

COMMENTS OF BELL ATLANTIC

Goals and Principles

Affordability and Quality: The average costs of all core services should be compared to national average costs.(2)

Principles: In its forthcoming proceeding on access reform, as well as in the interconnection proceeding, the FCC must be aware of the role of incumbent LECs in providing local service at rates that are often set unreasonably low.(4) In the upcoming years, local competition will be concentrated in the lowest-cost, highest-density areas -- leaving incumbent LECs with the obligation to provide service in other areas.(4) If LECs are deprived of the revenues needed to finance the overall costs of providing their network, universal service objectives will be jeopardized.(5) Existing universal service mechanisms should be revised to help eliminate the disincentives created by the current system for LECs to increase efficiency and productivity.(2)

Support for Rural, Insular, and High-Cost Areas

Services to be Supported: The initial set of core services should consist of single-party, voice-grade telephone service, with access to emergency, operator, and IXC services and a white-pages listing.(2-3) Additional "core" services should be provided only as needed to schools and libraries.(3)

Eligible Carriers: Eligibility for subsidies should be tied to the cost of providing local services within the state as a whole, rather than to the loop costs of individual LECs.

Calculation of the Subsidy: The total interstate fund should be capped at the present level or indexed to prevent unreasonable growth.(2)

Support for Low-Income Consumers

Implementation: Existing low-income mechanisms should be retained(3) and supplemented with toll restriction.(14-15)

Schools, Libraries, and Health Care Providers

These are "vital new initiatives" that Bell Atlantic fully supports.(16)

Other Universal Service Support Mechanisms

Long-term support is an implicit subsidy that should be phased out.(3) Interstate SLC and CCL charge charges are cost recovery mechanisms, not implicit subsidies.(10-11) Whether the FCC addresses the NTS cost recovery issue here or in the future, it should allow LECs to increase the SLC cap by "a modest amount" each year, while reducing the interstate CCL charge accordingly.(11-12) Allowing small increases would recognize that

the bulk of non-traffic sensitive costs should ultimately be charged on a non-traffic sensitive basis.(12) Long-term support ("LTS") is an implicit subsidy and should be eliminated.(13)

Administration of Support Mechanisms

Current mechanisms create an incentive for LECs to inflate costs, because LECs may draw from the fund if their costs within a "study area" exceed 115% of the national average.(8) This should be remedied. The FCC should limit subsidies to those situations where the average costs of providing core services by all LECs in a state exceeds the national average.(8) Funding then should be provided to states, not LECs, in which average core service costs are significantly above the national average.(2) States could then distribute the funds in a manner that rewards local priorities. In this manner, inefficient carriers in low-cost states will not be rewarded for their excess costs.(2)

State commissions, not the FCC, are in the best position to determine which areas have the most need for subsidies.(10) The funds should flow to states and be distributed by them to eligible LECs in a manner determined most suitable to local conditions.(10)

The federal universal service fund should be financed as it has been for the past eight years, with payments based on presubscribed IXC lines.(3, 14) LECs should be allowed to phase in increases in the monthly subscriber line charge cap, and to charge remaining carrier common line charges on a non-usage sensitive basis.(3) However, LECs not currently subject to equal access obligations should be required to upgrade their equipment to provide for equal access only upon a bona fide request from a second IXC to serve the customers in the LECs' service area.(8)

COMMENTS OF THE GENERAL SERVICES ADMINISTRATION

Goals and Principles

The Statutory Criteria: A service should meet all four criteria to be included in the definition of universal service.(7)

Support for Rural, Insular and High-Cost Areas

Services to be Supported: Core services should include: (a) voice grade access to the public switched network with the ability to place and receive phone calls; (b) touch-tone; (c) single-party service; (d) access to emergency service (911); (e) access to operator services; and (f) availability or blocking of interexchange access.(7)

Implementation: Minimum and maximum universal service line rates should be established for rural residents to ensure their rates are reasonably comparable to urban residential rates (5). The universal service line rate, defined as the composite of the lowest generally available rates to a residential subscriber for all universal service line services, should be the sum of the interstate residential SLC, the monthly residential local service rate, any intrastate residential SLC, and any intrastate residential surcharge (including touch-tone, 911, etc.).(10)

Interstate common line charges for business and residential subscribers should be fully recovered through flat-rated SLCs as one component of the universal service line rate (5). The interstate service line rate should be set at the average monthly interstate common line costs in urban areas, and all residential subscribers (except those eligible for Lifeline subsidies) of all universal service line providers would be charged this amount.(6,12) GSA recommends specific calculations for the interstate residential SLC.(12)

Calculation of the Subsidy: GSA opposes the use of proxy methodologies (14). Non-traffic sensitive costs should be recovered using flat, not usage-sensitive, rates (4). The interstate business SLC should be billed by each carrier to recover all interstate business loop costs (13). Interstate common line costs for rural residential subscribers should be explicitly subsidized by an interstate universal service fund.(13) Interstate SLC discounts offered in connection with Lifeline service should be recovered from the interstate universal service fund.(14)

