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Before the  
**Federal Communications Commission**  
Washington, D.C. 20554

In the Matter of )  
 )  
Further Comment on Specific Questions )  
Regarding Universal Service )  
  
Federal-State Joint Board

CC Docket No. 96-45

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**COMMENTS  
OF THE  
UNITED STATES TELEPHONE ASSOCIATION**

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## SUMMARY OF ANSWERS TO UNIVERSAL SERVICE QUESTIONS

1. On average, the current rates for the services in USTA's definition of universal service are affordable because those rates are supported. Rates for services provided below cost are too low. A combination of rate rebalancing where appropriate and continued support are necessary.
2. Both telephone expenditures as a percentage of income and local calling scopes should be used to assess affordability.
3. If the proxy is used to identify high cost areas, use of a benchmark will better target high cost areas. If the proxy is used to quantify the amount of support, it is likely that the proxy will not accurately reflect the costs of some high cost areas.
4. Universal service support should only be provided to those carriers who take on the obligations to provide universal service and should not be provided to competitors who seek to maximize profits in niche markets.
5. Access to directory services is included in the cost of the local loop. Access to some advanced services may require a different form of connection so that loop cost will not reflect actual cost. Loop costs do not represent the total cost of providing the other core services.
6. The services or functionalities eligible for discounts should only include commercially available telecommunications services as defined by the Act.
7. Internal connections such as inside wire do not fall under the definition of telecommunications services and should not be eligible for universal service support. Inside wire is a highly competitive, unregulated, non-telecommunications service.
8. § 706 should be relied upon to create incentives for carriers to continue to upgrade their networks and extend the reach of advanced technologies.
9. Universal service funds should be distributed directly to schools or school districts to purchase telecommunications services. Such a mechanism encourages competition and allows the schools to make their own decisions based on their own needs and circumstances.
10. § 254(h)(3) prohibits all resale of services whether for profit or at cost.
11. The network usage attributable to different parties could not be separated.
12. Funds should be allocated to schools and libraries.
13. A credit mechanism could be used in a funds to schools and libraries approach.

14. Any measure should not be burdensome. For example, if an electronic account system was created which restricted fund reimbursement to the offering of telecommunications services, many of the accountability concerns could be alleviated.

15. A simplified process, such as a check-off box to verify the existence of a technology plan and a few simple questions to demonstrate progress in meeting the goals of the Communications Act could be utilized.

16. Base service prices are not required under a funds to schools and libraries approach as the competitive market will establish pricing levels. Establishing base service prices would create enormous burdens for all carriers, is unnecessary and would inhibit competition.

17. A pricing discount plan would not be feasible. The funds to schools and libraries approach can integrate with the many discount plans already available to schools and libraries.

18. See USTA's comments filed April 12, 1996 in this proceeding at Attachment 1. USTA's approach will continue the initiatives already undertaken by LECs to meet the unique needs of local schools. Mandated pricing discounts will not match such flexibility.

19. Additional funding could be allocated under the funds to schools and libraries approach to schools and libraries in rural, insular, high cost and economically disadvantaged areas.

20. A specific determinant of need should be based on currently utilized indicators.

21. Many factors should be taken into account to determine the adequate funding amount, including number of students, number of economically disadvantaged students and distance to the nearest IXC POP or Internet service provider.

22. Separate funding mechanisms should be established to recognize different requirements, although it is possible for support for each be administered as part of the same fund so long as separate accounting practices are maintained by the fund administrator.

23. The McKinsey Report and the NII KickStart Initiative represent the best estimate of the funding necessary for schools and libraries. It is important to establish a specific, fixed fund size.

24. The McKinsey Report references several other studies for schools.

25. The McKinsey Report contains some information regarding funding for private schools.

26. The current USF meets the requirements of the Act and should be maintained for rural telephone companies. DEM weighting should also be continued for rural telephone companies, but the amounts should be bulk billed to ensure that recovery is explicit.

