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May 8, 1996

Mr. William F. Caton
Acting Secretary
Federal Communications Commission
1919 M Street, NW
Room 222
Washington, DC 20554

DOCKET FILE COPY ORIGINAL

Re: Erratum Letter
In the Matter of Federal-State Joint Board
on Universal Service, CC Docket No. 96-45

Dear Mr. Caton:

The service list for Ameritech's Reply Comments filed yesterday in the above-referenced docket inadvertently omitted the members of the Joint Board. Copies of Ameritech's Reply Comments will be mailed to those members today.

Sincerely,

/s/ Michael J. Karson

Michael J. Karson

cc: Federal/State Joint Board
All parties of record

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

In the Matter of)

Federal-State Joint Board on)
Universal Service)

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CC Docket No. 96-45

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AMERITECH'S REPLY COMMENTS

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May 7, 1996

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AMERITECH'S REPLY COMMENTS

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Ameritech respectfully offers the following reply to the initial comments filed on the Notice of Proposed Rulemaking ("NPRM") released in this docket on March 8, 1996. In the NPRM, the Commission solicits views on a variety of proposals to implement the universal service directives of the Telecommunications Act of 1996 (sometimes referred to hereinafter as the "Act").¹ The Commission also established a Federal-State Joint Board to make recommendations with respect to the issues raised in the NPRM.

¹ Telecommunications Act of 1996, Pub. L. No. 104-104, 110 Stat. 56 (to be codified at 47 U.S.C. secs. 151 et seq.). Citation in these Reply Comments will be made to the Act unless otherwise indicated.

INTRODUCTION AND GENERAL SUMMARY

Although the 200+ parties filing initial comments on the NPRM ask the Commission to adopt many different (and very often conflicting) rules in this docket, there does seem to be at least one point on which there is general consensus: the Telecommunications Act of 1996 requires the Commission to radically change its traditional approach to promoting universal service. This requires, according to some filing comments, that the Commission greatly expand the type of telecommunications services which receive universal service support, including, for example, high-capacity digital services. Others would make universal service funds available to support non-telecommunications services, such as computers or inside wire. Those carriers which have historically provided most of the financial support for universal service ask the Commission to adopt rules to ensure that all telecommunications service providers carry their fair share of the burden and contribute to universal service support on a competitively neutral basis as required by the Act. Other carriers currently benefiting from the implicit subsidies, designed and promoted in the name of universal service, ask the Commission to continue those subsidies (or even expand them), as long as it is not at their expense. Ameritech believes the best way for the Commission to sort out the conflicting views in the voluminous comments filed in this docket is to focus on the plain language of the Act and adopt rules which carry out the will of Congress as reflected in that language -- no more and no less.

As it discharges that Congressional mandate, the Commission must embrace an approach to universal service that is sustainable over the long-term in a competitive telecommunications environment. After all, the goal of a competitive marketplace for telecommunications is the cornerstone of the Telecommunications Act of 1996. Rules to promote universal service will constitute a government intervention that, by definition, will have certain economic effects on this marketplace.² Likewise, the dynamics of a competitive telecommunications marketplace invariably will affect the Commission's efforts to promote universal service. If that interplay is not properly balanced, it will be exceedingly difficult to sustain either robust competition or universal service.

In order for universal service to be sustainable in a competitive telecommunications marketplace, two things -- at a minimum -- must occur. First, implicit subsidies must be eliminated and rates (especially for local exchange service) must be rebalanced to reflect the actual cost of providing service. If this rebalancing makes "core" services unaffordable for some customers, then those customers should be eligible for targeted, explicit subsidies which are supported by all telecommunications service providers. That will help ensure universal service. The Joint Board, the Commission and the industry simply cannot afford to miss the opportunity this docket presents to address the serious issues associated with the current system of

² Citizens for a Sound Economy Foundation at 14.

implicit subsidies which historically have supported universal service but are no longer sustainable.

