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April 25, 1996

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FEDERAL COMMUNICATIONS COMMISSION  
OFFICE OF SECRETARY

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

Re: Ex Parte CC Docket 96-45, Federal-State Joint Board on Universal Service

Dear Mr. Caton:

Today, April 25, 1996, B. Cox, J. Lubin, F. Hedemark, and I met at the request of the Bureau Staff with D. Dupont, F. Franklin, K. Levitz, J. Morabito, K. Moran, A. Mulitz, and T. Peterson of the Common Carrier Bureau to discuss AT&T's position regarding access and Universal Service reform. The enclosed attachments formed the basis of our discussion.

In accordance with Section 1.1206(a)(1) of the Commission's rules, two(2) copies of this notice are being submitted to the Secretary of the FCC today.

Sincerely yours,

*Brian W. Masterson*

Attachment

cc: D. Dupont  
F. Franklin  
K. Levitz  
J. Morabito  
K. Moran  
A. Mulitz  
T. Peterson

*Of 2*

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## New Universal Service Fund (NUSF)

### A. Tier 1 Local Exchange Company areas

1. The Economic Subsidy. The economic subsidy should be applied to the primary lines of residence subscribers in high cost areas; i.e., where the TSLRIC exceeds the Nationwide Affordable Rate.

TSLRIC = Total Service Long Run Incremental Cost per household for providing local service (TSLRIC of particular serving area can be estimated by a proxy model adopting methodologies similar to the Benchmark Cost Model).

Nationwide Affordable Rate = Basic Local Service Rate established by the Joint Board to serve as a benchmark for determining the subsidy. Nationwide Affordable Rate based on weighted average of current local rates for Tier 1 territories, including the federal Subscriber Line Charge (SLC) adjusted to fully recover the subscriber loop portion of the interstate common line.

Economic Subsidy = (TSLRIC) minus (The higher of the Nationwide Affordable Rate or the Current Residence Basic Local Service Rate); no subsidy if Local Rates are higher than the TSLRIC.

- Subsidy should be portable with the customer and available to any carrier providing the core set of basic local service.

2. The Low Income Subsidy

Low Income Affordable Rate = Rate established by each State Commission applicable to those receiving benefits under the Lifeline Assistance program.

Low Income Subsidy = Nationwide Affordable Rate minus Low Income Affordable Rate

- The Low Income Subsidy is similar to the present Lifeline Assistance program except that it should also be funded from the NUSF. This subsidy should go to subscribers who pass a means test; i.e., subscribers who meet minimum verifiable eligibility standards established by the State Commission.

## **New Universal Service Fund (NUSF)**

### **A. Tier 1 Local Exchange Company areas (Continued)**

3. Recovery of Universal Service Subsidy Competitively neutral treatment of both Economic and Low Income subsidy funded in a competitively neutral manner, such as through a surcharge on total (Interstate and Intrastate) retail revenues.
4. The Optional State Economic Subsidy where the Current Rate is below both the TSLRIC and the Nationwide Basic Local Service Affordable Rate

State Economic Subsidy = Nationwide Affordable Rate minus State Commission specified Basic Local Service Rate

- Implemented only if State does not raise local rates to Nationwide Basic Local Service Affordable Rate.
- Subsidy should be portable with the customer to any carrier providing the core set of basic local service.
- Funded in a competitively neutral manner, such as through a surcharge on intrastate retail revenues.

## **New Universal Service Fund (NUSF)**

### **B. Small Rural LECs**

#### **1. Modifications to current subsidy mechanisms**

- Traffic sensitive (TS) access rates should be adjusted to the level of the adjacent Tier 1 LEC. To the extent that these new benchmarked TS access revenues coupled with basic local service revenues (along with the adjusted SLC and high cost fund support) are insufficient to cover all of the LEC's traffic sensitive access and basic local service costs, the difference should be subsidized by the NUSF.
- For these small rural LECs and as proposed by AT&T in Docket 80-286, the current High Cost Fund should be modified. Study areas should be combined within a state, general and administrative expenses should be eliminated, the threshold for payment should be increased to 130% of the national average cost per loop, and the payments to companies receiving less than one dollar per loop per month should be eliminated. These modifications should continue to provide a subsidy to companies with exceptionally high loop costs.

