

parties in supporting elimination of the CCL⁴⁵ and increases in the EUCL.⁴⁶ Further, to mitigate the cross-subsidy impact of EUCL rates averaged over large geographical areas, any adjustment to EUCL rates should be made on a geographically deaveraged basis, using small geographic areas such as CBGs.

The *NPRM* (at ¶114) also suggests that an upper limit be placed on these new EUCL rates, and that common line costs in high cost areas not recovered by EUCLs should be offset by high cost funding. GTE suggests that an increase in the EUCL is indispensable to a practicable plan, and supports the plan of the United States Telephone Association ("USTA") (at 15) that would (i) deaverage EUCLs, and (ii) provide funding for the difference between a new, higher EUCL cap and the interstate common line cost in each small area. This USTA proposal is a workable way of applying a portion of the funding generated by a new Federal plan toward rate reductions in interstate common line rates.

However, GTE suggests the USTA proposals do not go far enough to represent the fundamental reform mandated by the '96 Act and required in the public interest. A new Federal plan should not focus entirely on a single interstate access rate element because the requirements of the '96 Act go well beyond ensuring that interstate EUCLs do not exceed a given level. Thus, new Federal support mechanism should not be tied exclusively to a single LEC rate element; nor should it be driven by the separations process.⁴⁷

GTE proposes that the Joint Board/FCC should establish a more general procedure to apply Federal universal service funding for ILECs toward offsetting reductions in rates that are generating implicit

⁴⁵ The CPUC says at 20 it recommends elimination of the CCL, which is "not explicit because it is embedded in [LEC] access rates." As the CCL is eliminated, perhaps through some transition period, the need for Long Term Support to equalize CCL rates for NECA pool companies will also be eliminated. *NPRM* at ¶115.

⁴⁶ Time Warner at 20; PCIA at 3; CompuServe at 6-7; MFS at 22.

⁴⁷ As discussed in GTE's comments at 12-14, GTE shares the concern stated in the *NPRM* at ¶30 that the current Part 36 separations process does not provide a sound basis on which to determine the size of the Federal support mechanism. *See also* Texas PUC at 9 (support mechanism based on jurisdictional separations process must be converted to a more explicit system); NCTA at 7 (Part 36 separation procedures to support a USF and use of DEM weighting should be phased out as quickly as possible); Illinois CC at 9 (encourages FCC to move away from separations mechanisms as a means to achieve high cost funding).

support today. These reductions should be made in interstate access rate elements, such as the CCL charge. GTE's proposal would therefore subsume the USTA proposal for common line charges. However, funding should also be used to reduce other interstate access elements that are providing implicit support today.⁴⁸ These could include the current transport interconnection charge and local switching rates. These reductions should be coordinated through an access reform proceeding. This process, which would replace support implicit in access rates with explicit support, is a far more reasonable way to deal with the level of access rates than simply setting them to an arbitrary level, such as TSLRIC, as some parties have suggested.

It is also reasonable that Federal funding should be applied toward offsetting reductions in intrastate rates for services that are providing implicit support today. The need for such funding is likely to be greatest in those twelve states that combine high costs and low intrastate funding bases, as shown in Appendix B to GTE's comments.⁴⁹ In such states, the funding provided to COLRs by the Federal fund is likely to exceed the amount that would be needed to eliminate implicit support from interstate rates. The Federal plan could establish certain guidelines for use of Federal funding for this purpose.

For example, the state could be required to have implemented its own explicit fund to support core service rates where costs exceed the lower of the two national rate guidelines discussed in GTE's comments. The guidelines could also ensure that Federal funds are used to reduce rates that are generating implicit support today, such as state access and toll rates.⁵⁰ Where Federal funds are used to

⁴⁸ A component of existing ILEC prices that must also be recovered on an explicit basis is the cost caused by past regulatory intervention in depreciation practices. ILECs must be permitted to recover the costs of their embedded networks that were constructed in good faith with the expectation of eventual recovery. This program should be separate from any ongoing support for COLRs.

⁴⁹ The South Dakota Public Utilities Commission says at 2: "Expansion of the [EUCL], or alternatively, full rate recognition of customer-assignable and customer-specific non-traffic sensitive costs will increase explicit subsidies necessary to assure universal service, comparable service, and comparable rates. This truth is more critical in a rural and relatively low-income state such as South Dakota."

⁵⁰ Specific reductions should be proposed by the ILEC and accepted by each state. Rate design issues will vary widely across the states.

offset state rates, a corresponding adjustment should be made in the separations process, as is done under the current USF plan.