There are serious universal service implications also associated with the implicit subsidies reflected in the residence/business rate differential. The standards in the Act for wholesale/resale pricing and the rules for network elements may create arbitrage opportunities which undermine the sustainability of these kinds of implicit subsidies. If a carrier can purchase a business loop at a substantial discount to a business line, then the ability to sustain differential business line rates is in doubt.³ In addition, many lines are priced below cost, but nevertheless may be required for resale. Stimulating demand for services priced below cost will subsidize competitors, but will not promote universal service. The universal service goals in the Act can be achieved only by providing the tools for all carriers to compete fairly, including the rational pricing of services. Local exchange carriers simply must have the pricing flexibility to rebalance rates to eliminate these implicit subsidies and price their services to reflect the underlying costs.

Second, all carriers receiving universal service support for the benefit of their customers must bear the same obligations for which the support was intended. Given that many of those obligations currently apply only to incumbent local exchange carriers, this means that new entrants must bear the same obligations as the incumbent providers in order to be eligible for

³ With cellular service, for instance, these distinctions have generally been eliminated as uneconomic.

universal service support. Thus, for example, if the new entrant does not have carrier of last resort obligations,⁴ or limits on exiting the market in high-cost areas, then it should not be eligible for universal service support. Unless there is a proper matching between obligations and compensation for such obligations, and thereby symmetry in effect among telecommunications providers in the marketplace, competition between the incumbent and new carrier cannot be sustained over the long term and that ultimately will undermine the Commission's universal service goals and pro-competition policies.

II.

IMPLICIT SUBSIDIES MUST BE ELIMINATED AND RATES MUST BE REBALANCED TO REFLECT THE ACTUAL COST OF PROVIDING SERVICE.

Many agreed with Ameritech's conclusion⁵ that implicit subsidies must be eliminated and rates must be rebalanced to reflect the actual cost of providing service.⁶ Some, for example, state that the current system of support flows must be replaced by explicit and targeted subsidy systems at the state and federal levels.⁷ Others note that subsidies are inefficient, unfair and can actually harm competition.⁸ One party is more blunt: "a universal service

⁴ For example, the obligation to serve any customer in the territory for which the carrier is certified.

⁵ Ameritech at 3-4; 11-12; 21-22.

⁶ E.g. Airtouch at 10; Western Wireless at 11; Sprint at 17; LTS at 6, 7, 14; Information Technology Industry Council at 10; Winstar at 11; Bell Atlantic at 13; LCI at 4.

⁷ MCI at 6.

⁸ TCI at 3. See also Airtouch at 5, 8-9; Wash. Util. and Trans. Comm. at 3; Idaho Public Util. Comm. at 3; Frontier at 3; TELECOM at 5.

policy built on the practice of overcharging some customers to help others will quickly collapse"⁹

Of the few parties who filed contrary views, most do not really take issue with the need to eliminate implicit subsidies; instead, they simply argue that implicit subsidies do not exist.¹⁰ These parties are in denial. The existence of substantial implicit subsidies has been well documented; in fact, the total amount of the implicit subsidy problem has been estimated to range from \$3.9¹¹ billion to \$20 billion.¹² This problem can be ignored no longer.

Dial equipment minutes ("DEM") weighting constitutes one of the more egregious examples of this implicit subsidy problem and one that must be corrected immediately by eliminating DEM weighting altogether. Many commenters agreed with Ameritech on this point.¹³ Those that continue to support DEM weighting¹⁴ do not dispute that it constitutes an implicit subsidy. Instead, they argue that DEM weighting should be continued because it has positive financial impacts on their business operations and helps keep their rates low. This is hardly an adequate reason for maintaining DEM weighting, particularly given the fact that DEM weighting generates the very

⁹ Citizens for a Sound Economy Foundation at 2-3.

¹⁰ See AARP at 20; Texas Office of Public Util. Council at 14.

¹¹ Hatfield Associates, The Cost of Basic Universal Service, July 1994.

¹² Monson and Rohlf, The \$20 Billion Impact of Local Competition in Telecommunications, July 1993.