Study areas should be identified as rural or urban using Census Bureau data (8). Carriers should be permitted to disaggregate their service areas into study areas as large as a state or as small as a wire center, but no smaller.(8)

Eligible Carriers: All interstate carriers should be required to contribute to the interstate universal service fund in proportion to their share of total interstate revenues net of interstate payments to other carriers.(6) GSA recommends that the FCC encourage the state commissions to consider competitive bidding in the design of their intrastate universal service plans, but that it not write specific rules requiring that approach.(16)

COMMENTS OF THE NEW JERSEY BOARD OF PUBLIC UTILITIES

Support for Rural, Insular and High-Cost Areas and Low-Income Consumers

Services to be Supported: Core services should include: (a) affordable access to the public switched network; (b) single line; (c) single party residential voice grade access to the first point of switching in the local exchange network; (d) touch-tone capability; (e) access to emergency services (911); and (f) access to operator services, directory assistance and Telecommunications Relay Service; (g) low-cost toll limitation services; and (h) public interest payphones.(2) This basic list should be supplemented as capabilities or technology evolves.(2)

Implementation: Support should be limited to residential customers who satisfy a state-defined means test (2). States must be able to tailor their local area concerns to address all the issues involved in rural, insular, high-cost and low-income areas to best match the needs of the state (3). The burden should not be transferred from carriers to end-users (4).

Calculation of the Subsidy: Funding for the interstate portion of any mechanism should not exceed the current funding obtained from the SLC and the CCL charge.(4) Intrastate funding, benefit eligibility, and administration should be left to the states, and a separate fund should be created for interstate purposes.(4) Any interstate universal service fund must be neutral in its effects and must not advantage one state over another (4-5).

A hybrid approach should be used in which a provider's obligation should be related to its ability to pay and the number of customers/lines served should determine the amount a carrier is able to draw from the fund (5). Once the appropriate subsidy is established, it should be recalculated at least one per year (5).

Eligible Carriers: Subsidy funding should be available to all providers, and subsidies to an eligible customer should follow that customer to their service provider of choice (5).

Schools, Libraries and Health Care Providers

The FCC should not limit the states' ability to provide distance learning or distance health care at reasonable rates.(3)

Administration of Support Mechanisms

Universal service funding, eligibility and administration should be left to the states (2). BPU favors management by a neutral third party (5). (A cover letter signed by the Board of Public Utilities' Commissioner advocates the appointment of NECA as the fund administrator.)

COMMENTS OF MFS COMMUNICATIONS COMPANY

Goals and Principles

Principles: Universal subsidies should be provided only in extraordinary circumstances and narrowly targeted to individuals who could not afford telephone service without assistance.(16) They should be competitively neutral and portable.(15-16)

Support for Rural, Insular and High-Cost Areas and Low-Income Consumers

Services to be Supported: Core services listed in the NPRM.(16)

Calculation of the Subsidy: Universal service support should not be used to guarantee an incumbent's revenues or earnings and should not be based on an incumbent's costs or revenues requirements.(7)

Implementation: Universal service support should be explicit, specific, predictable and sufficient.(13) High-cost support mechanisms (USF, DEM weighing and LTS) should be replaced with a high-cost support mechanism that is based on the forward-looking costs of an efficient competitor at a level of disaggregation, like census blocks, much smaller than the state study areas used today.(18-19) High-cost support should be no larger than presently provided. Support should be limited to areas with costs greater than 130 percent of the national average and household incomes less than 130 percent of the national average.(18-19)

Eligible Carriers: Universal service support should follow customers to whomever provides service to them.(13-15) Eligible carriers shall be any authorized carrier that provides the core collection of services.(16-17)

Support for Low-Income Consumers

Implementation: Mechanisms targeted to individuals, specifically Lifeline, Link Up and TRS support, should be retained.(13,19)

Schools, Libraries and Health Care Providers

The deployment of advanced telecommunications services to schools, libraries, and health care providers can be encouraged best by encouraging the development of local telephone competition, not by discounting the price of basic local telephone service.(20-21)

Other Universal Service Support Mechanisms

The CCL charge should be eliminated, and, as necessary, recovery of NTS costs should be transferred to end-user customers (21). The best option is to cap CCL charge revenues, phase out the CCL charge, and, as necessary, increase the SLC (22).

Administration of Support Mechanisms

The burden of universal service funding should be spread among all telecommunications service providers.(16) Contributions should be based on telecommunications carriers' common carrier revenues less payments to intermediaries (16). The individuals and areas that should be subsidized should be identified and the amount of subsidy should be fixed.(18)

The universal service fund should be administered by an independent non-governmental agency that has no competitive interest in who receives or who provides universal service support (24). NECA, USTA and Bellcore would not be suitable (24). Carriers with less than a one percent market share should be exempt from providing universal service support, and only common carriers should be required to contribute to universal service support (23).

