RECEIVED

AUG 1 1996

FEDERAL COMMUNICATIONS COMMISSION
OFFICE OF SECRETARY

BEFORE THE

FEDERAL COMMUNICATIONS COMMISSION

WASHINGTON, D.C. 20554

DOCKET FILE COPY ORIGINAL

In the Matter of	
Federal-State Joint Board on Universal Service	CC Docket No. 96-45 [DA 96-1078]

Alaska Telephone Association

Response to Common Carrier Bureau Request for Comment on Specific Questions in Universal Service NPRM

The Alaska Telephone Association (ATA), a trade association representing 22 local exchange companies in the State of Alaska, respectfully submits these comments in the above referenced proceeding.

Although the Alaska Telephone Association recognizes the importance of all the questions put forth in this inquiry it has restricted its answers to a select few in order to demonstrate to the Bureau the significance of these issues to the telecommunications network in our state.

025

Summary

Penetration figures alone are not an accurate indicator of the affordability of telephone service, but certainly an increase in local rates would adversely impact penetration.

Non-rate factors are an integral part of the decision-making process to have telephone service. Those factors cannot be divorced from consideration when determining affordability and reasonable comparability of rates.

The disadvantage to Alaska of national benchmark rates in a proxy model is that there is absolutely no relevance to the variety of conditions, size and costs encountered in this state. An urban area would be a far more appropriate arena to test a national benchmark rate for a proxy model.

ATA supports the establishment of separate funding mechanisms to support for schools, libraries and rural health care providers and opposes the use of these funds to promote competition. Likewise, ATA opposes the concept of resale of these services supported by universal funds and notes that the Act clearly prohibits such practice

High cost support mechanisms should remain in place and funding for these mechanisms must be distributed among all carriers.

The definition of a rural company is contained in Section 3(a)(47) of the Act. High cost support should continue without modification other than being targeted to companies that meet the "rural" criteria.

Section 254 is explicit in limiting the use of universal service funds "only for the provision, maintenance, and upgrading of facilities and services for which the support is intended." The option to provide payments to a competitor based on book costs of an incumbent is not lawful.

Subscribership (penetration) is contingent upon on societal conditions as well as economic conditions and service offerings. A "low" subscribership level in an Alaskan community that practices a subsistence lifestyle has no correlation to the quality of service provided by the telco. Many Alaskans simply have no desire or need for private telephone service.

ATA opposes the adoption of a proxy model that might destroy an already successful universal service support system. The telecommunications environment in Alaska is fragile and subject to destruction through experimentation. Consideration of the use of proxy modeling should be restricted to areas with sufficient populations and economies of scale to withstand adjustments. That is not this state.

Definitions Issues

1. Is it appropriate to assume that current rates for services included within the definition of universal service are affordable, despite variations among companies and service areas?

One method to assess the affordability of current telephone rates is to review the penetration levels. National statistics tell us that in excess of 95% of American households have telephone service. Based on this information, one might assume that current rates are affordable, at least to 95% of the population.

However, national averages can be misleading. For example, in many Alaskan communities penetration levels fall well below the national level. These are in high cost areas which receive universal service fund support. Do we assume that the rates are too high in these areas and that additional support is needed? Not necessarily! There are rural communities where the extended family shares access to a telephone and the perception of need for a phone in every house is not prevalent.

The Alaska Telephone Association (ATA) is most concerned that Commission action may result in the reduction of current support levels to rural Alaska. Any reduction in support would mandate higher local rates and impact our ability to maintain current levels of penetration. Although rates is not the only factor influencing penetration levels, it is certainly a significant factor.

ATA believes that the affordability of rates for universal service must be defined within the context of state and local conditions. Many areas of the country have achieved their current penetration levels only with the help of high cost support mechanisms such as the USF and dial equipment minute

(DEM) weighting. In some areas, such as Alaska, those levels have not yet reached the national average. The final decision on affordability should take into consideration the wide range of conditions found in the United States.

2. To what extent should non-rate factors, such as subscribership level, telephone expenditures as a percentage of income, cost of living, or local calling area size be considered in determining the affordability and reasonable comparability of rates?

ATA understands that there are many reasons associated with the decision to have or not to have telephone service. The value and affordability of telephone service are not determined in the aggregate but rather by the individual circumstances of the customer and the service being offered. ATA believes that the non-rate factors described in question 2 are important and should be considered when determining the affordability and reasonable comparability of rates.

