

Before the
FEDERAL COMMUNICATIONS COMMISSION
Washington, D.C. 20554

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In the Matter of

Federal-State Joint Board on
Universal Service

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FEDERAL COMMUNICATIONS COMMISSION
OFFICE OF SECRETARY

CC Docket No. 96-45

**REPLY COMMENTS OF THE SOUTHERN NEW ENGLAND TELEPHONE
COMPANY**

The Southern New England Telephone Company (SNET) respectfully submits these comments in reply to comments filed in the Federal Communications Commission's (Commission or FCC) NPRM on Universal Service.¹

I. Introduction

Several states including Connecticut, California, and Texas have begun to address many of the issues presently under consideration by the FCC to implement the Telecommunications Act of 1996² (Act) as local competition is already progressing in those states. To ensure the continuation of universal service availability while competition is developing is a very complex task and has no clear-cut solutions. However, many commenting parties have recognized that universal service issues may be most effectively addressed at the state level, rather than the federal level. Many states have already made initiatives to ensure that the goals of universal service continue to be achieved. Furthermore, across the country there have been varying efforts to bring the advantages of the information superhighway to the educational community.

¹ In the Matter of Federal-State Joint Board on Universal Service, Notice of Proposed Rulemaking and Order Establishing Joint Board (NPRM) CC Docket No. 96-45, released March 8, 1996.

² People of the State of California and the California PUC comments, and Texas PUC comments.

II. The majority of the universal service support responsibility should be left to the states, with a minimal federal fund. Any fund should incorporate a transition mechanism to ensure competition is encouraged.

As US West states in its comments, "...it is important to keep in mind that the support mechanisms currently associated with universal service obligations were devised in an environment steeped in notions of social compacts, where a local service monopoly was presumed."³ Differing states may have instituted differing rate structures due to historical social policy objectives. Furthermore, the level and manner that competition and universal service issues are being addressed at the state levels have resulted in varying bases for rates. For example, the Commenting States⁴ point out that local "rates tend to vary from state to state, and from carrier to carrier, for numerous reasons unrelated to cost." Several factors contribute to varying local rates including geographically different local calling areas, state commissions' rate designs, service composition, etc.⁵ These differences which presently exist among states make it difficult, if not impossible, for a federal universal service mechanism to incorporate effectively the varying state telecommunications markets. Certain end user targeted programs, such as Lifeline and Link Up, may be appropriately mandated by the Commission in order to ensure nationwide affordability of telecommunications services to all consumers. However, the states should be primarily responsible for ensuring that universal service continues in accordance with the Act as competition is being introduced and sustained.

³ US West comments, page 3.

⁴ The Commenting States refer to joint comments filed by state commissions of Maine, Montana, Nebraska, New Hampshire, New Mexico, Utah, Vermont, and West Virginia (Commenting States).

⁵ Commenting States comments, pages 11 and 12.

SNET agrees with the many commenters who recommend that any federal fund for high cost support be designed to recover only the significant, carefully targeted, high cost areas. The remaining funding for universal service should be left to the states.⁶ For example, the Public Utility Commission of Texas states “that the interstate fund should focus on national high-cost support, along with the interstate portion of lifeline, relay, and other federal policy mechanisms. Each state should be charged with establishing ... intrastate universal service programs...”⁷ Similarly, the Michigan Public Service Commission states that “...the FCC should structure a support program which sets only broad guidelines affording the States substantial discretion to administer support funding.”⁸ MFS Communications Company, Inc. makes the same argument stating, “Regulating the level of local service rates should continue to be the responsibility of state regulators who have historically ensured that local rates are ‘affordable’.” MFS also states that the existing high cost fund should be capped at current levels.⁹

In Connecticut, the days of traditional rate of return regulation are over. Now that competition has been mandated by Public Act 94-83 passed by the Connecticut General Assembly, competitive forces will be relied upon to ensure the appropriate provision of telecommunications services in the long term. On the national level the Act will encourage competition in the same manner as was legislated in Connecticut two years ago.

⁶The Center for Civic Networking, Inc. and The Graduate School of Library and Information Science, University of Illinois, Champagne/Urbana at page 1 states “...any federal framework for Universal Service should provide flexibility for states to develop their own priorities and financing mechanisms, and empower local communities to establish their own criteria, programs, and services.”, Bell Atlantic’s comments at page 6 recognize that the entities best able to ascertain the need within recipient states are the state public service commissions.

⁷ Texas PUC comments, page 19.

⁸ Michigan PSC comments, page 3.