COMMENTS OF THE
ASSOCIATION FOR LOCAL TELECOMMUNICATIONS SERVICES

Goals and Principles

Principles: All rules should be technologically neutral.(17)

Support for Rural, Insular and High-Cost Areas

Services to be Supported: Core services should include: (a) voice grade access to the public switched network with the ability to place and receive calls; (b) touch-tone; (c) single-party service; (d) access to emergency services (911); (e) access to operator services; (f) access to directory assistance; and (g) access to directory listing.(9)

Implementation: The FCC should adopt specific, quantifiable and observable means of tracking the subsidies and their effects on residential subscription rates (4). The FCC should target support to the end-users who would not otherwise be able to afford service in a competitive market.(13-14)

Calculation of the Subsidy: The calculation of any subsidy should be de-linked from incumbent LEC costs or any "revenue requirement."(11) Instead, the subsidy must be based on an analysis of physical and other characteristics of the area.(11) The FCC's jurisdictional separations rules should not be used.(11) The BCM or a competitive bidding process, or a combination of the two, would be an improvement over the current system.(12)

Eligible Carriers: All facilities-based local exchange providers should be eligible to participate in any subsidies.(13-14)

Support for Low-Income Consumers

Implementation: Lifeline and Link-Up should be retained. However, the rules should be clarified to permit low-income customers to take service from any local carrier and still qualify for assistance (15). All support mechanisms should be stated in dollar amounts, not percentage discounts (15).

Administration of Support Mechanisms

All providers of telecommunications services should be required to contribute to subsidy funding (18). The appropriate method of assessing the contribution to be paid is on the revenues net of payments to other carriers (18). A neutral entity should administer the fund (14).

COMMENTS OF MCI COMMUNICATIONS CORPORATION

Goals and Policies

Affordability and Quality: The FCC should leave quality oversight to the states and require only that states implement performance standards and monitoring processes.(22) No quality-related reporting requirements should be imposed on new entrants.(23)

Support for Rural, Insular, and High-Cost Areas

Services to be Supported: Core services should include (a) single-line residential access to the first point of switching in a local exchange network, (b) unlimited usage within exchange areas, (c) touch-tone service, (d) white pages listings; (e) access to 911 and E911 service; (f) operator services, (g) directory assistance; (h) and Telecommunications Relay Service. These services should be provided at a rate no higher than the current nationwide average rate for basic telephony (\$.20).(3-4) Services should only be designated core services if the benefit of increased subscribership to the service exceeds the cost of reduced subscribership to subsidizing services.(8)

Calculation of the Subsidy: The FCC should de-link universal service from existing LEC revenue requirements.(3) The subsidy should consist of the difference between the total service long run incremental cost ("TSLRIC") of basic universal service, determined separately for different geographic cost zones by a proxy model such as the BCM (not the Pacific model (13)), and the revenues generated by rates set at the current national average.(4,10-12) The BCM should be modified, however, to correct the assumption that households are uniformly distributed throughout CBGs, and to include business lines.(11) Using this method, the total subsidy is estimated at approximately \$5 billion, compared to the current \$14 billion.(15) The geographic area utilized should coincide with the area the LEC must serve to be eligible for support.(18)

Alternatively, the subsidy should be calculated by selecting a national average rate for the designated services, calculating a total subsidy requirement based on TSLRIC, determining the portion of the subsidy to be collected from services based on the current 25 percent gross allocator, and using the proxy cost model to assign the residual state portion among the states.(4-5)

Implementation: Support should be limited to residential customers.(9)

Eligible Carriers: Support should be available to all LECs willing and able to serve an entire service area.(8,18) Customer-selected providers should be entitled to a per-line subsidy.(5) However, the FCC should require that certain network features, including all digital switches and SS7 signalling, carriers must provide to receive full support.(16) LECs should also be required to provide equal access and number portability.(17)

Support for Low-Income Consumers

See the comments above.

Implementation: The FCC should retain Lifeline and Link Up, but allow all carriers to participate and allow low-income consumers to apply credits toward any service they wish.(5-6) Support to low-income households should be given directly to households and be usable for the purchase of any services from any telecommunications carriers.(19) Consumers should be allowed to select the services they want.(19)

Support for Unserved Areas

The FCC should mandate a carrier of last resort auction for any area that is, or becomes, unserved.(4,19)

Schools, Libraries, and Health Care Providers

The FCC should gather more information on the services that schools, libraries, and health care providers need.(7) The FCC could establish a fund to support pilot programs and then, after two years, determine the services and subsidies needed.(7) The discounted price of a service should be sufficient to recover at least the capital costs of the plant used to provide it.(20)

Health Care Providers: The FCC should define "rural area" based on Metropolitan Statistical Areas, as defined by the Census Bureau.(21)