For example, local calling area size would be a significant non-rate factor in determining the relative value of local service in Alaska Many Alaskan local calling areas are very small (under 100 access lines) and the value of that service in comparison of local service in a calling area with 500,000 access lines is quite different.

ATA would agree that the Commission must give some consideration to non-rate factors, especially for small companies serving rural high cost areas. ATA supports the suggestion of a bifurcated system where conditions in the rural high cost areas would be evaluated and rules developed separate from those rules for large local exchange companies serving urban areas.

3. When making the "affordability" determination required by Section 254(I) of the Act, what are the advantages and disadvantages of using a specific national benchmark rate for core services in a proxy model?

ATA has in past comments and continues to advocate that any national average cannot be reflective of small companies and circumstances found in rural high cost areas. Alaska's small companies lack the economics of scale found in more urban areas. The cost to build and maintain facilities in the rural areas of Alaska as well as the size of calling areas and populations of the large regional Bell operating companies and GTE. ATA supports the suggestions and inquiry by some that it would be far more appropriate and prudent to assign a national benchmark rate for the proxy model to the price cap companies then further develop models which are specific to the circumstances found in rural high cost areas.

Schools, Libraries, Health Care Providers

6. Should the services or functionalities eligible for discount be specifically limited and identified, or should the discount apply to all available services?

Discounts should only apply to regulated telecommunications services and functionalities.

7. Does Section 254 (b) contemplate that inside wiring or other internal connections to classrooms may be eligible for universal service fund support of telecommunications services provided to schools and libraries? If so, what is the estimated cost of the inside wiring and other internal connections?

No. It is the ATA's belief that universal service support should only be provided for regulated telecommunications services and functionalities.

9. How can universal service support for schools, libraries, and health care providers be structured to promote competition?

The ATA does not agree that it is appropriate or necessary to use universal service support for schools, libraries and health care providers as a means to promote competition in the marketplace.

10. Should the resale prohibition in Section 254 (h)(3) be construed to prohibit the resale of services to the public for profit, and should it be construed so as to permit end user cost based fees for services? Would construction in this manner facilitate community networks and/or aggregation of purchasing power?

The language in this section is clear. The resale of these services to the public are prohibited. Telecommunications services and network capacity may not be resold or otherwise transferred for money or any other thing of value.

22. Should separate funding mechanisms be established for schools and libraries and for rural health care providers.

Yes. The ATA believes that health care providers, schools and libraries should be supported by a separate fund.

High Cost Fund

26. If the existing high-cost support mechanism remains in place (on either a permanent or temporary basis), what modifications, if any, are required to comply with the Telecommunications Act of 1996?

The existing High Cost Support payment mechanisms should remain in place and can be made to comply with the Act with minor modifications for high cost, rural LECs. With the exception of the two year time lag on collecting USF funds, the current universal service support mechanisms are predicable, specific, and sufficient to "preserve and advance universal service." The reporting requirements ensure that the funds distributed are used only "for the provision maintenance, and upgrading of facilities and services for which the support is intended." The current cost allocation and accounting safeguards prevent cross subsidies. As long as DEM weighting and the continued payment of rural LECs' revenue requirement stays in place, the current payment mechanisms comply with the Act. Funding for these support mechanisms will need to be changed to a surcharge on all telecommunications carriers in order to comply with the Act.

Rural LECs are generally net receivers from the NECA Common Line pool, and often receive DEM weighting. **If these are diminished, or are rolled into the High-cost fund without eliminating the 2-year lag, funding for rural LECs will no longer be sufficient to provide universal service,** and the payment mechanisms will not comply with the Act.

There is significant pressure to eliminate the CCL. However, the CCL helps pay for the high cost of service in rural areas through the NECA pool, and will need to be replaced with a surcharge on all telecommunications carriers in order to allow for adequate support to rural LECs. Simply, DEM

weighting will need to be funded by all telecommunications carriers to comply with the Act, but it cannot be diminished or delayed without jeopardizing universal service, and thereby violating the Act.

27. If the high-cost support system is kept in place for rural areas, how should it be modified to target the fund better and consistently with the Telecommunications Act of 1996?