¹³ E.g. MCI at 13; NCTA at 7; New York DPS at 7; TRA at 11; LTS at 8; Wisconsin PSC at 9 (leaving open to possibility of a phase-out).

¹⁴ E.g. NECA at 7; Oregon/Washington Tel. Assn. at 9; Century at 12; RTC at 15; Small Western LECs at 10; TELEC at 8.

kind of implicit subsidy disfavored in the Act.¹⁵ Competition requires that rates be rebalanced to properly reflect underlying costs. If that puts the price of "core" services beyond the financial reach of some customers, those customer should receive targeted, explicit support. But continuation of the implicit subsidy occasioned by DEM weighting is not tenable in a competitive environment and is contrary to Congress' intent that any subsidies be explicit.

In addition, the Commission must eliminate the implicit subsidies associated with those portions of the carrier common line ("CCL") charge which recoup (a) long-term support and (b) interstate loop costs in excess of the subscriber line charge ("SLC").¹⁶ Those implicit subsidies do not comport with economic efficiency or the specific mandates of the Act. Many parties filing initial comments agreed.¹⁷

However, some parties argue that the CCL charge does not represent a subsidy.¹⁸ Others say that not all of the CCL charge represents a subsidy and if eliminated in its entirety, then IXCs would get "free" use of the loop.¹⁹ Some

¹⁵ Section 254(e) ("Any such [universal service] support should be explicit ...").

¹⁶ AT&T's demand that the Commission overhaul the entire cost basis for access charges is clearly beyond the scope of this proceeding. The NPRM in this proceeding focuses on universal service and, therefore, it is appropriate -- indeed, necessary -- for the Commission to address the subsidies in access charges associated with universal service, such as the CCL. Any other issue AT&T wishes to raise with respect to access charges in general should be assigned to another docket which the Commission may open in the future.

¹⁷ E.g. Citizens for a Sound Economy Foundation at 14; Information Technology Industry Council at 12; Compuserve at 6-7; Reed, Smith, Shaw & McClay at 9; MFS at 22; Frontier at fn. 23; Bell Atlantic at 3, 11; TRA at 13; LTS at 8; MCI at 6, 12; GVNW at 11; Interactive Services Assn. at 18; Time Warner at 19-20.

¹⁸ Bell Atlantic at 10; Florida PSC at 22.

¹⁹ AARP at 15-16.

suggest that an increase in the SLC charge might have a negative impact on subscribership.²⁰ Some just want to defer the entire problem altogether.²¹

Yet, the CCL charge is a mechanism that transfers costs associated with the local loop from the local ratepayer to the IXC's in order to keep local rates low. For that reason, the CCL charge constitutes a subsidy, and an implicit one at that. The Act says that subsidies, if any, should be explicit. Therefore, carriers should have the option to increase SLCs for appropriate classes of service²² and thereby encourage end users to directly bear the full costs of the local loop which they cause the local exchange carrier to incur.²³ There was no negative impact on subscribership when SLCs were first introduced and there will not necessarily be any such negative impact if SLCs are increased, particularly if accompanied by a corresponding decrease in long distance rates. To the extent an increase in SLCs puts the price of "core" services beyond the financial reach of some customers, they should receive targeted, explicit support.

²⁰ Washington Utilities and Transportation Commission at 20.

²¹ Missouri PSC at 2, 20-21.

²² Local exchange carriers should be able to increase SLCs in those areas where they are not recovering the full cost of the loop from basic local service rates. In those areas where the full cost of the loop is being recovered in basic local rates, the SLC should not be increased automatically.

²³ Local exchange carriers incur costs in providing the local loop and are entitled to recover those costs regardless of how the loop is used, including use by resellers. Therefore, the price of the loop must reflect the underlying costs.

III.

ALL TELECOMMUNICATION PROVIDERS MUST CONTRIBUTE TO
UNIVERSAL SERVICE, BUT MAY RECEIVE UNIVERSAL SERVICE
SUPPORT ONLY IF THEY BEAR THE SAME OBLIGATIONS AS THE
INCUMBENT LOCAL EXCHANGE CARRIER.