Other Support Mechanisms

The FCC should reduce or eliminate the CCL charge, the USF (High Cost Fund) charge, LTS, triple-DEM weighting, the SLC, and the Local Switching charge.(6) Eliminating the CCL charge would not justify an increase in the SLC.(14)

Access to Advanced Services

No advanced services should receive support at present.(22)

Administration of Support Mechanisms

The interstate subsidy should be provided in "block grants" to the states for distribution to eligible carriers.(4,12-13) The FCC should remove all subsidies built into interstate access rates.(4) Interstate portions of the subsidy should be collected as a assessment on the common carrier revenues of each telecommunications service provider, based on each carrier's market share, and net of payments made to other carriers subject to the contribution requirement.(5,12,15) Intrastate portions of the subsidy should be collected and distributed by the states.(5) The FCC should not extend the interim USF price cap; it should begin transition to new support mechanisms as soon as the issues in this proceeding are resolved.(13) To ensure that cross subsidization does not occur, the FCC should require services to be priced at economic cost.(17) LECs should not be required to advertise.(19)

COMMENTS OF SPRINT CORPORATION

Goals and Principles

Principles: Policies must promote competition and be competitively neutral.(3)

Affordability and Quality: "Affordable" rates are the rates in urban areas.(9)

Statutory Criteria: It is critical that the services supported are subscribed to by a majority of consumers.(8)

Support for Rural, Insular, and High-Cost Areas

Services to be Supported: Only basic residential telephone service should be supported. Such service includes (a) single-party local service, (b) touch-tone, (c) access to carriers of choice, (d) access to operator services, and (e) access to emergency (911) services.(4,6)

Implementation: Support should be available only to customers in areas where the costs of providing supported services are higher than a federal benchmark affordable price.(4,8) Support should be portable when the customer changes service providers.(10) When actual exchange service prices are below the federal benchmark price, the states should fund the difference between the benchmark price and the rate the state allows carriers to charge for supported services.(5,18-19) States should increase exchange prices to bring them in line with the federal benchmark affordable price standard.(5-6, 18-9)

Calculation of the Subsidy: The subsidy should consist of the difference between a federal benchmark affordable price of basic service and the economic cost of providing that service.(4,9-10,18) Costs of providing services should be determined using the BCM (in part because it is based on TSLRIC).(11-14) The BCM should be periodically reviewed.(8) The geographic areas utilized should be small, such as CBGs.(13) The benchmark affordable price should, initially, be based on the national average rate for basic residential telecommunications service in urban areas.(4)

Eligible Carriers: Support should be available to any provider furnishing service over its own facilities or over resold facilities (if the reseller has some of its own facilities in the area) for which it pays cost-based prices, that provides all of the core services to high-cost CBGs.(5,8,15-16) Service areas should be defined as CBGs.(15)

Support for Low-Income Consumers

Services to be Supported: The FCC should not adopt mandatory disconnection of toll restrictions.(21)

Implementation: The FCC should retain Lifeline and Link Up.(21) Better educational efforts should be made to inform eligible low-income consumers of these programs.(21)

Evolution of the Universal Service Definition

The universal service definition should be periodically reviewed.(8)

Schools, Libraries, and Health Care Providers

It is premature to determine what additional or advanced services should be supported.(23) No services should be specifically identified as requiring support until subscribership levels indicate which services are needed.(23)

Schools and Libraries: Discounts should not be determined until it is known what services are needed.(23)

Health Care Providers: The discount should consist of the difference between the nationwide average tariffed rate for services provided in urban markets with the nationwide average tariffed rate for similar services provided in rural markets.(23)

Administration of Support Mechanisms

As the new mechanisms are introduced, incumbent LECs should rebalance prices by offsetting the loss of implicit subsidies, such as the CCL charge, the Residual Interconnection Charge and the existing USF, with increases in other charges such as the SLC to cost.(3,19-20) All interstate telecommunications service providers should be required to make monthly contributions based on total company telecommunications revenues (interstate and intrastate), net of payments to intermediaries.(4,5,16-18) Collection and distribution of subsidies should be performed by an independent, neutral administrator such as NECA, if representative of larger LECs, IXC's, CMRS providers, etc. were added to its Board.(5,24) Payments should be distributed on a monthly basis to eligible carriers providing basic services to customers in identified high-cost CBGs.(18)

The FCC should establish guidelines whereby the states will support the difference between the federal benchmark affordable price and the authorized rate charged to residential customers.(18-19) See "Support for Rural, Insular, and High-Cost Areas: Implementation" above.

COMMENTS OF AT&T CORP.