27. The use of smaller geographic areas, such as wire center, will provide greater efficiency by more effectively identifying high cost areas. This is particularly true in non-rural areas where averaging occurs. In rural areas, a smaller area may not improve targeting.
28. In rural areas, a competitive carrier should receive support based on its own costs to discourage cream skimming. In high cost areas served by non-rural telephone companies, competitive carriers should use the incumbent's costs to encourage competition.
29. The Act does not base eligibility on a particular form of regulation. Price cap carriers should be eligible for support. This is an arbitrary distinction which cannot be justified. The cost characteristics of a particular area relative to a benchmark should be the basis for support.
30. Determining eligibility for support based on a form of regulation is arbitrary, adds complexity and cannot be sustained in the long terms due to the changing nature of regulation. The Act only recognizes differentiation based on the unique circumstances of rural telephone companies.
31. Rural telephone company is defined at § 3(37) of the Act as amended.
32. Rural telephone companies should not be forced to adopt either a proxy or a competitive bidding system to determine support.
33. There is no direct relationship between high cost and subscribership levels. Subscribership should be addressed by the states. If a proxy yielded support lower than current levels, a transition, as recommended by USTA, must be adopted to avoid rate shock.
34. Lifeline and Linkup should be available to low income customers in insular areas.
35. Any delay in implementing a new fund would be problematic. The LEC industry is working to address concerns regarding proposed LEC proxy models. The differences between the LEC models and the Hatfield model are too great to be reconciled.
36. It is difficult for LECs with limited resources to examine any of the proxy models. The expenses in obtaining the models may be prohibitive and the short time frame for analysis is insufficient. The algorithms and source data for the Hatfield model are not available.
37. A determination of the costs of providing universal service must include all the costs of service, including embedded and joint and common costs.
38. A proxy model should be updated periodically as the definition of universal service evolves.
39. If used to identify costs, a proxy should include the cost of access to advanced services if access to advanced services is part of the definition of universal service.

40. A proxy model should not be used to set rates or to make a determination whether rates are reasonably comparable. The affordability benchmark will assist in ensuring that rates are reasonably comparable.
41. Such areas should be included in a proxy model or separate rules for identifying high cost areas should be developed.
42. High cost support, regardless of how it is determined, should be sufficient to provide an incentive for carriers to continue investing in infrastructure and improving the network.
43. This questions illustrates some of the concerns regarding the initial proxy models in that the proxy did not match the high cost areas, particularly of small telephone companies. A waiver system is inefficient and will not ameliorate the harm to customers if support is insufficient.
44. Modifications may be necessary to accommodate different technologies.
45. While the company-specific inputs may be proprietary, the model and the algorithms must be public.
46. Publicly available data should be used to develop a proxy model.
47. Publicly available data is contained in the ARMIS reports, tariffs and the Census Bureau.
48. The use of publicly available data is preferable to the use of proprietary information.
69. The total amount of the interstate CCL subsidy is approximately \$3.6 billion based on fully distributed costs.
70. Since CCL is an implicit subsidy, it should be eliminated over a four year period. As EUCL prices are rebalanced, interstate CCL prices should be adjusted to recover the difference between the EUCL price and the interstate affordability benchmark.
71. Lifeline and Linkup should be funded through the imposition of a surcharge on interstate retail revenues of all telecommunications service providers. Lifeline should be increased to match any increase in the EUCL charge.
72. All telecommunications service providers should contribute to the administration of the fund, even if the amount is de minimis. The use of retail revenues is far superior to gross revenues to ensure economic efficiency and competitive neutrality and to avoid double counting.

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**COMMENTS  
OF THE  
UNITED STATES TELEPHONE ASSOCIATION**

The United States Telephone Association (USTA) respectfully submits its answers to the specific questions released by the Common Carrier Bureau on July 3, 1996 in the above-referenced proceeding. USTA is the principal trade association of the incumbent exchange carrier industry. Its members provide over 95 percent of the incumbent exchange carrier-provided access lines in the U.S. USTA's members traditionally have provided high quality services at affordable rates and have incurred substantial costs to provide ubiquitous connectivity between all points on the public switched network as a result of requirements to serve all customers and to operate as carriers of last resort.

## **Definition 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?**

On average, the current rates for the services included in USTA's proposed definition of universal service<sup>1</sup> are affordable. This is evidenced by the high subscribership levels and the low disconnection levels for these services.<sup>2</sup>

The reason that the current rates for the services specified above are affordable is that these rates are supported. Support mechanisms, such as the current USF and DEM weighting, are relied upon primarily by small telephone companies to keep rates affordable. For example, rural telephone customers in Nebraska realize a benefit of approximately \$50.52 per month from the existing USF and DEM weighting mechanisms.<sup>3</sup> The Commission and some parties have proposed reducing and/or eliminating these programs. Implicit support mechanisms, such as the setting of access, state toll, vertical and business services at high levels in order to support basic

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<sup>1</sup>USTA proposed that the core services which should be supported to preserve and advance universal service should initially include: voice grade access (residence and business) to the public switched network to enable a customer to place and receive calls (loop, switching and transport); touch-tone; single party service; white page directory listing; access to operator services and directory assistance and access to emergency services (911/E911). USTA Comments, CC Docket No. 96-45, filed April 12, 1996 at p. 13.

