incentive to shift costs from more competitive markets to less

competitive markets. This shift will take place geographically from urban to rural; across services from competitive to non-competitive services; and across customer classes from business to residential. Regulators cannot achieve a competitive market by permitting companies to raise or even double prices for some customers and hope that competitors will then enter the market. This approach would lead to years, perhaps even decades of consumer rip-offs.

Along with cost shifting, the issue of joint and common costs is extremely critical as the network elements are broken apart and priced and the market moves toward both resale and facilities based competition. There should be no free rides on the information superhighway. If a service uses an element of the network it should have to pay for it. CFA believes that the local loop is a joint facility. Therefore, the cost of the loop should be shared by all those services which use it to reach their customers. The pro-competitive policy that will advance universal service should be based on the principle that all services which use the network should pay for all functionalities that they utilize and they should pay in proportion to the demand that they place on the network. With this policy in place, the price for the core package of universal services should decline and competition should be able to develop most rapidly and equitably.

IV. Conclusion

Just as enormous opportunity comes with some limited risk for the industry, so too

does it for regulators. Regardless of what they say publicly, it is in the interest of incumbent companies to prevent the development of competition. This is not because the companies are bad, but because monopolies always act to hold on to their monopoly advantages in some way -- this is simply the economic reality. Still, CFA believes the 1996 Act gives regulators an historic opportunity to produce real competition and deliver the benefits of lower prices, increased innovation and constantly improving service to consumers. It is crucial, however, that competition be introduced as quickly as possible and that every American consumer benefits from the increased traffic on the information superhighway.

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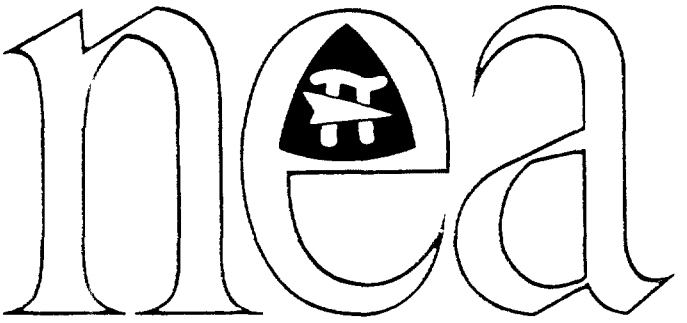

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Testimony of

John Yrchik
Executive Director, Connecticut Education Association

before the

Joint Federal-State Board
Federal Communications Commission

April 12, 1996

CC Docket No. 96-45
Universal Service for Schools and Libraries

No'd 1

Good morning, Commissioners and Members of the Joint Board. I am deeply grateful to be given this opportunity to share my views with you in this proceeding. The expansion of the concept of universal service prefigured in the Telecommunications Act of 1996 may one day be marked as a defining moment in American history. For it is in that concept that America's nurturing institutions -- libraries, schools, and health care institutions -- have been given an opportunity to fulfill their respective missions in the radically de-regulated, de-centered environment we are entering. For the first time in our history, the provision of telecommunications services to these public institutions at affordable, discounted rates is a matter of law.

Information technology grows ever more important in our world. Advanced technology skills are essential even in apparently mundane jobs. Sixty percent of the jobs in the year 2000 will require that employees have some facility with information technology. This underscores the evolving and increasingly important role of schools and libraries in our society.

Many issues lie before the Joint Board with respect to this rulemaking. Of these, two are critical. The first issue concerns the services that would be eligible for discounting under the universal service provision in the Act. The second issue concerns the manner in which these services will be discounted in order to ensure access and affordability. The recommendations made by this Joint Board on these issues will determine the true meaning and significance of the Act for America's schools. If services are conceived broadly and appropriately generous discounts are given for these services, the provisions in this law will have achieved their purpose. If, on the other hand, the definition of special and advanced services is construed to be narrow and only marginal discounting occurs, schools will face almost insurmountable difficulty from effective participation in the Information Age.

The Commission has been given broad latitude in determining which types of services will be eligible for discounts to schools. In the comments filed by the National Schools Boards Association, the National Education Association et al, the coalition of national education and library organizations suggests that special services be defined as all telecommunications services up to and including those available today at the most advanced schools and libraries. This would ensure that the definition of special services would stay at the leading edge and not be made irrelevant by technological advance. Schools would choose only those services appropriate for their needs. At the same time, they would have the option of using the most advanced services available at discounted rates. Under the education organizations' proposal, the Commission would periodically revisit the definition of special services to add new services as appropriate.

What schools need is the ability to perform certain functions that they deem necessary. Special services should therefore include those services necessary to provide two-way local and long distance voice communications, voice messaging, high-speed two-way data communications, and two-way video transmission. Schools would choose what best fits

their situation and budget. For example, in rural areas, videoconferencing may be necessary to round out a school's curriculum. Another school might opt for two-way data communications. In these scenarios, it is absolutely imperative that technology be deployed in classrooms. Only classroom access allows the seamless integration of technology in the curriculum. It is all too easy to ignore information technology if it's located down the hall or if lab access is fundamentally limited. That is not true when it sits in the classroom itself.

With respect to the second issue mentioned above, in establishing an appropriate discount for a special service, the national education and library organizations propose a method based upon a competitive market price or a surrogate for the market price for each service (in the event that a market price is unavailable). These prices would then be further discounted to ensure affordability for the large majority of schools and libraries.

The stakes of this proceeding are enormous. It is not an exaggeration to say the quality of many youngsters' lives is at stake. About a year-and-a-half ago, at a conference sponsored by the US West Foundation, I met a high school student named Lee. His teacher introduced him to me as a "principal's nightmare." Not long before, Lee had been a marginal student, constantly in trouble and on the fast track to becoming a ward of society. When computer networking arrived in the school, however, something clicked. He became so proficient at using the technology that, when I met him, he was the district's chief administrator for the network. He spent the summer before de-bugging network software for Microsoft. Rather than a social burden, he had a bright future. Every kid deserves a chance like this.

Today, there are virtual libraries, virtual water coolers, virtual museums, virtual workplaces, and virtual workgroups, offering rich opportunities for work, play, and learning. In those schools and libraries with an advanced capacity to access telecommunications networks, profound transformations have occurred as a result of these new opportunities. I urge you to do all that you can to ensure the enhanced participation of all schools and libraries in humankind's newest adventure. Thank you.