In addition, the DEM Weighting subsidy should be eliminated. Should the Commission decide that some DEM Weighting subsidy continue, a cost based model employing a threshold for eligibility is required.

- Subsidy need not be portable in non-Tier 1 LEC territory initially. (At least at the onset, small rural carriers can appropriately be exempted from the portability requirement because the administrative costs of portability could outweigh the benefits. Once a state commission determines that it is in the public interest for a rural carrier to interconnect with new entrants in their territory per ¶252(F)(1)(B), then the subsidy should become portable.)

#### **2. The Low Income Subsidy**

- The Lifeline Assistance program should continue to be the Low Income Subsidy program for customers of Non-Tier 1 LECs. This subsidy goes to subscribers who meet minimum verifiable eligibility standards established by the State Commission.
- Non-Tier 1 company support should be funded by the NUSF.

## **New Universal Service Fund (NUSF)**

### **3. Local Rates Adjustment**

- Each State Commission should determine whether local service rates should be adjusted to bring them closer to the Nationwide Affordable Rate established for Tier 1 LEC territories.

### **C. Services Included in Definition of Universal Service**

Voice Grade Dial Tone  
Touch Tone  
Residential Single Party Service  
Access to emergency (911) and Operator Services  
Directory information (411)  
White Pages Directory Listing  
Local Usage in a Limited Calling Area  
Equal Access to Long Distance Services  
Local Number Portability

### **D. Subsidies for Schools, Libraries, and Health Care Providers**

1. Subsidies should be for telecommunications services, not premises equipment or inside wiring.
2. Discount commensurate with the deepest discount offered by the carrier for similar services to a commercial user.
3. Funding should be provided to service provider.

### **E. Interim Procedures**

1. Extend existing interim cap on the USF through July 1, 1997.
2. Upon prompt initiation of Access Reform and until the NUSF is implemented, set up competitively neutral interim mechanism to administer existing universal service support flows pending completion of 15 month proceeding under section