In its initial comments, Ameritech said that universal service support (a) should be funded, if not by general tax revenues, then by all telecommunications service providers, (b) should be based on a uniform percentage surcharge applied to net retail revenues with a pass-through to customers permitted in order to maintain competitive neutrality and (c) should be administered by a neutral third party that is not part of the government.²⁴

Numerous parties agreed that all providers of telecommunications services should support universal service.²⁵ The few taking a different view obviously are trying to carve out an exception that would serve their commercial self-interest without regard for the public interest or the Act. For example, MFS asserts that only common carriers with more than 1% market share should be required to support universal service.²⁶ Others say that CMRS providers should be exempt at this time.²⁷ However, one of the

²⁴ Ameritech at 22-24.

²⁵ E.g. Texas Dept. of Info. Res. at 1; Citizens for a Sound Economy at 16; NYDPS at 10; Wyoming PSC at 3; PacTel at 21; NCTA at 23-24; MCI at 12; Alliance for Distance Education in Calif. at 2; CWA at 10; Oregon PSC at 7-8; Va. Rural Telcos at 6; PTI at 3; TELECOM at 17.

²⁶ MFS at 23.

²⁷ Reed, Smith, Shaw & McClay at 5, 8-10; Vanguard at 3; but see PCIA at 6 (CMRS providers should only support federal USF); CTIA at 1-2 (federal only); Western Wireless at 5; Airtouch at 3-4.

principles underlying the Act specifically provides that “[all] providers of telecommunications services should make an equitable and nondiscriminatory contribution” to support universal service.²⁸ More specifically, the Act provides that “[e]very telecommunications carrier that provides interstate telecommunications services shall contribute, on an equitable and nondiscriminatory basis, to [universal service support].”²⁹ Likewise, on the intrastate side, the Act specifically provides that “[e]very telecommunications carrier that provides intrastate telecommunications services shall contribute, on an equitable and nondiscriminatory basis ... [to universal service support].”³⁰ In other words, the Act specifically provides that all telecommunications service providers must contribute to universal service support.³¹ That should be the requirement in the Commission’s rule.

Ameritech believes that universal service support should be based on a uniform percentage surcharge applied to net retail revenues because, next to direct support through general tax revenues, that represents the broadest, most nondiscriminatory base. Many agree.³² Support based on gross revenue³³ would result in multiple assessment where, for example, access charge revenue is assessed when received by the local exchange carrier and then assessed again when recovered by the IXC from the charge billed to the

²⁸ Section 254(b)(4).

²⁹ Section 254(d).

³⁰ Section 254(f).

³¹ Given this plain language, those claiming an exemption bear an especially heavy burden of proof. See *Metricom* at 3 (exempt unlicensed Part 15 providers); *Mobile Media* (exempt paging); *Comsat* at 1-3 (exempt Comsat).

³² E.g. *Western Wireless* at 5, 11-13; NYDPS; Maine Public Service Commission at 20; LTS at 18; MCI at 12; see also *Time Warner* at 21; *Sprint* at 17.

³³ 360 at 2, 9; Wisc. PSC at 19.

end user. That would not be equitable. An assessment based on the number of presubscribed lines³⁴ would be discriminatory and not competitively neutral because it would not reach certain carriers at all, such as resellers. An assessment based on minutes of use³⁵ would be discriminatory because not all minutes are priced on the same basis.

As for disbursing universal service support, Ameritech said in its initial comments that all carriers that bear the same regulatory obligations, for which the support is compensation, should be eligible.³⁶ The first part of this position (i.e. "all carriers") was supported by several other parties filing comments.³⁷ The second part of Ameritech's position (i.e. all carriers "that bear the same regulatory obligations") also received support,³⁸ although many commenting parties did not focus specifically on this caveat thereby, perhaps, leaving some element of doubt.

There can be no doubt on this vitally important point. Portability of support among providers, as espoused by some parties, would permit them to receive compensation without fulfilling the obligations for which the support was intended. This is a problem particularly for support intended for high-cost areas, where incumbent providers still have the obligation to serve the

³⁴ Bell Atlantic at 3.