Accordingly: GTE urges the Joint Board/FCC to give careful consideration to the GTE plan, which would carry out the intent of the '96 Act as well as long-established FCC policy in a practical and efficient way, avoiding the endless morass of argument and counter-argument by challenging all participants to act in accordance with their economic interests.

V. SUPPORT SHOULD BE BASED ON THE RATES SUBSCRIBERS PAY FOR THE "CORE" SERVICE.

Today, as many parties recognize, most universal service support is generated implicitly through ILEC rates for other services. This form of support is neither sustainable, nor neutral, nor consistent with the '96 Act. The purpose of the new universal service mechanisms -- both state and Federal -- should be to replace these implicit flows with explicit funding. The result of this process should be that the sum of the required core service rate and the COLR support reasonably approximates the market rate, so that local service customers are neither artificially attractive nor unattractive to prospective suppliers.

The relevant rate for the purpose of this comparison should include only those elements the subscriber pays as a direct result of the decision to subscribe. These are the local rate, the interstate EUCL, and any non-optional state surcharges. Some parties, however, have proposed that other revenues should be included in the support calculation. Ad Hoc (at 17), for example, argues that CCL revenue should be considered, since it is "directly tied to the purchase of the customer's dial-tone line."⁵¹ This is incorrect. The customer's decision to subscribe does not, in itself, generate any CCL revenue. Access revenue is generated by another customer decision, namely, to make an interstate call. As the Commission is well aware, the distribution of such calling across customers is highly skewed. For GTE nationwide, only 6% of end user locations generated 48% of switched access. A support calculation which includes CCL revenue as an "offset" will estimate support that is too low for low usage customers, so that

⁵¹ See also NCTA at 13, that suggests that state toll revenues, as well as access, should be considered.

they will remain unattractive for carriers to serve. At the same time, such an approach would continue to rely on customers with high access usage to generate support, making them artificially attractive to carriers.

In summary: The Joint Board/FCC should reject proposals that would include revenues from services other than "core" service because they would merely perpetuate the current system of implicit support.

VI. THE IMPORTANCE OF TELECOMMUNICATIONS TO EDUCATIONAL AND RURAL HEALTH CARE ENTITIES IS WELL DOCUMENTED, AND THE JOINT BOARD/FCC PLAN MUST REASONABLY PROVIDE FOR DISCOUNTED TELECOMMUNICATIONS.

Congress' mandate ('96 Act at §254(h)) that price assistance for telecommunications services be provided to educational and rural health care entities is enthusiastically supported by numerous educational entities and health industry filings. These filings document the importance of telecommunications to the work performed by those entities, and the many benefits that can accrue from the combination of telecommunications with educational and health care service applications. Incumbent LECs have for many years assisted in providing for the telecommunications needs of educational and health care organizations, and will continue to do so.⁵²

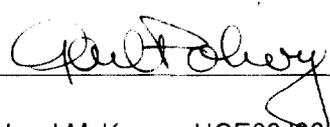
To meet the mandate of the '96 Act, the Joint Board/FCC must determine the extent of price support to be provided to qualifying entities from a new national fund. While GTE and many parties recognized that other complementary items are needed to enable distance learning and Telemedicine service applications, §254(h) limits support from the universal service funding mechanism only to telecommunications services. For this reason, the Joint Board/FCC plan should encompass the process proposed by GTE (at 18-21) that would: (i) determine the objective to be reached and the associated total amount of funding to be supplied; (ii) establish a process that allows for consistent and efficient administration; and (iii) link the availability of telecommunications discounts for a requesting entity to the

⁵² See USTA at Attachment One.

existence of a complete plan that includes funding commitments for all other needed complementary items.⁵³

Respectfully submitted,

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⁵³ GTE proposed that the "laboratory model," as identified in the *KickStart Initiative, Connecting America's Communities to the Information Superhighway*, be used as the starting point. This model would provide every qualifying educational entity with connectivity to the Information Superhighway, yet not be overly burdensome on contributors. See GTE's comments at n.33 and Appendix D. The laboratory model would provide an equal initial level of connectivity. After completion of this initiative, further functionality could be added as found necessary and as funding permitted. See also USTA at 8-10.

Certificate of Service

I, Ann D. Berkowitz, hereby certify that copies of the foregoing "GTE's Reply Comments" have been mailed by first class United States mail, postage prepaid, on May 7, 1996 to all parties of record and the Federal-State Joint Board.

A handwritten signature in black ink, appearing to read "Ann D. Berkowitz", written over a horizontal line.

Ann D. Berkowitz