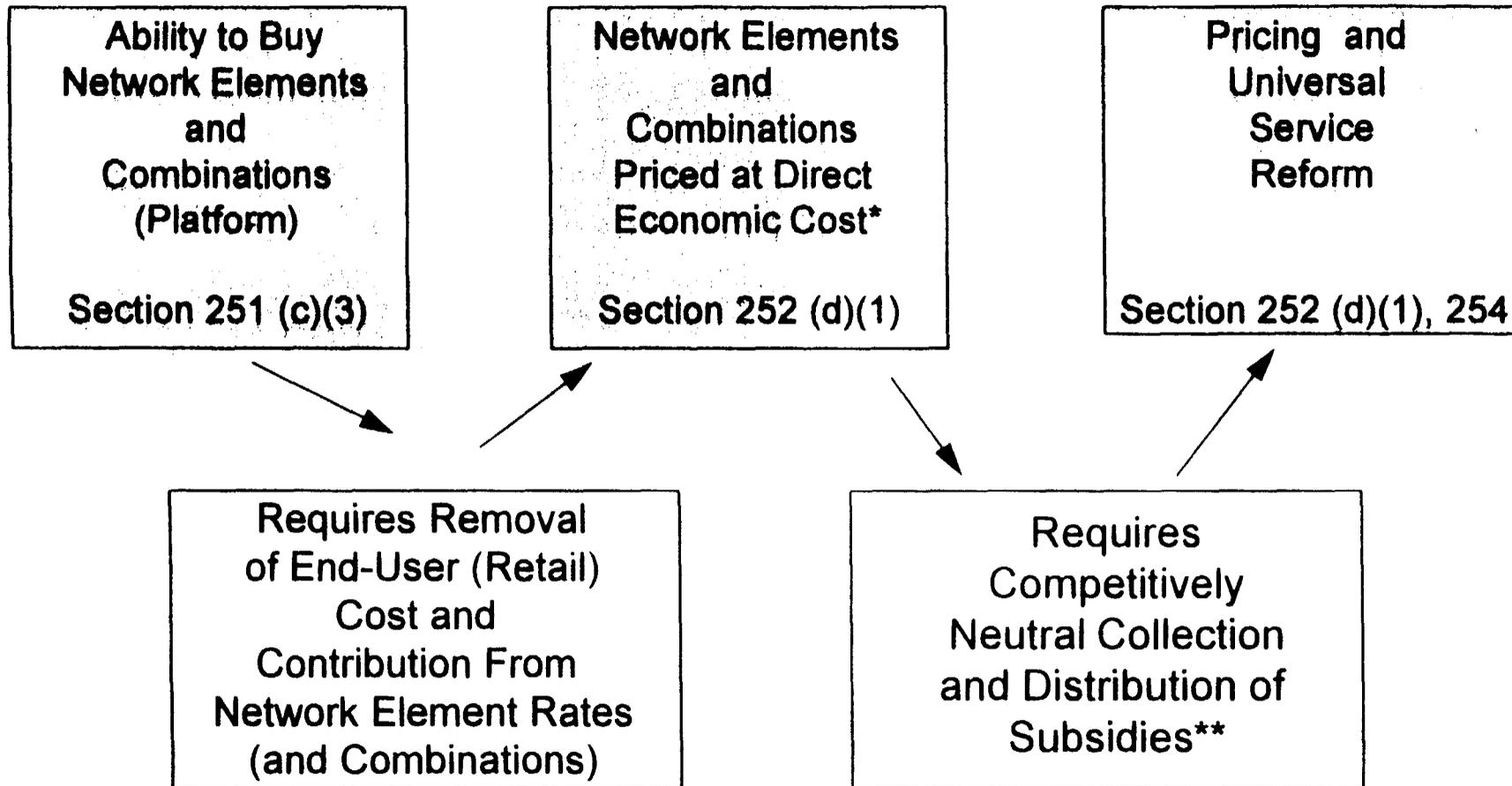
254 of the Act. These interim support flows should be recovered from a surcharge on the retail interstate revenues of all telecommunications providers.

3. If Access Reform is not immediately forthcoming, the Commission should at a minimum change the presubscribed line based allocator used for the existing USF and Lifeline Assistance Programs to an allocator based on interstate revenues. Similarly, DEM weighting subsidy should also be recovered based in IXC revenues, and not as an increment in the NECA TS rate.

#### **F. Neutral Third Party Administrator**

The NUSF should be administered by a neutral organization not affiliated with any telecommunications carrier. For example, a major accounting firm, electronic data processor, or financial institution could bid on becoming the NUSF administrator.

# There Are Three Issues That Are Critical and Linked Together



\* Direct economic costs are the forward looking, most efficient direct costs of providing service (TSLRIC). It excludes all subsidies.

\*\* Would apply to Tier 1 LECs. Non-Tier 1 LECs may require different solution.