³⁵ Frontier at 10.

³⁶ There is absolutely no reason why carriers operating under price regulation should be ineligible for universal service support.

³⁷ Winstar at 2, 7; PacTel at 13-14; NCTA at 3; TCI at 14; MCI at 8-9; but see Texas Department of Information Resources at 2 (exempt PCS providers in rural areas); Frontier at 9 (only the winning bidder in high-cost areas should be eligible).

³⁸ E.g. Citizens for a Sound Economy Foundation at 13 (there should be "a nondiscriminatory approach to choosing eligible providers ...").

entire high-cost area, together with exit barriers. Unless all carriers receiving support bear the same obligations, there will be asymmetry in the effect of regulation and a governmentally created competitive advantage to the providers with lesser obligations. Such asymmetry between the incumbent carrier and new carriers cannot be sustained over the long term and that ultimately will undermine the Commission's universal service goals and pro-competition policies.

Besides being good public policy, regulatory symmetry as a precondition for eligibility to universal service funds is expressly required, in large measure, by new Section 214(e).³⁹ That section imposes various service related obligations as preconditions for receiving universal service support, including standard common carrier obligations.⁴⁰ Thus, if the Commission wants to adopt universal service rules which are in conformance with the Act and sustainable in the future, the Commission should require regulatory symmetry as a precondition to receiving universal service support.

³⁹ Section 102 of the Act.

⁴⁰ 47 U.S.C. 214(e)(1) ("A common carrier designated as an eligible telecommunications carrier under paragraph (2) or (3) shall be eligible to receive universal service support ...").

IV.

THE COMMISSION SHOULD LIMIT UNIVERSAL SERVICE SUPPORT TO THE "CORE" SERVICES PROPOSED IN THE NPRM.

Ameritech agrees with the Commission's tentative conclusion that universal service support should be provided to the following set of "core" services: single party, voice-grade basic telephone service, touch-tone, access to emergency service (911 and E-911) and access to operator services. Many others agree, as well.⁴¹

A few parties say that the Commission's proposal does not go far enough. Some of these parties argue that the Commission should include not simply "core" services, but also usage (including flat rate pricing)⁴² with expanded local exchange areas. Some say that more advanced telecommunications services, including DS-1 and ISDN service,⁴³ and non-telecommunications services, such as computers and inside wire, should receive universal service support. Others say that various miscellaneous services should be supported, including toll restrictions and toll free Internet access. A few parties, incredibly enough, go so far as to say that businesses should be eligible for universal service support.⁴⁴

⁴¹ E.g. Ad Hoc Telecommunications Users Committee at 4; ACTA at 5; MFS at 16; Frontier at 2; Sprint at 6; ICORE at 7; U.S. Small Business Assn. at 6; Virginia Rural Telcos at 3; TELEC at 4.

⁴² AARP at 9;

⁴³ Alaska PSC at 2, 4; MCI at 16; Small Western LECs at 13; Century at 8.

⁴⁴ SWB at 8, fn. 19; Penn. Rural Development Council at 5; National Association of Development Organizations at 8; GVNW at 9; U.S. Small Business at 8; RTC at 8.

Ameritech believes that the Commission should rely on the language of the Act and adopt the definition of "core" services it proposed in the NPRM. Those are the telecommunications services which meet the criteria set out in the Act.⁴⁵

Moreover, only "telecommunications services" are eligible for universal service support.⁴⁶ That term is defined in the Act by reference to the term "telecommunications" which means "the transmission" of end-user information.⁴⁷ Equipment, such as computers and inside wire, and information services do not fall within this definition. The "core" services proposed in the NPRM, which will receive universal service support, will provide access to a variety of advanced services, including access to the Internet. The Commission should rely on the marketplace to promote the availability of advanced and information services, and to provide telecommunications equipment.⁴⁸

As for businesses being made eligible for universal service support, that would be contrary to the language of the Act which speaks of universal

⁴⁵ Section 254(c). Arguments to the contrary notwithstanding (Kinko's Inc. at 7; Florida PSC at 4), use of the conjunction "and" in Section 254(c)(1)(C) means that the Commission must consider all four factors when deciding which telecommunications services should receive universal service support. Moreover, as a matter of logic, it is difficult to see how a particular service could be "essential to education, public health, or public safety" (Section 254(c)(1)(A)) without being "subscribed to by a substantial majority of residential customers." Section 254(c)(1)(B).

