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

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In the Matter of  
  
Federal-State Joint Board  
on Universal Service

CC Docket No. 96-45

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FURTHER COMMENTS OF AT&T CORP.

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TABLE OF CONTENTS

	<u>Page</u>
SUMMARY .....	i
DEFINITIONS ISSUES .....	2
SCHOOLS, LIBRARIES, HEALTH CARE PROVIDERS .....	6
HIGH COST FUND .....	18
General Questions .....	23
Proxy Models .....	28
Competitive Bidding .....	36
Benchmark Cost Model (BCM) .....	40
Cost Proxy Model Proposed By Pacific Telesis .....	42
SLC/CCLC .....	43
LOW-INCOME CONSUMERS .....	46
ADMINISTRATION OF UNIVERSAL SERVICE SUPPORT .....	48
CONCLUSION .....	50

## SUMMARY

AT&T's responses demonstrate that to comply with Section 254 of the Telecommunications Act of 1996's requirement that all subsidies be "explicit," "equitable" and "nondiscriminatory," the Commission should establish a New Universal Service Fund (NUSF) that would be both funded and administered in a competitively neutral manner and would provide the subsidies necessary to support: (1) the core set of essential local exchange services for residential consumers in high cost areas, thus ensuring affordability and comparability of rates; (2) need-based Lifeline and Link-Up support for low-income consumers; and (3) special discounts on telecommunications services for qualifying schools, libraries and non-profit health care providers.

As shown in the "Definitions Issues" section, the core set of basic local exchange services for residential customers that would be eligible for universal service-related support should include, for now, voice grade dial tone, touch tone, residential single party service, access to emergency (911) and operator services, directory information (411), white pages directory listing, local usage in a limited calling area, equal access to long distance services, and ability to change service providers while retaining the same telephone number. The subsidy should be available for the primary line to a subscriber's principal residence, irrespective of the technology (wireline or wireless) employed. Low-income consumers would qualify for need-based support from the Lifeline and Link-Up programs, which would receive NUSF funding.

As shown in the section on Schools, Libraries and Health Care Providers, these qualifying institutions should be allowed to obtain telecommunications services at the "best commercial rate" based on the deepest volume discount level that is offered by the carrier for similar service to a commercial or residential user in the same geographic area (or the closest urban area within the state). In all cases, the service provider would be reimbursed from the NUSF for the difference between the "best commercial rate" paid by the qualifying institution and the rate the institution would have been charged absent the special discount. Support for enhanced services, hardware/software, wiring, on-site networking and training would not come from the NUSF, but rather from other public and private sources, including mechanisms available under Section 708 of the Act.

As shown in the High Cost Fund section, the NUSF that AT&T proposes promotes both the development of competition and the preservation of universal service, by replacing the existing system of subsidies paid by IXCs to incumbent LECs with a competitively neutral funding mechanism. In particular, the NUSF should be funded by a

surcharge on all retail telecommunications services revenues, both interstate and intrastate, which is a fair, simple and efficient recovery process. With the exception of subsidies flowing to small rural telephone companies, all subsidies must be "portable" and follow the customer, not the carrier, to comply with the Act's nondiscrimination requirement and to provide maximum incentive and opportunity for new local entry.

A national affordable benchmark rate (to be established by the Joint Board), based on the weighted average current local rate for consumers in all areas served by non-rural LECs (*i.e.*, those LECs not entitled to exemption from interconnection under Section 251(f)(1) of the Act) including the \$3.50 subscriber line charge, should be used in conjunction with the total service long-run incremental cost (TSLRIC) of providing the core service (as determined by the appropriate cost estimate utilizing a tool such as the Hatfield Model) to determine the actual NUSF subsidy for carriers providing the core set of residential local exchange services in high cost areas. The NUSF would provide a subsidy for the difference between the TSLRIC of this core set of local services and the national affordable benchmark rate or the current basic local service rate, whichever is higher. If a current local service rate is lower than the national affordable benchmark rate, the state commission has the option of either raising the local rate to the national affordable rate or creating a supplemental state universal service fund to be funded by state services.