Support for Rural, Insular, and High-Cost Areas

Services to be Supported: Core services should include (a) voice grade dial tone, (b) touch tone, (c) residential single party service, (d) emergency and operator access, (e) local usage in a limited calling area, (f) equal access to long distance, (g) and number portability.(12)

Calculating the Subsidy: The FCC should define "affordable rates" for Tier 1 LEC areas.(iii,14) The price of access must be set at TSLRIC.(7) The subsidy should consist of the difference between the TSLRIC of serving a particular area and the affordable rate.(14) If a state determines that a higher level of support is necessary, it may create a competitively neutral supplement.(15) Existing rates should be presumed affordable except those for low-income consumers.(iii,16)

Implementation: All subsidies must be "portable" and all prices must be cost-based to ensure compliance with the 1996 Act's requirement of non-discrimination.(ii,4,10) Subsidies should be made available for core services to the residential subscriber's principal residence.(ii)

Eligible Carriers: The FCC should specify appropriate criteria to guide the states in determining which carriers are eligible to receive subsidies from the fund. (21) To qualify, a carrier should provide the core services.(21)

Support for Low-Income Consumers

See the comments under "Support for Rural, Insular, and High-Cost Areas" above.

Implementation: The FCC should retain need-based Lifeline and LinkUp. (17)

Schools, Libraries, and Health Care Providers

The FCC should interpret carriers' obligations to provide their services at discounted rates, not the CPE or inside wiring upgrades that a user may choose to access.(19-20) The FCC should also cap the discount for which reimbursement would be available at the deepest volume discount offered by the carrier for similar services to a commercial user.(20) Carriers should only be required to inform school and library associations of the available discounts, not individual schools and libraries.(20)

Administration of Support Mechanisms

All providers should be required to contribute.(4) Funding should be collected through a surcharge on all retail services. (i) Such a surcharge will ensure that all subscribers make a fair contribution, that high-volume users bear a proportionate share of their obligations, and that no jurisdictional issues will interfere with the process. (8-9)

The Commission should require the support mechanism to be administered by a competitively neutral third-party. (22)

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COMMENTS OF TIME WARNER COMMUNICATIONS

Goals and Principles

Principles: The current mechanisms for universal service must be revised because the system relies heavily on LEC reported costs, which are inflated.(i) The FCC's new approach must rely on the end-user, supporting affordability and not merely providing a subsidy to LECs.(i Universal service support should not be the vehicle to guarantee increased earnings.(12))

Affordability and Quality: Affordability can be accomplished by defining a benchmark at the upper end of the range of total charges for local services that individual customers must pay without support.(7) Service is affordable if the price is at or below the highest rate applicable for any exchange within a given jurisdiction for which residential penetration is within five points of the jurisdictional average.(7) The most effective way to ensure affordability is through competition. (5)

Support for Rural, Insular, and High-Cost Areas

Services to be Supported

The Commission's proposed definition of "basic services" is appropriate, but should also include the ability to place local calls. (3-4)

Implementation: Only when rates exceed a pre-determined affordability benchmark should an area be considered to qualify for support. (i)

Calculation of the Subsidy: Universal service costs should be determined using a "cost proxy model" in conjunction with competitive bidding to determine the market value of the given service area. NCTA's comments discuss this model.(9)

Eligible Carriers: Only LECs subject to rate of return regulation should be eligible for support.(11)

Support for Low-Income Consumers

Services to be Supported: In addition to the services for rural, insular, and high-cost areas, supported services should include (a) voluntary toll-blocking and (b) reduced connection charges and deposits.(13-15)

Implementation: The targeted support mechanisms currently finding state and federal Lifeline programs have been successful to date.(15) Consumer eligibility requirements for Lifeline assistance should remain at the state level.(15)

Schools, Libraries, and Health Care Providers

A rulemaking proceeding is not the appropriate forum to address these issues; a Notice of Inquiry should be initiated instead.(16) The FCC should evaluate market conditions before implementing rules in this area.(17)

Other Universal Service Support Mechanisms

Non-targeted universal support funded by the CCL charge must be eliminated.(19) The CCL charge is not consistent with the 1996 Act.(19) Instead, the SLC should be increased, which will better align end user monthly rates with the NTS costs of providing end user access.(20)

Administration of Support Mechanisms

The responsibility for funding universal service should be shared broadly.(21) Non-targeted support for local exchange access should be eliminated and replaced with targeted support based upon a value-added assessment on all industry participants.(21-22) State commissions should administer the distribution of universal service funds.(23) States are in the best position to establish distribution plans that accommodate local market conditions.(23)

COMMENTS OF TELE-COMMUNICATIONS, INC.

Goals and Principles

Principles: Subsidies should be applied only where absolutely necessary.(3-5, 9-11) Subsidies should be carefully targeted to those in need of support.(11) The FCC must implement its universal service program to assure competitive neutrality.(14)

Statutory Criteria: See "Evolution of the Universal Service Definition" below.