⁹ MFS comments, page 19.

SNET believes it is necessary to evaluate the need for universal service support mechanisms at each stage of increased competition.¹⁰ Initially, the FCC may deem it necessary to consider the continuation of the existing high cost support mechanisms in some form as competition may be introduced in some areas sooner than others. However, the FCC must allow for a transition to phase down any support as competition is embraced at the local levels. Such a transition should result in only the end user support mechanisms such as Lifeline and Link Up. MFS takes a similar position as SNET in arguing that competition may obviate the need for a universal service support mechanism stating that “Competition preserves and advances universal service so universal service subsidies should be provided only in extraordinary circumstances...”¹¹

III. The education requirements of the Act would be best addressed at the state level due to the varying degrees of competition in state and local markets and the state programs already implemented.

The education community is a large consumer of telecommunications services and promises to continue to be a large user of these services. All market players recognize this as they enter the market.¹² Therefore, competition will continue to encourage the introduction of advanced services to the education community. Furthermore, many states have already acknowledged the importance of ensuring that services are timely deployed to educational institutions and have approved, if not encouraged, plans to ensure this market receives the appropriate attention.¹³ Additionally, some states have encouraged

¹⁰ SNET comments, page 5.

¹¹ MFS comments, page 2.

¹² Tele-Communications, Inc. comments at page 21 state that they have substantial experience in providing educational telecommunications services, and further state that “TCI’s success in providing these services at market-based prices demonstrates that even rural schools do not need federal subsidies in order to purchase them,” at page 23.

¹³ Texas PUC comments, page 15, Oklahoma Corporation Commission comments, page 9.

grass roots efforts to bring the advantages of the information superhighway to schools and provide programs to encourage the use of telecommunications services by educational institutions.¹⁴

Due to the natural incentive of competitive providers to offer advanced telecommunications services to educational institutions, as well as the states incentive to ensure these services are widely deployed in their schools, it is not necessary or appropriate for the Commission to institute a funding mechanism on a national level to support this effort. Rather, it would be appropriate for national education standards to include telecommunications service requirements to which the states must comply. This would ensure that all schools have a basic set of similar services provided to them, while allowing the states the freedom to determine the appropriate funding mechanism and any additional standards or services to be provided to all such institutions. Furthermore, this would recognize the varying degrees to which the telecommunications needs of educational institutions have already been addressed within the states,¹⁵ while allowing competition to participate in providing services to this market to the extent that competition exists.

IV. Summary

Due to the various initiatives to introduce competition into the telecommunications markets that have occurred in the past few years, the Commission should allow the states

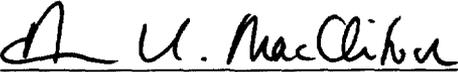
¹⁴For example, in Connecticut SNET has committed to participating in the ConneCT '96 initiative that is being administered by a statewide steering committee. SNET has agreed to provide Internet service, free of charge for the 1996-1997 school year, to every school and public library in Connecticut in an effort to help bring Connecticut students, educators and residents further into the Information Age.

¹⁵ USTA comments at Attachment 1 provides on a state basis examples of how local exchange carriers are currently helping to improve educational opportunities.

the maximum flexibility in instituting universal service programs. The federal universal service program should be transitioned, as competition increases, to culminate in an end user income-based assistance program only. The Commission should recommend minimum standards for states to comply with the education requirements contained in the Act. However, the states should be allowed to fulfill these requirements in the way each state deems appropriate.

Respectfully submitted,

The Southern New England Telephone Company

By: 
Anne U. MacClintock
Vice President - Regulatory Affairs & Public Policy
227 Church Street
New Haven, Connecticut 06510
(203) 771-8865

May 7, 1996

CERTIFICATE OF SERVICE

I, Diane Ehlert, hereby certify that I have caused copies of the foregoing Universal Service Fund, CC Docket No. 96-45, Comments to be served this 7th day of May, 1996, by United States mail, first class postage prepaid, unless otherwise indicated, to the following:


Diane Ehlert

Reed E. Hundt, Chairman*
Federal Communications Commission
1919 M Street, NW - Room 814
Washington, DC 20554

Rachelle B. Chong, Commissioner*
Federal Communications Commission
1919 M Street, NW - Room 844
Washington, DC 20554

Susan Ness, Commissioner*
Federal Communications Commission
1919 M Street, NW - Room 832
Washington, DC 20554

Julia Johnson, Commissioner
Florida Public Service Commission
Capital Circle Office Center
2540 Shumard Oak Blvd.
Tallahassee, FL 32399-0850