31. If a bifurcated plan that would allow the use of book costs (instead of proxy costs) were used for rural companies, how should rural companies be defined?

The Act defines rural telephone companies in Sec 3. Definitions, (a)(47). It defines a rural telephone company as:

"a local exchange carrier operating entity to the extent that such entity–

(A) provides common carrier service to any local exchange study area that does not include either–

(i) any incorporated place of 10,000 inhabitants or more, or any part thereof, based on the most recently available population statistics of the Bureau of the Census; or

(ii) any territory incorporated or unincorporated, included in an urbanized area, as defined by the Bureau of the Census as of August 10, 1993.

(B) provides exchange service, including exchange access, to fewer than 50,000 access lines;

(C) provides telephone exchange service to any local exchange carrier study area with fewer than 100,000 access lines; or

(D) has less than 15 percent of its access lines in communities of more than 50,000 on the date of enactment of the Telecommunications Act of 1996."

If high-cost support is kept in place for companies meeting those criteria (with the stipulation that no

company shall receive high-cost support if it serves a study area that has more than 100,000 access lines as of the date of the Act), it will target the funds just to rural telcos, and be consistent with the Act.

28. What are the potential advantages and disadvantages of basing the payments to competitive carriers on the book costs of the incumbent local exchange carrier operating in the same service area?

32. If such a bifurcated approach is used, should those carriers initially allowed to use book costs eventually transition to a proxy system or a system of competitive bidding? If these companies are transitioned from book costs, how long should the transition be? What would be the basis for high-cost assistance to competitors under a bifurcated approach, both initially and during a transition period?

The Act required that states make a specific finding that it would be in the public interest to allow more than one eligible telecommunications carriers in areas served by rural telephone companies. It precluded states from attempting to advance universal service by burdening Federal universal support mechanisms (Sec. 254(f)). It further requires that support be sufficient to "preserve and advance universal service" (Sec 254(d)(e)(f)).

Authorization to pay multiple eligible carriers in rural areas will violate one or more of the provisions noted above.

Payments to competitive carriers based on incumbent book costs will violate Sec 254(e)'s provision that "such support shall be used only for the provision, maintenance, and upgrading of facilities and services for which the support is intended." Competitive carriers must comply with the same

accounting safeguards and reporting requirements as incumbent LECs, both to ensure compliance with Sec 254(e), and to maintain competitive neutrality. The relationship between support payments and historical cost must be maintained to comply with the Act. The requirement for cost allocation rules and accounting safeguards clearly demonstrates Congress's intent to use historical cost as a basis for determining universal service support. Proxy cost methods will not work for rural LECs and cannot be universally implemented without violating Sec. 254(e) of the Act.

33. If a proxy model is used, should carriers serving areas with subscription below a certain level continue to receive assistance at levels currently produced under the HCF and DEM weighting subsidies?

Regardless of the use of proxy models, subscription levels are dependent upon cultural and community factors other than cost and services. Many villages are more dependent upon seasonal availability of caribou, salmon, walrus or whales than on telecommunications technology. Many residents of rural Alaska would not subscribe if service were free. If the LECs meet their obligation to provide service meeting certain service and affordability standards, they should not be penalized for "low" subscribership.

Proxy Models

41. How should support be calculated for those areas (e.g., insular areas and Alaska) that are not included under the proxy model?

The existing system of support, as exemplified by penetration figures, successfully implements universal service policy. Particularly in insular and high cost areas the system is fragile so a proxy

model that awards less than full recovery of costs would devastate access to modern telecommunications. ATA opposes the adoption of any proxy model, but recommends that if such a system is tested, that test should not be conducted on companies serving rural areas.

ATA recommends that USF support continue to be determined using existing LEC actual costs and LEC study areas. The fund must provide each LEC with a recovery of its actual fully distributed cost including a reasonable profit. Without sufficient recovery, LECs will be forced to avoid investment in high cost areas. ATA would argue that any mechanism that provides the LECs with less than fully distributed cost would violate the intent of the Act. The Act requires that USF support be sufficient to maintain and promote universal service (Sec. 254(b)(5))

Respectfully submitted this 1st day of August 1996.

James Rowe
Executive Director
Alaska Telephone Association
4341 B Street, Suite 304
Anchorage, AK 99503
907/563-4000.