As shown in the responses to Questions 28, 40 and the preamble to the Proxy Model section, it is critical that the Joint Board and the Commission adopt a forward-looking economic standard such as TSLRIC in developing the benchmark for determining whether universal service support is necessary for local service rates, and if so, for establishing the subsidy level. As the Commission has noted, economists agree that a long-run incremental cost standard gives appropriate signals to producers and consumers and ensures efficient entry and utilization of the telecommunications infrastructure. By contrast, using historical costs would permit LECs to obtain universal service subsidies for local exchange facilities that are obsolete, redundant or even unnecessary, and would allow the LECs to thwart entry by more efficient providers. Only by using the TSLRIC standard can the Commission ensure that all implicit subsidies have been removed from the rates for telecommunications services as Section 254 requires, and that these impediments to the development of competition have been eliminated.

The NUSF will allow the Commission to achieve an orderly transition to competitive local service markets, without subjecting subscribers to sudden and significant

changes that could jeopardize the goals of universal service. Indeed, there should be no rate shock at all, given the fact that local service rates in most areas are already compensatory, and, to the extent the LECs legitimately require subsidies to provide service to their customers, the NUSF would provide the support.

The section on Competitive Bidding shows that, in general, competitive bidding to implement universal service subsidies is fundamentally at odds with the Act's procompetitive goals. Inherent in the concept of a bidding process is that the winner of the auction would be given exclusive rights to serve an area; this result would not give consumers a choice among service providers, as the Act envisions. Accordingly, except for those limited areas which are not currently served by any LEC and in which a state commission wishes to initiate telephone service, competitive bidding should not be used.

As shown in the section on SLC/CCLC, the CCLC is bloated, but to the extent that it can be justified at all, it subsidizes local service in a manner that runs afoul of the 1996 Act. Using an economically efficient TSLRIC standard, current local rates in most areas of the nation are compensatory and do not require CCLC support. For those subscribers whose local rates are not compensatory under a TSLRIC standard, the Act requires the subsidy be recovered in a competitively neutral manner from all service providers, not just IXCs.

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FURTHER COMMENTS OF AT&T CORP.

Pursuant to the Commission's Public Notice, DA 96-1078, released July 3, 1996, in CC Docket 96-45, AT&T Corp. (AT&T) submits these further comments concerning the implementation of the universal service provisions of the Telecommunications Act of 1996.<sup>1</sup> In accordance with the Commission's directions, AT&T's further comments respond to the questions in the order presented. To assist the Commission, AT&T has provided a preamble to each section which summarizes AT&T's key position on the questions that follow.<sup>2</sup>

<sup>1</sup> P.L. 104-104, 110 Stat. 56 (1996), to be codified as 47 U.S.C. Sections 254 and 214(e).

<sup>2</sup> Unless otherwise noted, references to AT&T's Comments and Reply Comments are those filed April 12, 1996 and May 7, 1996, respectively, in CC Docket 96-45. Statutory section cites are to the Telecommunications Act of 1996, unless otherwise indicated.

**DEFINITIONS ISSUES**

**Preamble:** All universal service-related subsidies should be limited to funding a core set of essential, high-quality services. For now, basic local exchange service for residential customers should include voice grade dial tone, touch tone, residential single party service, access to emergency (911) and operator services, directory information (411), white pages directory listing, local usage in a limited calling area, equal access to long distance services, and ability to change service providers while retaining the same telephone number.<sup>3</sup> The subsidy, based on TSLRIC methodology, should be available for the primary line to a subscriber's principal residence, irrespective of the technology (wireline or wireless) employed.<sup>4</sup> (AT&T Comments at 12-13).

