

We do not agree with AT&T and Sprint that the interstate subsidy should be funded by a surcharge on both interstate and intrastate revenues.³⁶ This is simply AT&T's way of ensuring that they do not foot the bill for their proportionate share of interstate revenues (of which they have the greatest share).³⁷ This would not meet the requirements of competitive neutrality. It would also serve to double tax intrastate revenues in those states, like California, where the universal service fund likely will be funded by a surcharge on intrastate revenues.

Administration of the High Cost Fund

As to the actual fund administrator, we agree with many parties that NECA would be a good choice to administer the federal high cost fund in that it has the expertise in collecting and disbursing funds of this type,³⁸ and met the requirement of being a neutral third party. The Education and Health care funds should be administered on a state basis in order to target funds where they are most needed. NECA could collect the surcharge for these funds, and then disburse them to the states in accordance with Commission guidelines.

LOW INCOME ISSUE

The National Association of State Utility Consumer Advocates, the Ohio Consumer Counsel & the Benton Foundation advocate a prohibition on disconnection for non-payment of toll charges.³⁹ We do not support this mandated approach. We believe that each

³⁶ Sprint, p. 16.

³⁷ If the surcharge were on both interstate and intrastate revenues, AT&T would be able to dilute paying its fair share based on its substantial interstate revenues.

³⁸ See, for example, ATA, p. 9; Rural Telephone Coalition, p. 1-2; Shawnee Telephone Company, p. 1; South Carolina PSC, p.2; Southwest Bell, p. 20, n.33; TCA, p. 7; Western Alliance, p. 13; Wyoming Public Service Commission, p. 5.

³⁹ NASUCA, p. 6, Ohio Consumer Counsel, p. 16. Benton Foundation, p. 2.

company should evaluate the needs of low-income customers (who may be at risk of dropping off the network) and develop products and services that are appropriate for that market segment. A mandatory solution does not take into account the unique and diverse needs of these customers.

We believe that a product offering of toll restricted service enables customers to remain connected while paying off an outstanding balance. In this scenario the customers retains ultimate responsibility for payment. and the root cause of the problem, control of telephone usage, is addressed. We are confident that our toll restricted service (as outlined in our original comments) will positively impact subscribership rates in the long term. With appropriate education e.g. community outreach programs, customers can take advantage of toll restricted service and retain access to the telecommunications network.

In states where disconnection has been prohibited, net bad debt has increased significantly (as reported by Pennsylvania Telephone Association, an increase of 300% in net bad debt⁴⁰). These losses are ultimately shared by the entire customer base. Customer confusion regarding payment options and implementation of multiple billing systems are other implications of such a prohibition.

CONCLUSION

The Commission should adopt rules which allow high cost areas of the country to be supported by the universal service fund on a census block group (or smaller) basis. The cost of providing service should either be calculated on an actual cost basis, or by use of a proxy model, or some combination of the two. A competitively neutral surcharge on revenues should

⁴⁰ Federal State Joint Board Open Meeting, April 12, 1996.

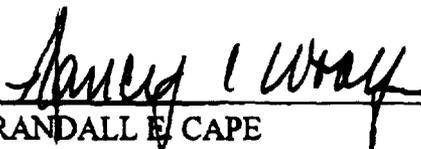
be assessed on all telecommunications providers and should be used to fund both the High Cost fund as well as the Education and Health Care funds. This federal fund should be administered by NECA or some other neutral third party. A separate Education and Health Care Fund should be set up at the state level so that resources can be targeted in a more appropriate fashion, and so requests (from schools, for example), can be reviewed by a local agency to ensure compliance with state and federal guidelines.

The Education Fund should be disbursed to the states on the basis of a dollar-per-student benchmark, combined with a benchmark based on need for the technology (such as number of students per computer). The states can then apportion the funds to school districts needing the money based on the district's plan for attaining appropriate benchmark levels. We

believe that in California, \$166M over 4 years would fully fund the telecommunications piece of the educational access to technology pie.

Respectfully submitted,

PACIFIC TELESIS GROUP



RANDALL E. CAPE
NANCY C. WOOLF

140 New Montgomery Street, Rm. 1523
San Francisco, California 94105
(415) 542-7657

MARGARET E. GARBER

1275 Pennsylvania Avenue, NW
Washington, DC 20004
(202) 383-6472

Its Attorneys

Date: May 7, 1996

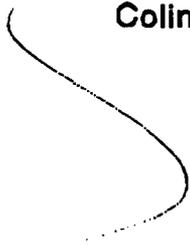
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CERTIFICATE OF SERVICE

I, Colin Petheram, hereby certify that on this 7th day of May, 1996 a true and correct copy of the foregoing **Reply Comments of Pacific Telesis Group** was mailed, first class-postage prepaid, to the parties shown on the attached list.

A handwritten signature in cursive script, appearing to read "C. Petheram", written in black ink.

Colin Petheram

A large, sweeping handwritten flourish or scribble in black ink, extending downwards and to the left from the signature area.

Attachment: Service List

**The Honorable Reed E. Hundt, Chairman
Federal Communications Commission
1919 M Street, N.W. -- Room 814
Washington, D.C. 20554**

**The Honorable Andrew C. Barrett, Commissioner
Federal Communications Commission
1919 M Street, N.W. -- Room 826
Washington, D.C. 20554**

**The Honorable Susan Ness, Commissioner
Federal Communications Commission
1919 M Street, N.W. -- Room 832
Washington, D.C. 20554**

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

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

**The Honorable Sharon L. Nelson, Chairman
Washington Utilities and Transportation Commission
P.O. Box 47250
Olympia, WA 98504-7250**

**The Honorable 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 Building, Room 250
Jefferson City, MO 65102**

**Deborah Dupont, Federal Staff Chair
Federal Communications Commission
2000 L Street, N.W., Suite 257
Washington, D.C. 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, N.W., Suite 812
Washington, D.C. 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, N.W., Suite 257
Washington, D.C. 20036**

Mark Long
Florida Public Service Commission
2540 Shumard Oak Blvd.
Gerald Gunter Building
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, Pennsylvania 17120

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

Rafi Mohammed
Federal Communications Commission
2000 L Street, N.W., Suite 812
Washington, D.C. 20036

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

Andrew Multz
Federal Communications Commission
2000 L Street, N.W., Suite 257
Washington, D.C. 20036

Mark Nadel
Federal Communications Commission
1919 M Street, N.W., Room 542
Washington, D.C. 20554

Gary Oddi
Federal Communications Commission
2000 L Street, N.W., Suite 257
Washington, D.C. 20036

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

Jeanine Poltronieri
Federal Communications Commission
2000 L Street, N.W., Suite 257
Washington, D.C. 20036

James Bradford Ramsay
National Association of Regulatory Utility Commissioners
1201 Constitution Avenue, N.W.
Washington, D.C. 20423

Jonathan Reel
Federal Communications Commission
2000 L Street, N.W., Suite 257
Washington, D.C. 20036

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

Gary Seigel
Federal Communications Commission
2000 L Street, N.W., Suite 812
Washington, D.C. 20036

Pamela Szymczak
Federal Communications Commission
2000 L Street, N.W., Suite 257
Washington, D.C. 20036

Whiting Thayer
Federal Communications Commission
2000 L Street, N.W., Suite 812
Washington, D.C. 20036

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

Alex Belinfante
Federal Communications Commission
1919 M Street, N.W.
Washington, D.C. 20554

Larry Povich
Federal Communications Commission
1919 M Street, N.W.
Washington, D.C. 20554