Kenneth McClure, Vice Chairman
Missouri Public Service Commission
301 W. High Street, Suite 530
Jefferson City, MO 65102

Sharon L. Nelson, Chairman
Washington Utilities & Transportation
Commission
P.O. Box 47250
Olympia, WA 98504-7250

Laska Schoenfelder, Commissioner
South Dakota Public Utilities Commission
500 E. Capital Avenue
Pierre, SD 57501

Martha S. Hogerty
Public Counsel for the State of Missouri
P.O. Box 7800
Harry S. Truman Bldg., Room 250
Jefferson City, MO 65102

Deborah Dupont, Federal Staff Chair*
Federal Communications Commission
2000 L Street, NW - Suite 257
Washington, DC 20036

Paul E. Pederson, State Staff Chair
Missouri Public Service Commission
P.O. Box 360
Truman State Office Building
Jefferson City, MO 65102

Eileen Benner
Idaho Public Utilities Commission
P.O. Box 83720
Boise, ID 83720-0074

Charles Bolle
South Dakota Public Utilities Commission
State Capital
500 E. Capital Avenue,
Pierre, SD 57501-5070

William Howden*
Federal Communications Commission
2000 L Street, NW - Suite 812
Washington, DC 20036

Lorraine Kenyon
Alaska Public Utilities Commission
1016 West Sixth Avenue, Suite 400
Anchorage, AK 99501

Debra M. Kriete
Pennsylvania Public Utilities Commission
P.O. Box 3265
Harrisburg, PA 17105-3265

Clara Kuehn*
Federal Communications Commission
2000 L Street, NW - Suite 257
Washington, DC 20036

Mark Long
Florida Public Service Commission
2540 Shumard Oak Blvd.
Gerald Gunter Bldg.
Tallahassee, FL 32399-0850

Samuel Loudenslager
Arkansas Public Service Commission
P.O. Box 400
Little Rock, AR 72203-0400

Sandra Makeeff
Iowa Utilities Board
Lucas State Office Building
Des Moines, IA 50319

Philip F. McClelland
Pennsylvania Office of Consumer
Advocate
1425 Strawberry Square
Harrisburg, PA 17120

Michael A. McRae
D.C. Office of the People's Counsel
1133 15th Street, NW - Suite 500
Washington, DC 20005

Rafi Mohammed*
Federal Communications Commission
2000 L Street, NW - Suite 812
Washington, DC 20036

Terry Monroe
New York Public Service Commission
Three Empire Plaza
Albany, NY 12223

Andrew Mulitz*
Federal Communications Commission
2000 L Street, NW - Suite 257
Washington, DC 20036

Mark Nadel*
Federal Communications Commission
1919 M Street, NW - Room 542
Washington, DC 20554

Gary Oddi*
Federal Communications Commission
2000 L Street, NW - Suite 257
Washington, DC 20036

Teresa Pitts
Washington Utilities & Transportation Commission
P.O. Box 47250
Olympia, WA 98504-7250

Jeanine Poltronieri*
Federal Communications Commission
2000 L Street, NW - Suite 257
Washington, DC 20036

James Bradford Ramsay
National Association of Regulatory Utility
Commissioners
1201 Constitution Avenue, NW
Washington, DC 20423

Jonathan Reel*
Federal Communications Commission
2000 L Street, NW - Suite 257
Washington, DC 20036

Brian Roberts
California Public Utilities Commission
505 Van Ness Avenue
San Francisco, CA 94102-3298

Gary Seigel*
Federal Communications Commission
2000 L Street, NW - Suite 812
Washington, DC 20036

Pamela Szymczak*
Federal Communications Commission
2000 L Street, NW - Suite 257
Washington, DC 20036

Whiting Thayer*
Federal Communications Commission
2000 L Street, NW - Suite 812
Washington, DC 20036

Deborah S. Waldbaum
Colorado Office of Consumer Counsel
1580 Logan Street, Suite 610
Denver, CO 80203

Alex Belinfante*
Federal Communications Commission
1919 M Street, NW
Washington, DC 20554

Larry Povich*
Federal Communications Commission
1919 M Street, NW
Washington, DC 20554

Ernestine Creech*
Common Carrier Bureau
Accounting & Audits Division
Federal Communications Commission
2000 L Street, NW - Suite 257
Washington, DC 20554

Secretary*
Federal Communications Commission
1919 M Street, NW
Washington, DC 20554

ITS*
1990 M Street, NW - Room 640
Washington, DC 20554

BCR Resource Center

* Hand Delivered