1. Is it appropriate to assume that current rates for services included within the definition of universal service

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<sup>3</sup> Even when a wireless carrier provides core residential local service, it should be exempted from the requirement that it maintain the customer's same telephone number when switching carriers until mid-1999, the time specified by the Commission for mandatory nationwide wireless number portability implementation. See Telephone Number Portability, CC Docket 95-116, FCC 96-286, para. 166, released July 2, 1996.

<sup>4</sup> The subsidy should not apply to other than conventional residential services. Because payphones are already widely deployed, there is no need to establish community phone banks. (AT&T Comments at 13 n.16).

are affordable, despite variations among companies and service areas?

Yes, it is appropriate to assume that existing local service rates, which have been approved by state commissions, are a lower-bound of affordable rates to all but low-income subscribers. The fact that overall subscribership level in the United States is 93.8% underscores the correctness of this assumption.<sup>5</sup>

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?

With the exceptions of the Lifeline and Link-Up programs which reflect the income dimension of affordability, non-rate factors such as subscribership level, telephone expenditure as a percentage of income, should not be considered in determining the affordability and reasonable comparability of rates.

Congress' intent was to maintain comparability of affordable rates between urban and rural areas. The FCC can assume that such comparability is manifested in the current local rates approved by state commissions. Universal service reform, as proposed by AT&T, specifically ensures that such support is designed to provide the difference between rates and TSLRIC in those areas with high costs.

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<sup>5</sup> FCC Report on Telephone Subscribership in the United States, released June 1996.

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?

As noted in AT&T's Comments (at 14-16) and Reply Comments (at 19-21), establishing a benchmark national "affordable" rate is only an accounting mechanism that allows for the support of the universal service subsidy to be distinguished between a national New Universal Service Fund (NUSF) and State Universal Service Funds (SUSFs). The subsidies themselves are identified as the difference between the TSLRIC for local service, and the *current* basic local service rate, for those primary residence lines that are not compensatory. Use of such a benchmark prevents one state from attempting to import subsidies from other states by establishing an unduly low affordable rate for that state.<sup>6</sup> With AT&T's approach the NUSF will fund subsidies between the TSLRIC and either the national affordable rate

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<sup>6</sup> See Connecticut Office of Consumer Counsel v. AT&T Communications, 4 FCC Rcd. 8130, 8132 (1989), aff'd sub nom. Connecticut Office of Consumer Counsel v. FCC, 915 F.2d 75 (2d Cir. 1990), cert. denied, 499 U.S. 920 (1991) (surcharge collected by AT&T to recover expense of gross receipts tax was a "reasonable method of preventing states from singling out telecommunications for taxation in order to transfer a portion of their tax burden to non-residents via rates for interstate telephone service"). Of course, as AT&T explained in its Comments (at 14-15), a state would be free to provide additional subsidies to LECs beyond federal universal service support if such subsidies were funded by intrastate purchasers and not ratepayers in other jurisdictions. (AT&T Reply Comments at 20 n.37).

or the current basic local service rate, whichever is higher. If a state's current rate is below the national affordable rate, the state commission has the option of raising the rate to the national affordable rate or creating a SUSF to be funded by state services.

4. What are the effects on competition if a carrier is denied universal service support because it is technically infeasible for that carrier to provide one or more of the core services?

At present, the only carriers receiving universal service support are incumbent local exchange carriers (ILECs), and they obviously have the technical capability of providing core services. The only way it would be technically infeasible for a competitor to provide those services would be if the ILEC were to deny access and interconnection to the facilities that are used to provide those services. If ILECs deny access to the unbundled elements under Section 251(c)(3), for example, it may be technically infeasible for a new entrant to provide one or more of the core services and thus be denied universal service support. It is for this very reason that the FCC must ensure unrestricted access to the unbundled elements and other essential services.

5. A number of commenters proposed various services to be included on the list of supported services, including access to directory assistance, emergency assistance, and advanced services. Although the delivery of these services may require a local loop, do loop costs accurately represent the actual cost of providing core services? To the extent that

loop costs do not fully represent the costs associated with including a service in the definition of core services, identify and quantify other costs to be considered.

