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

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[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 debt[40]). 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

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[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.

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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.

C. Petheram

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