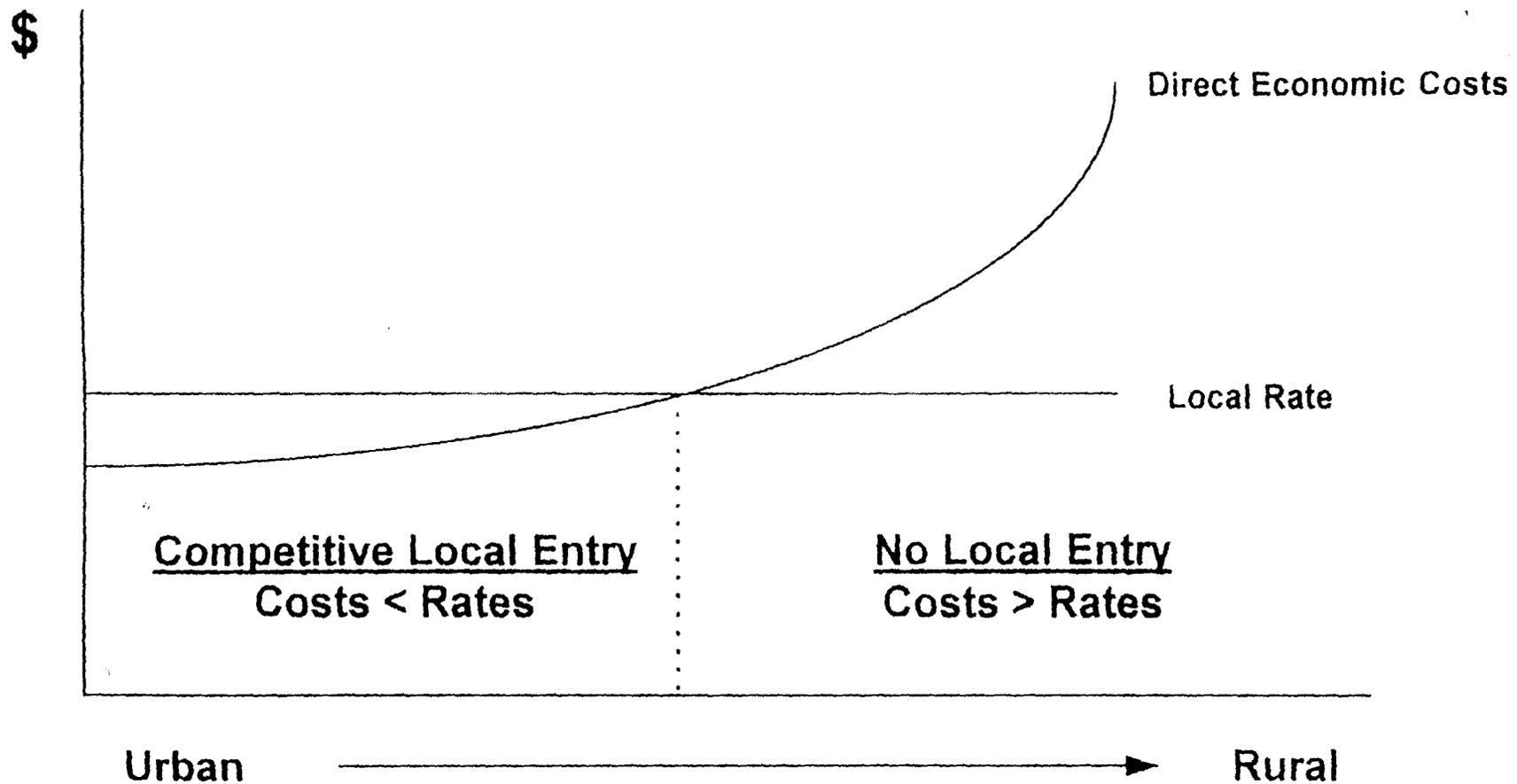
# Universal Service Considerations

- First best, let prices match true TSLIRIC costs
  - which are lower than embedded costs
  - efficient competition will ensue
- Subsidize only customers who are needy relative to the cost of serving them
  - not Aspen
- To ensure the valuable benefits of competition (new services, higher quality, Internet, etc.)
  - subsidy must be portable to any serving carrier
  - must be collected in competitively neutral fashion