The local loop is only part of the facilities used in providing the basic core service. (See preamble for core services that comprise the residential basic service offering.) Other facilities include the components associated with signaling, switching and transmission. The NUSF proposed by AT&T, based on the TSLRIC of basic residential local service, including loop, switching, transmission and other unbundled elements costs, thus accounts for *all* of the facilities used in providing the core service, not just the loop.

**SCHOOLS, LIBRARIES, HEALTH CARE PROVIDERS**

**Preamble:** AT&T believes that schools, libraries and non-profit health care providers should have choice in technology, choice in providers, and choice in applications. In its initial comments, AT&T endorsed the Act's approach of requiring telecommunications service providers to give discounts to qualified institutions to facilitate their access to those types of telecommunications services which best meet their needs. (AT&T Comments at 19-20). Consistent with the intent and requirements of the Act, these telecommunications services should be made available to eligible schools, libraries and non-profit health care providers at a discount and be designated as eligible for universal service support

AT&T believes that the qualified institution should be allowed to obtain telecommunications services at the "best commercial rate" based on the deepest volume discount level that is offered by the carrier for similar service to a commercial or residential user in the same geographic area.<sup>7</sup> If the "best commercial rate" for a school, library or non-profit health care provider in rural or high cost areas is deemed excessive, the qualified institution could be permitted to request the "best commercial rate" in the closest urban area within the state. In all cases, the service provider would be reimbursed from the NUSF for the difference between the "best commercial rate," i.e., the rate which the qualifying institution actually pays for the specially discounted telecommunications service, and the rate the institution would have been charged absent the special discount. This will ensure that the subsidy will be explicit, equitable, non-discriminatory and portable for the user.

Both the individual school, library or non-profit health care provider, as well as the appropriate state-level governing authority (e.g., school, library or health care board), should certify that the discounted telecommunications services (including the transmission capacities) requested are necessary and appropriate given

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<sup>7</sup> See 47 U.S.C. Sections 153(a)(48) and 153(a)(51) for a definition of telecommunications service.

the institutional plan for the applications supported and that the services will be used for the stated purpose. The certification should include a statement that the associated hardware, software, wiring, on-site networking and training will be deployed simultaneously with the discounted telecommunications services. The qualifying institution should also acknowledge that resale of these specially discounted telecommunications services is prohibited and that it will not resell any such service. For example, a qualified hospital should not be permitted to use discounted telecommunications services to carry communications paid for by patients, as this practice would be equivalent to the resale of telecommunications services.

AT&T recognizes that the services required by these institutions are not necessarily solely telecommunications services, but may also include information<sup>8</sup> or enhanced services available from traditional telecommunications service providers, Internet/on-line and other enhanced service providers and many new entrants in this market segment. While AT&T believes that these critical institutions should have discounted access to enhanced services, funding from the NUSF should be limited to telecommunications services. Thus, there needs to be a way for enhanced services to be provided to schools,

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<sup>8</sup> See 47 U.S.C. Section 153(a)(41).

libraries and non-profit health care providers at a discount. Public and private funding sources, as well as provisions of Section 708 of the Act, could be utilized to provide for the availability of these non-telecommunications services and products to schools, libraries and non-profit health care providers at a discount. Similarly, these non-telecommunications funding mechanisms could be used to assist in the provision of inside wiring, customer premises equipment, or computer hardware/software, as well as associated training and maintenance, which will be required by these institutions.

The AT&T plan proposed above will help ensure that while eligible schools, libraries and non-profit health care providers receive discounted telecommunications services, the NUSF will not be misused and that public support, which is absolutely critical to its success, remains strong.

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

As stated in the preamble, the discount for qualified schools, libraries and non-profit health care providers should apply to telecommunications services of the qualified institution's choice. The marketplace and not the Commission should determine the evolution of telecommunications services and, accordingly, schools, libraries and non-profit health care providers should select the services suitable for their needs.