⁴⁶ Section 254(c)(1).

⁴⁷ 47 U.S.C. Sections 153(46) and (43).

⁴⁸ Accord Information Industry Technology Council at 7-8; U.S. Distance Learning Assn. at 6-7; Continental at 4; NARUC at 10; Sprint at 7-8; LCI at 3; MCI at 22; Ad Hoc Telecommunications Users Committee at 4; Apple Computer at 8.

service support in the context of residential subscribers.⁴⁹ Businesses are for-profit entities. As such, they must regard the cost of telecommunications as a cost of doing business. That particular cost may be relatively higher in high-cost, rural areas than it is in lower-cost, urban areas. Other costs of doing business, e.g. taxes, may be lower in rural areas. But the idea that a rural ski resort should be eligible for a telephone subsidy is completely contrary to the public interest reasons which underlie the universal service provisions of the Act. Indeed, business rates historically have supported residential rates and therefore must be rebalanced as part of the larger effort to eliminate implicit subsidies which are not favored in the Act. Subsidizing business rates would be a move in the wrong direction.

V.

**UNIVERSAL SERVICE SUPPORT FOR "CORE" SERVICES
IN HIGH COST AREAS SHOULD BE BASED ON A
BENCHMARK AFFORDABILITY MECHANISM.**

In its initial comments, Ameritech argued that the Commission should adopt a minimum rate -- an affordability benchmark rate -- which costs must exceed in order for a provider to be eligible for high-cost assistance.⁵⁰ Under this approach, an eligible local exchange carrier⁵¹ would get universal service support, when its costs for "core" services exceed the

⁴⁹ Section 254(c)(1)(B)(when defining the services supported by universal service funds, requires the Commission to consider whether the service has "been subscribed to by a substantial majority of residential customers")(emphasis added).

⁵⁰ The benchmark rate could be based on various measures, such as statewide average rates, costs for "core" services, or a specified percentage of statewide median income.

⁵¹ As noted earlier in this reply, a carrier should be eligible if, and only if, it has the same regulatory obligations as the incumbent local exchange provider.

affordability benchmark rate, and the amount of the support would be the difference between: (a) the benchmark rate and the carrier's actual cost for "core" services, or (b) its actual rate and its actual cost for "core" service, whichever is less. This basic approach received considerable support from others filing comments, although many parties offered their own particular nuance on how the benchmark rate should be established.⁵²

Various other parties continue to advocate a proxy model as the preferred mechanism for providing universal service support in high-cost areas.⁵³ Some, for example, say that a model will replicate economic costs but will not be expensive or time-consuming to produce. It is on the basis of that hope and promise that Ameritech believes the public record may ultimately support the use of a benchmark costing model for establishing those economic costs – but that factual showing has not yet been made. Most other parties filing comments agree.⁵⁴ In the meantime, Ameritech believes that it is not unreasonable to require a carrier asking for a subsidy to justify that request by producing a cost study that can receive public scrutiny, even though that may require the carrier to incur some expense. If the affordability benchmark rate Ameritech advocates is set sufficiently high enough, support is based on actual wire center costs (the basis on which costs are incurred), and

⁵² Citizens for a Sound Economy Foundation at 8, fn. 14 (subsidized high-cost rates should not be lower than the rates charged to those who provide the subsidy support); Winstar at 6 (same); Bell Atlantic at 6; Florida PSC at 8 (establish a benchmark rate); Frontier at 6-7 (benchmark rate based on 75% of neighboring large LEC); Sprint at 9; Citizens Utility at 10 (benchmark rate at 1 standard deviation above national average); Ad Hoc Telecommunications Users Committee at 18-20.