Support for Rural, Insular, and High-Cost Areas

Services to be Supported: Only the five core services listed in the NPRM should be included in the definition of universal service.(5-8) The FCC may not include information services within this definition.(6)

Calculation of the Subsidy: Universal service costs should be determined using a proxy model.(11) Subsidies should be eliminated in areas which have true, facilities-based competition.(13)

Support for Low-Income Consumers

Services to be Supported: Only the core services for rural, insular, and high-cost areas should be supported.(17) Any subsidy applicable to other services should be implemented by the states.(17)

Implementation: The FCC should leave low-income subsidy programs largely to the states.(11,16) Lifeline and Linkup should be "fully returned to the states."(16-17)

Evolution of the Universal Service Definition

Services should only be added to the definition of universal service if they are subscribed to by a majority of residential customers, and are being deployed in public telecommunications networks by telecommunications carriers.(9)

Support for Schools, Libraries, and Health Care Providers

Market forces are already working effectively to produce the desired goals with respect to school, libraries, and health care providers.(18)

Schools and Libraries: The FCC should require the provision of only core services to schools and libraries.(18) It should further review whether other services should be subsidized.(18) The 1996 Act does not give the FCC the authority to require the provision to schools and libraries of services not already offered by that carrier.(19) Many companies are offering or have plans to offer advanced telecommunications services to schools and libraries, independent of any special subsidy to do so.(20-21) In addition, the FCC should limit the amount by which core services must be discounted for educational institutions.(20)

Health Care Providers: Carriers should be required to provide the least number of services to health care providers that a reasonable interpretation of the statutory phrase "services which are necessary for the provision of health care services in a state" will support.(24)(emphasis added) The subsidy should also be set at the minimum level necessary to ensure affordability.(24) To the extent that a new entrant's in-kind contributions to universal service as a result of providing service to health care providers exceed its required fund contributions, the FCC should ensure some form of equitable compensation.(24)

Other Universal Support Mechanisms

The USF, DEM-Weighting, and Link Up can no longer be implemented through the Part 36 jurisdictional separations rules because those rules do not apply to non-dominant carriers.(14-15) Also, the FCC should rectify the competitive disadvantages created by the Rural Utilities Service ("RUS") programs.(16) In addressing contribution obligations, the FCC should account for the value received by local telephone companies under RUS programs and adjust accordingly.(16)

Administration of Support Mechanisms

All telecommunications carriers must contribute to universal service funding on a competitively neutral basis.(15)

COMMENTS OF THE NATIONAL EXCHANGE CARRIER ASSOCIATION, INC.

Support for Rural, Insular, and High-Cost Areas

Implementation: The FCC should build on existing mechanisms.(4) The FCC could make existing mechanisms explicit.(7) For example, the FCC could move DEM weighting revenue collection from traffic sensitive switched access charges to contribution requirements from all interstate carriers and other telecommunications providers through a separate, national bulk-billed charge.(7) The existing Lifeline Assistance rules could serve as a model for new subsidy mechanisms.(i,15) The establishment in rural areas of complicated support mechanisms designed to make support available to new entrants may distort competition without producing any real benefits for consumers.(8)

Calculation of the Subsidy: Proxy models may be appropriate for determining universal service costs with respect to large companies, but should not be utilized for all companies.(6,9,11) For such companies, cost study data must be used.(11) Pending the development of acceptable alternative methods that assure the availability of "sufficient" universal service funding, the FCC should continue to allow carriers to use current cost-based accounting methodologies, including the USF and DEM weighting rules, to identify universal service funding requirements.(6,9-10) Universal service costs, and thus subsidy levels, could be determined by applying these rules to new eligible carriers and then comparing the actual cost data of new carriers with disaggregated incumbent LEC costs.(10) The per-line subsidy would consist of the difference between the costs of new eligible carriers and those of the incumbent LEC.(10) Also, in determining subsidy levels, the FCC should consider the investments incumbent LECs have made in plant, to "be ready to serve" their customers.(10)

Schools, Libraries, and Health Care Providers

The existing Lifeline Assistance rules could serve as a model for any requirements that discounted services be provided to schools, libraries, or health care providers.(15-16) The FCC should require that carriers claiming reimbursement for discounted services maintain adequate documentation of rates and costs, and should subject all claims to audit by the universal service administrator and/or the FCC.(16)

Other Universal Support Mechanisms

Existing universal service programs, including the USF, Lifeline, DEM weighting, CCL, and LTS should be maintained with minimal disruption.(i,11-12) In addition, the interim cap on the USF should be removed.(13) The FCC should not impose caps or upper limits on universal service funding mechanisms.(14) If changes are made in existing mechanisms the FCC should implement transition mechanisms.(14)

Administration of Support Mechanisms

Where carriers provide services through the resale of other carriers' facilities, support should go to the underlying carrier.(8-9) The FCC should replace the current tariff-based universal service collection mechanisms with a revenue-based contribution system similar to the TRS funding methodology.(18)