7. Does Section 254(h) contemplate that inside wiring or other internal connections to classrooms may be eligible for universal service 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. Inside wiring or other internal connections to classrooms should not be eligible for universal service support from the NUSF. The Act refers to "telecommunications services" and not inside wiring, customer premises equipment, computer hardware/software, or training. See 47 U.S.C. Sections 254(b)(6) and 254(h).

The Commission and Joint Board may reasonably anticipate that many industry participants will continue to voluntarily offer other products and services at special rates for these users. AT&T also supports grassroots initiatives like NetDays, where the physical connections within the schools are done by volunteers, and AT&T is actively involved in helping to organize several such initiatives.<sup>9</sup> The Clinton Administration and the Department of Education kicked off the Education Empowerment Zone Initiative in March, 1996. This initiative focuses on 15 of the already established empowerment zones to encourage corporate sponsors and the local communities to bring

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<sup>9</sup> Maryland, New Jersey and New York are among the states with initiatives to help schools address their need for other products and services such as inside wiring, customer premises equipment, computer software/hardware and training.

technology to the schools. AT&T is one of the corporate sponsors of this initiative.<sup>10</sup>

8. To what extent should the provisions of Sections 706 and 708 be considered by the Joint Board and be relied upon to provide advanced services to schools, libraries and health care providers?

The preamble addresses how telecommunications services will be provided to schools, libraries and non-profit health care providers at a discount, and that these services are eligible for NUSF support. Enhanced services are also very important, and schools, libraries and non-profit health care providers should have affordable access to them. Given the critical need of many schools to obtain access to telecommunications services, this is a key priority. However, if the broader market has accepted certain enhanced services, as evidenced through user

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<sup>10</sup> It is not a simple matter to develop architecture and associated costs for inside wiring, customer premises equipment, and computer hardware/software without a complete picture of a technology plan for the school. A study by McKinsey and Company, completed for the National Information Infrastructure Advisory Council (NIIAC), is an excellent reference for inside wiring, customer premises equipment and computer hardware/software. AT&T is aware that the study has been provided to the Commission and to the Joint Board. The study also addresses the choices that each school and district will need to make about how much investment in technology is required to achieve its educational goals, and how fast it wishes to deploy the technology infrastructure. In making these decisions, the school or district will also need to identify adequate funding from public as well as private sources both for installing the technology infrastructure and for supporting it going forward.

choices, then Section 708 could be utilized as a possible funding source.

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

The current system of subsidies needs to be reformed and replaced by a single New Universal Service Fund (NUSF). The new fund should be structured so that it is portable for users, explicit and funded in a competitively neutral manner so that NUSF subsidies will provide a source of funding to allow appropriate contribution for telecommunications services for schools, libraries and non-profit health care providers by all service providers and for the benefit of all qualified institutions and eligible users. It will thus encourage entry into the local market for the providers of these services, while ensuring the availability and affordability of telecommunications services to all qualified institutions regardless of location.

10. Should the resale prohibition in Section 254(h)(3) be construed to prohibit only 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?

No. Qualified institutions, in AT&T's view, would be entitled to the "best commercial rate" based on the deepest volume discount level that is offered by the service provider for a similar service to a commercial or

residential user in the same geographic area. In rural areas, if the best commercial rate is deemed excessive, schools, libraries and non-profit health care providers may request the "best commercial rate" in an adjacent urban area within the state. In this model, there is no need to aggregate purchasing power, because the qualified institution would be provided the deepest available discount regardless of the size of the institution. Accordingly, the resale restriction should be strictly construed to carry out Congress' intent, and most fundamentally, to limit the demand on and to keep the NUSF within reasonable limits, so that public support remains strong to ensure its survival. End user cost recovery should be permitted for schools, libraries and non-profit health care providers, but the resale of subsidized telecommunications services to create new sources of revenue or free use of the network by nonqualified users should be prohibited.