⁵³ NCTA at 8-10; Time Warner at 9.

⁵⁴ Citizens for a Sound Economy Foundation at 11; Winstar at 9; Indiana PUC at 8; Wisconsin PSC; Michigan PSC; Alaska PSC; NYDPS at 6; Maine PSC at 5, 9;

the requesting carrier's administrative costs are capped at the national or statewide average, then no subsidy will be provided for the carrier's revenue shortfall which is attributable to an unreasonably low rate for "core" services, and no subsidy will be provided when "core" rates are compensatory. That result, in Ameritech's view, represents a reasonable balance until the factual merits of a proxy model are scrutinized by the Commission and proven on the public record.

VI.

UNIVERSAL SERVICE SUPPORT FOR "CORE" SERVICES FOR LOW-INCOME CUSTOMERS SHOULD BE SPECIFICALLY TARGETED TO ASSIST ONLY THOSE WHO NEED A SUBSIDY TO OBTAIN REASONABLE ACCESS TO "CORE" SERVICES.

Ameritech believes that universal service subsidies for "core" services should be specifically targeted for the benefit of⁵⁵ only those customers who in fact need assistance to obtain those "core" services. This way, assistance for low income customers can work in tandem with the affordability benchmark rate for high-cost areas discussed earlier; the higher benchmark rate provides an incentive for carriers to be efficient, while targeted assistance for those truly in need helps to ensure that universal "core" service is reasonably available to low income customers. Thus, the Commission should continue the current Link Up and Lifeline assistance programs, and should continue to study why people eligible for those programs do not subscribe so that it can properly evaluate its efforts to promote subscribership. But, the most

⁵⁵ This means that the subsidy can be paid to the provider, but must be for the benefit of the customer.

reasonable action the Commission can take now to ensure that subscribers have reasonable access to "core" services is to ensure that assistance is specifically targeted to those in need. Numerous parties agree.⁵⁶

VII.

EDUCATIONAL PROVIDERS AND LIBRARIES SHOULD BE ELIGIBLE UNDER SECTION 254 OF THE ACT TO DISCOUNTS ON THEIR "CORE" SERVICES, BUT NOTHING MORE.

In its initial comments, Ameritech recommended that market demand, rather than regulation, should drive service parameters for schools and libraries. Ameritech outlined a bona fide request process that could be used for this purpose and suggested that a discount could be provided to satisfy the requirements of Section 254(h)(1)(B).⁵⁷ Many other parties agreed with this basic approach.

Some parties argue that the Commission should adopt rules which include a wide variety of additional, more advanced services in the definition of "core" services which would receive universal service support if provided to schools and libraries.⁵⁸ Some others argue that the Commission should adopt rules which specify which telecommunications services must be provided at a discount.⁵⁹ Still others argue that the Commission should

⁵⁶ Citizens for a Sound Economy Foundation at 6-7; Airtouch at 11-12; MFS at 13; Frontier at 5; LTS at 3, 13, and 14.

⁵⁷ The discount must be the same for interstate and intrastate services in order to prevent arbitrage.

⁵⁸ National School Boards Assn. et al. at 13.

⁵⁹ North of Boston Library Exchange, Inc. at 1.

adopt rules for the provision of universal service support for non-telecommunications services, such as computers and inside wire, for schools and libraries.⁶⁰ None of this is necessary.

Instead of adopting a one-size-fits-all set of rules, the Commission simply should establish the bona fide request process discussed in Ameritech's initial comments and let customers and providers decide in the marketplace which telecommunications services should be provided to a particular school or library for educational purposes. This way, each eligible educational institution can gain reasonable access to the mix of telecommunications services which is best suited to its individual needs and budget.⁶¹

What is not needed at this time are additional federal mandates with respect to which specific services and technologies must be deployed in schools and libraries across the nation. In fact, bold initiatives are already underway in various states to bring telecommunications services and technology into educational institutions in the various states -- including Ameritech's five state midwest region.⁶² In addition, Ameritech recently announced a partnership with the Library of Congress to establish a \$2 million grant program through which selected libraries across the United

⁶⁰ See text accompanying footnotes 46-48 *supra*.