NECA should continue to serve as the administrator of universal service mechanisms.(i,19-23) However, the FCC should consider establishing a universal service advisory council to advise NECA with respect to fund issues.(ii-iii,23) The council could include fund recipients, contributors, state regulators, and consumer representatives, with members selected by the constituent groups.(ii-iii, 23)

COMMENTS OF THE RURAL TELEPHONE COALITION

Goals and Principles

Affordability and Quality: While the FCC should pursue rules to improve and maintain subscription rates among low-income and minority groups, the mandate that rates should be "affordable" and "comparable" is not limited to these groups.(4)

Statutory Criteria: A service need not satisfy all four statutory criteria for inclusion in the federal universal service definition.(7-8)

Support for Rural, Insular, and High-Cost Areas

Services to be Supported: Support should not be limited to residential services.(8) Within two years of this rulemaking, the FCC should develop "ways for the list of defined services to advance."(8)

Implementation: Long distance carriers should continue to bear some costs of the local loop and this recovery should not be viewed as a universal service subsidy.(17)

Calculation of the Subsidy: The calculation methods utilized should not produce results that are disruptively divergent from the results achieved under the current set of measures.(11) While calculation of the subsidy level should be cost-based,(11) proxy models should not be utilized.(16-17) Calculations should take into account universal service expenditures made by incumbent carriers prior to the Act because to disregard these expenditures or grant new entrants the same level of support as incumbent LECs will overcompensate the newcomers.(11) Calculations also should take into account the quality of services offered by new entrants.(14-15). If the FCC does not implement a cost-based subsidy, incumbent carriers should have the option to disaggregate per-unit cost to smaller geographic units.(13-14)

Eligible Carriers: Support should only go to carriers that invest in facilities used to provide universal services.(10) The current definition of rural telephone company service areas as they are used for eligibility purposes should be left in place.(10) The FCC should not compel states to designate eligible carriers under a competitive bidding scheme. (17)

Support for Low Income Consumers

See the comments under "Support for Rural, Insular, and High-Cost Areas" above.

Schools, Libraries, and Health Care Providers

The RTC supports the Act's goal of providing advanced telecommunications services to schools, libraries and health care providers, but argues that a separate fund should be established to achieve this goal.(18)

Other Universal Service Support Mechanisms

The USF and DEM weighting mechanisms should be maintained because they have proven effective in keeping rural rates reasonable and have encouraged rural infrastructure development that is largely comparable to urban development.(15)

Administration of Support Mechanisms

The states are not appropriate to serve as neutral administrators of the universal service fund.(19) Instead, the fund should continue to be administered by NECA. (19).

COMMENTS OF THE CALIFORNIA PUBLIC UTILITIES COMMISSION

Goals and Principles

Principles: The FCC should adopt the principles set forth in the NPRM, but add the principle of competitive neutrality.(3) New LECs should be required to meet the same quality standards currently imposed on existing LECs, but no additional standards should be imposed.(3) Affordability should be tied to urban rates, e.g. small company rates may not exceed 150 percent of urban rates and rates to low-income customers must be 50 percent of urban rates.(4)

Support for Rural, Insular, and High-Cost Areas

Services to be Supported: Core services should include the services listed in the NPRM as well as (a) access to long distance carriers; (b) access to long distance carriers; (c) free access to customer service; (d) choice of flat or measured service; (e) directory assistance; (f) a directory listing; (g) access to information/800 services; (h) access to the deaf telephone relay service; (i) access to E91 1; and (i)warm line 911 and 611 (5-7)

Implementation: Support should be limited to residential customers in high-cost areas and possibly small businesses (the CPUC is considering inclusion of the latter in California).(7) Urban and rural rates should be comparable but not identical, e.g. rural rates should be no more than 150% of rates in adjacent urban areas. Subsidy amounts should equal the difference between the cost of providing service and the permitted charge.(8)

Calculation of the Subsidy: The USF and DEM weighting programs should be replaced with the use of a cost determination proxy model which utilizes wireline costs, and the establishment of an affordable rate.(9-10, 12) Where costs exceed the designated affordable rate, support will be provided.(9-10) The CPUC is considering the Pacific Bell Cost Proxy Model and AT&T/MCI model introduced in California.(11) The CPUC has also tentatively decided that CBGs should serve as the basis for subsidy determinations. A competitive bidding process is probably not appropriate at present.(12)

Eligible Carriers: Only carriers willing to serve entire CBGs should receive support.
(13)

Support for Low-Income Consumers

Services to be Supported: The same services listed above, as well as discounted rates for eligible customers.(5-6) Toll limitation services also could "be of great value."
(15)

Implementation: Supports the provision of Lifeline service at a statewide rate (as implemented in California).(16) The cost of the program was \$323 million in 1995. (17)

Eligible Carriers: Carriers serving Lifeline customers would be eligible for support on a per-customer basis. Only customers meeting certain eligibility criteria should receive Lifeline service. (16)

Support for Unserved Areas

The FCC should use competitive bidding to determine eligibility for support.(3)