11. If the answer to the first question in number 10 is "yes," should the discounts be available only for the traffic or network usage attributable to the educational entities that qualify for the Section 254 discounts?

There is no public need or justification to allow schools, libraries and non-profit health care providers to resell NUSF-subsidized services.

12. Should discounts be directed to the states in the form of block grants?

No. Block grants would distort the competitive services marketplace by taking away the decisionmaking prerogative from the customer -- in this case the qualified institutions. Block grants will prevent schools, libraries and non-profit health care providers from having choice -- choice in technology, providers and applications.

13. Should discounts for schools, libraries, and health care providers take the form of direct billing credits for telecommunications services provided to eligible institutions?

The bill to the customer would be for the "best commercial rate" and the difference between this special discounted rate and the rate the telecommunications service provider would normally charge would be recovered from the NUSF via a credit to the service provider.

14. If the discounts are disbursed as block grants to states or as direct billing credits for schools, libraries, and health care providers, what, if any, measures should be implemented to assure that the funds allocated for discounts are used for their intended purposes?

To ensure that discounted telecommunications services are necessary and used for their intended purpose, both the individual school, library or non-profit health care provider, as well as the appropriate state-level governing authority (e.g., school, library, health care board), should certify that: (i) the applicant for

discounted telecommunications service is a qualified school, library or non-profit health care provider; (ii) the discounted service, including the amount of capacity requested, is necessary to support the application planned and will be used for the stated purposes; and (iii) the associated hardware, software, wiring, on-site networking and training are to be deployed simultaneously with the discounted telecommunications service.

15. What is the least administratively burdensome requirement that could be used to ensure that requests for supported telecommunications services are bona fide requests within the intent of section 254(h)?

See Response to Question 14.

16. What should be the base service prices to which discounts for schools and libraries are applied: (a) total service long-run incremental cost; (b) short-run incremental costs; (c) best commercially-available rate; (d) tariffed rate; (e) rate established through a competitively-bid contract in which schools and libraries participate; (f) lowest of some group of the above; or (g) some other benchmark? How could the best commercially-available rate be ascertained, in light of the fact that many such rates may be established pursuant to confidential contractual arrangements?

The "best commercial rate" -- the deepest volume discount level that is offered by the carrier for similar service to a commercial or residential user in the same geographic area -- should be the base price for the qualified institution. The burden should be on the service provider to demonstrate its best commercially available rate and the rate it would otherwise charge the user to the NUSF

administrator, so as to receive NUSF reimbursement for the difference.

17. How should discounts be applied, if at all, for schools and libraries and rural health care providers that are currently receiving special rates?

As new requests for services are received, qualified institutions would be entitled to the "best commercial rate" offered by the telecommunications service provider.

18. What states have established discount programs for telecommunications services provided to schools, libraries, and health care providers? Describe the programs, including the measurable outcomes and the associated costs.

AT&T believes the state authorities are in the best position to respond to this question. AT&T notes that the NIIAC KickStart Initiative lists several examples of states proposing or receiving special rates or discounts.

19. Should an additional discount be given to schools and libraries located in rural, insular, high-cost and economically disadvantaged areas? What percentage of telecommunications services (e.g., Internet services) used by schools and libraries in such areas are or require toll calls?

AT&T proposes that no additional discount be given. If the "best commercial rate" in a rural area is deemed excessive, the qualified institution could request the "best commercial rate" in an adjacent urban area within the state. AT&T believes schools and States are in the best position to respond to part 2 of this question.

20. Should the Commission use some existing model to determine the degree to which a school is disadvantaged (e.g., Title I or the national school lunch program)? Which one? What, if any, modifications should the Commission make to that model?

All qualified schools would be entitled to discounted telecommunications services under the AT&T plan without regard to whether or not the school is disadvantaged.