⁶¹ There are some budgetary considerations, however, which cannot be accommodated. For example, and notwithstanding the arguments to the contrary (e.g. National School Boards Assn. *et al.* at 24), a school charging lab fees or user fees to defray expenses would violate the resale prohibitions in the Act. Section 254(h)(3)

⁶² See Attachment A.

States can digitize their unique American collections for incorporation into the Library of Congress' National Digital Library program.⁶³ Programs of this type have been established without federal prodding. The Commission should at least give these kinds of initiatives a chance to succeed before considering any additional regulatory rules in this area. If additional measures prove necessary, particularly with respect to investment in telecommunications infrastructure, the Commission should consider the matter as part of its mandate under Section 706 of the Act to promote the deployment of advanced telecommunications capabilities to all Americans, including in particular elementary and secondary schools and classrooms.

VIII.

THE URBAN/RURAL RATE DIFFERENTIAL FOR RURAL HEALTH CARE PROVIDERS SHOULD BE DETERMINED IN REFERENCE TO THE CLOSEST URBAN AREA.

There was not a lot of discussion in the initial comments about the provisions in the Act with respect to telecommunications services for health care providers. One issue that did receive some attention has to do with how to identify the urban rates with which the rates for rural health care providers must be comparable. Some suggest that the rates should be a state-wide average of all urban rates. Others say that the Commission should use an average of the rates charged for the same service in the two urban areas

⁶³ See Attachment B.

closest to the rural health care provider's location. Ameritech continues to believe that the urban/rural rate differential for rural health care providers should be determined by comparing the rural rates to the rates charged in the closest urban area as defined by the U.S. Department of Commerce (Bureau of the Census).

IX.

UNIVERSAL SERVICE SUPPORT SHOULD BE ADMINISTERED ON A COMPETITIVELY NEUTRAL BASIS.

Ameritech believes that the universal service fund should be administered by a private, neutral party. Several parties agreed.⁶⁴

The contrary arguments of others are not persuasive. For example, those that opt for government administration⁶⁵ ignore the preference in the Act for private, market-based alternatives to government involvement. And those who presume that NECA should continue to administer the universal service fund simply because it has done so historically⁶⁶ ignore the legitimate concern of others who say that small company advocacy also has been a part of NECA's history and, therefore, NECA cannot reasonably be regarded as a neutral third party. Ameritech thinks the best way for the Commission to resolve this issue is to put the entire project out for competitive bid. That

⁶⁴ LTS at 18-19 (universal service funds should be disbursed by a neutral administrator with no ties to any carrier); LCI at 1, 6 (a non-affiliated, non-partisan entity should preside over the administration of universal service funds); ICA at 5; Information Technology Industry Council at 10; Winstar at 11; Airtouch at 11; NCTA at 25; Sprint at 23; TRA at 14; ACTA at 13.

⁶⁵ Georgia PSC at 3; Bell Atlantic at 6.

⁶⁶ NECA at 49; Farmers at 5; Ardmore at 5; Blountsville at 5.

way, the Commission can select a cost-efficient administrator which demonstrates in the bidding process that it not only is proficient in accounting and financial matters, but truly is a neutral third party as well.

X.

CONCLUSION

The Telecommunications Act of 1996 requires the Commission to take a radically new approach to promoting universal service, one that is sustainable in the nation's increasingly competitive telecommunications marketplace. Under this new approach, implicit subsidies which historically have been used to fund universal service must be eliminated and rates must be rebalanced to reflect the underlying costs of providing service. Then, the Commission can provide universal service support for "core" services and direct that support to those customers who actually need assistance to obtain those "core" services. That support must be funded by all service providers but the only providers that should be eligible to receive support should be those carriers that bear the same regulatory obligations for which the support was intended. If it crafts these rules so they work in harmony with the