Evolution of the Universal Service Definition

The definition should be reviewed every three-years, upon request.(17) In determining whether to add services, the FCC should consider the statutory criteria, whether the services are essential for participation in society, and whether the benefits of adding the services exceed the costs.(17-18)

Schools, Libraries, and Health Care Providers

Schools and Libraries: The FCC should ensure that these institutions are "well positioned to take advantage of advanced telecommunications services," and should establish discounts on both intrastate and interstate services. However, the CPUC make no specific recommendations because it is still investigating such assistance.(19)

Health Care Providers: See the preceding paragraph.(19)

Access to Advanced Services

The FCC should obtain more information on which advanced services the market will support and should consider the statutory criterium of subscription by a majority of residential customers before selecting services to subsidize.(4-5)

Other Universal Service Support Mechanisms

The CCL charge should be eliminated.(20)

Administration of Support Mechanisms

Contributions to federal funding should be required on all interstate telecommunications revenues, but the FCC lacks authority to require contributions from intrastate service revenues. State public utility commissions should collect and distribute all universal service funds.(21)

COMMENTS OF PACIFIC TELESIS GROUP

Goals and Principles

Affordability and Quality: The FCC should require states to continue to determine affordability levels within states, and ensure compliance with a reasonableness standard.(20)

Support for Rural, Insular, and High-Cost Areas

Services to be Supported: Core services should include the services identified by the CPUC in its universal service proceedings.(IS) However, the FCC should not mandate access to certain services.(23)

Eligible Carriers: Support should be available to all carriers who serve high-cost, rural, or insular areas.(13)

Implementation: The federal benchmark (see following paragraph) should be the standard for determining whether rural and urban rates are reasonably comparable.(19) Rates should be reasonably comparable if they are proportionate to costs.

Calculation of the Subsidy: The FCC should utilize the California model in establishing a model for high-cost area funding.(17) Subsidy levels should be determined using the Pacific Bell Cost Proxy Model, which uses CBGs as its geographic areas.(16-17) The FCC should set a federal benchmark determined by the level of predicted cost that could be supported by the current universal service fund, and, if necessary, lowered to meet any affordability standard.(18-19) Support should then be provided where costs exceed the benchmark, and should consist of the difference between the proxy model's predicted cost and the federal benchmark.(18) Carriers serving areas where costs are below the benchmark should not be eligible for federal funding, but should be eligible for assistance from states with lower benchmarks.(18) State support should consist of the difference between the price charged and the lesser of the federal benchmark level or the cost proxy value.

Support for Low-Income Consumers

Services to be Supported: In addition to the core services for rural, insular, and high-cost areas, the FCC should include information regarding telephone service, discounts for low-income households, repair service, and access to emergency services.(22) Lifeline and Link Up should be retained unchanged.(22)

Implementation: The FCC should not implement programs to increase subscribership levels.

Evolution of the Universal Service Definition

The universal service definition should be reviewed every three years.(15,17)

Schools, Libraries, and Health Care Providers

Schools and Libraries: The FCC should establish guidelines as to the services that should be designated as "additional" services for schools and libraries, but should permit each state to determine what services should be so designated.(4) Also, the universal service fund should only subsidize access to networks and connections within schools; different funding mechanisms should be used established for hardware, software, systems operation, professional development, and content.(5) Flat-rate service should be included among the discount options, but the FCC should give providers and end users the ability to formulate individual discounts.(6) The FCC should administer support state by state, and not require providers in states where educational access has begun to subsidize states in which no such efforts have begun.(7) To the extent that state commissions have the right to set the discount in their states, the FCC should set guidelines on the amount of discount and the manner of distribution to prevent interstate providers from being unduly burdened by the state requirements.(7-8)

Health Care Providers: The FCC should require that each eligible rural health care provider should have access to, at a minimum, one ISDN line.(9) Whether a request for multiple lines is "bona fide" should be determined in part by the provider's need for and ability to use the services.(10) Where health care providers request multiple lines, support should presumptively be provided if the health care providers and service providers reach a negotiated agreement. The FCC should set broad guidelines for such negotiated agreements. If parties cannot reach agreement, state commissions should have authority to determine the discounted services to which the health care provider is entitled, pursuant to broad federal guidelines.(10-11)

Advanced Services

Rules governing the offering of, and support for, advanced services to schools, libraries, and health care providers should be competitively neutral and subject to on-going review. All telecommunications and information service providers should be responsible for providing and funding these services. Access should be mandated for advanced communications services only if recipients demonstrate the ability to use related hardware and software. (11)

Administration of Support Mechanisms

Subsidy levels should be sufficient to cover both the existing USF and the CCL. Subsidies should be funded through a combination of federal and state sources which would replace current CCL charges as well as all other implicit subsidies.(13-14) The FCC should require all telecommunications providers, including information service providers, interexchange carriers, competitive access providers, commercial mobile radio service,