21. Should the Commission use a sliding scale approach (i.e., along a continuum of need) or a step approach (e.g., the Lifeline assistance program or the national school lunch program) to allocate any additional consideration given to schools and libraries located in rural, insular, high-cost, and economically disadvantaged areas?

See Response to Question 19.

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

No. The NUSF can be used for subsidy support of discounted telecommunications services to schools, libraries and non-profit health care providers. The discounting mechanism should be the "best commercial rate," and no additional discounting mechanism is required.

23. Are the cost estimates contained in the McKinsey Report and NII KickStart Initiative an accurate funding estimate for the discount provisions for schools and libraries, assuming that tariffed rates are used as the base prices?

The basis for the cost estimates contained in the McKinsey Report and the NIIAC KickStart Initiative, both of

which are excellent efforts, should be examined further to determine if they are appropriate for this purpose.

24. Are there other cost estimates available that can serve as the basis for establishing a funding estimate for the discount provisions applicable to schools and libraries and to rural health care providers?

The U.S. Department of Education has done cost studies, one of which is "Connecting K-12 Schools to the NII: A Preliminary Assessment of Technology Models and their Associated Costs" (Russell I. Rothstein, August 4, 1994). As with the McKinsey Report, the basis for the estimates should be examined further to determine if they are appropriate for this purpose.

25. Are there any specific cost estimates that address the discount funding estimates for eligible private schools?

AT&T believes that the costs associated with private and public schools are consistent for like-size institutions.

#### **HIGH COST FUND**<sup>11</sup>

**Preamble:** A New Universal Service Fund (NUSF) that promotes both the development of competition and the preservation of

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<sup>11</sup> AT&T interpreted the Commission's questions on the "High Cost Fund" as relating to support for high cost areas, not the existing High Cost Fund and DEM Weighting mechanisms. AT&T has recommended significant modifications to both of these subsidy mechanisms in its Comments and Reply Comments in CC Docket Nos. 96-45 and 80-286. A summary of those recommendations is contained in Attachment A.

universal service is certainly attainable, but it requires a fundamental shift in the current method of supporting universal service. AT&T's plan for a NUSF will provide a source of funding to allow recovery of residential local service universal service support costs from all telecommunications services and for the benefit of all customers of that service, thus encouraging local market entry in all geographic areas. The new system will provide an orderly transition to competitive local service markets, without subjecting subscribers to sudden and significant changes that could jeopardize the goals of universal service. Indeed, there should be no rate shock at all, given the fact that local service rates in most areas are already compensatory, and, to the extent the LECs legitimately require subsidies to provide service for their customers, the competitively neutral mechanism would provide the support -- ensuring availability and affordability of local service to all customers regardless of location. (AT&T Comments at 10; AT&T Reply Comments at ii).

AT&T's plan for the NUSF is fully consistent with the requirements of the Act, and includes the following points:

- The NUSF should be funded in a competitively neutral manner by a surcharge on all retail telecommunications services revenues, both interstate and intrastate, which

is a fair, simple and efficient recovery mechanism.<sup>12</sup>

(AT&T Comments at 8).

- All subsidies must be "portable" and follow the customer, not the carrier, to ensure compliance with the nondiscrimination requirement of Section 254(b)(4) and to encourage new local entry. At least at the outset, small rural carriers can appropriately be exempted from the portability requirement because the administrative costs of portability could outweigh the benefits. (AT&T Comments at 9).
- All universal service-related subsidies should be limited to funding a core set of essential, high-quality services. For the present (and as described under Definitions Issues above), these core services should include voice grade dial tone, touch tone, residential single party service, access to emergency (911) and operator services, directory information (411), white pages directory listing, local usage in a limited calling area, equal access to long distance services, and the ability for customers to retain their telephone numbers

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<sup>12</sup> Because, unlike customers of other services, wireless customers pay for both placing and receiving calls, the surcharge on bills to wireless customers should apply only to basic service and revenues associated with originating calls.