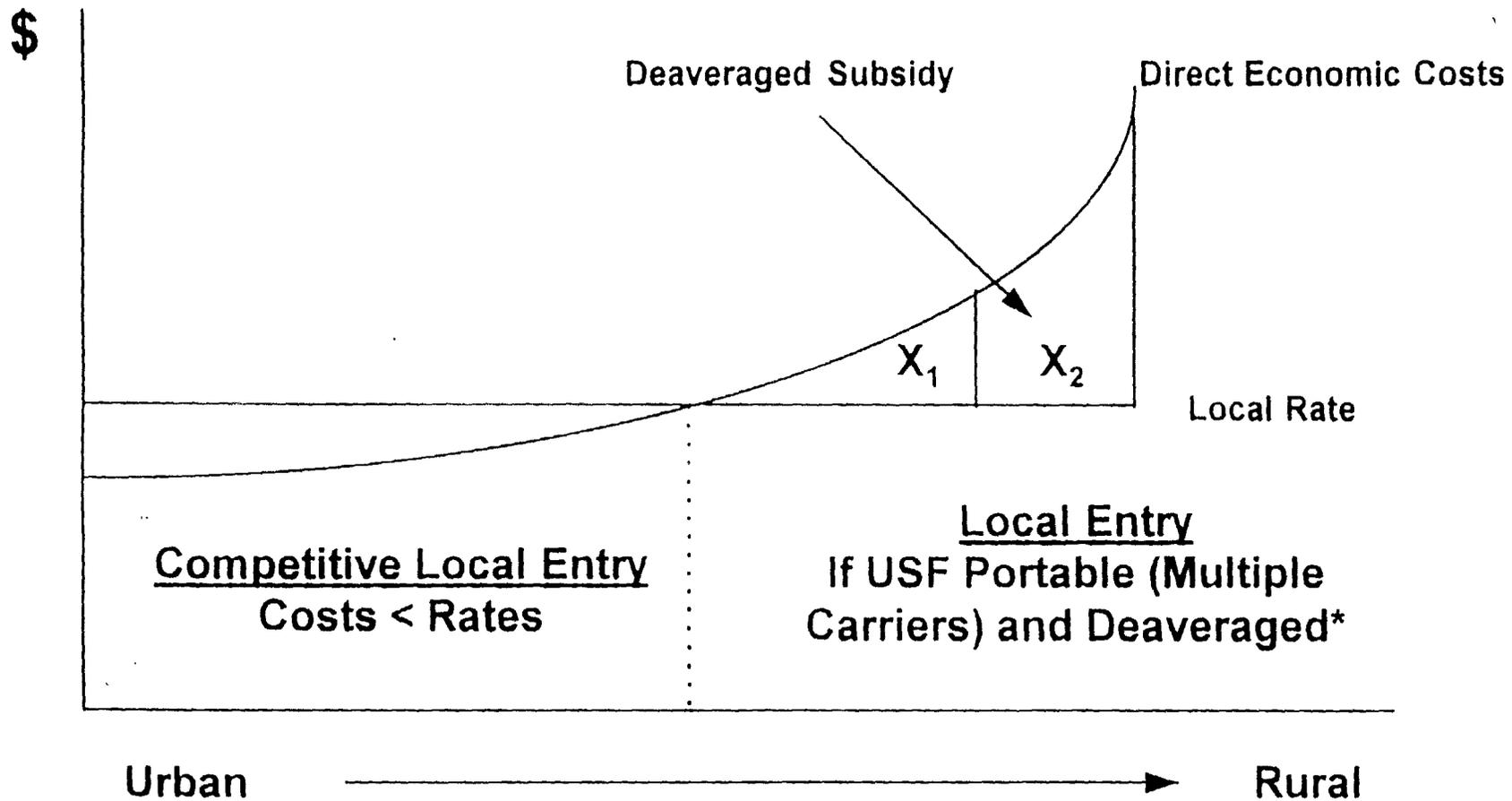
# USF Mechanism

- Subsidy can be deaveraged to cover different price/cost deficiencies in urban versus rural areas while maintaining averaged local rates

# Local Competition and No USF



# USF and Local Competition Subsidy Deaveraged



\* Tier 1 only (92% of lines)