<sup>2</sup>See, Gordon, Kenneth and Taylor, William E., National Economic Research Associates, Comments on Universal Service, Comments of BellSouth, CC Docket No. 96-45, filed April 12, 1996 at Attachment, pp. 16-26. [Dr. Gordon and Dr. Taylor cite numerous studies which show that the Commission's partial rebalancing of rates through the phasing-in of SLCs and the reduction in toll rates beginning in 1985 and ending in 1989 did not harm telephone subscribership. In addition, they cite several studies which explain that of the households disconnected for economic reasons, the reason for disconnection of service was an inability to pay for toll charges.] [hereinafter NERA Comments].

<sup>3</sup>Keystone Arthur Comments, CC Docket No. 96-45, filed April 12, 1996 at p. 4.

local, residential services, are incorporated into incumbent exchange carrier rates. Such affordable prices are available throughout the telephone company serving area regardless of the customer's ability to pay. Larger telephone companies rely heavily on implicit support and it is the implicit support that is most at risk due to competition.<sup>4</sup> § 254(e) of the Communications Act of 1934, as amended, requires that universal service support be explicit and sufficient to achieve the purposes of the Act.

Rates for services provided below cost, particularly those which are below the nationwide average, are too low. USTA has long advocated that rate rebalancing should be accomplished at both the state and federal levels in a revenue neutral manner by increasing rates for services provided below cost and decreasing rates for services provided above cost. Rate rebalancing is an effective way to decrease implicit support and limit the size of the universal service support mechanisms. It will also encourage efficient market entry by ensuring that all competitors are allowed to offer market-based prices to customers. As a result, customers in areas with new entrants will receive the full benefits of competition, i.e., lower prices and greater service choices.

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<sup>4</sup>USTA estimated that the implicit universal service support requirement is approximately \$17 billion, although that does not include the impact of the support from vertical services, business services and geographically averaged pricing. USTA Comments, Amendment of Part 36 of the Commission's Rules and Establishment of a Joint Board, CC Docket No. 80-286, filed October 28, 1994 at Attachment 2. See, also, Monson, Calvin S. And Rohlfs, Jeffrey H., "The 20 Billion Impact of Local Competition in Telecommunications", Strategic Policy Research, July 16, 1993. That study estimated that access and toll services provide a contribution of approximately \$20 billion.

However, there are circumstances in which the price of providing a certain level of service to particular customers will always require support. Competition will not develop in some areas and thus cannot be relied upon to assure affordable prices. Certain areas are too costly to serve at affordable prices. For some customers, affordability cannot be achieved. The Act specifies that support should be provided in such instances.

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?

Since there are no specific guidelines for determining affordable rates and reasonable comparability, this is an important question. Traditionally, states have used a variety of justifications to set rates for basic local residential services which are lower than the rates that would be needed to recover the cost of providing service while allowing for different, but averaged rate levels for different rate groups. As noted above, such affordable rates were extended to all customers in a particular area, regardless of their ability to pay for service. Some states have departed from the traditional flat-rated rate structure to allow measured, or usage-based, rate plans.

USTA has maintained that affordability should reflect what customers reasonably expect to pay for service and acknowledge that the price necessary to provide universal service should be part of the development of universal service support requirements. For example, a total expenditure of \$28 for telephone service represents approximately one percent of the national median household income for the U.S. A total expenditure of \$18 represents approximately 0.6 percent of median household income levels. Given that today Americans spend, on average,

approximately 2 to 2.5 percent of income on total telecommunications services and approximately 0.6 percent of income on basic local exchange services, an average spending level of one percent of income for universal services would be a reasonable expectation.<sup>5</sup> Overall, customers would continue to spend 2 to 2.5 percent of income on their total telecommunications as the prices on non-universal services would be reduced as a result of replacing implicit support with explicit funding. Moreover, a one percent spending level looks quite reasonable when compared to expenditures for other services. Consumers, on average, spend more than four percent of income for residential energy consumption and more than five percent of income for food away from home.<sup>6</sup>

In addition, USTA has recognized that calling scope differences between rural and urban areas have an impact on the level of expenditures customers would consider to be affordable. Thus, USTA has suggested that the interstate portion of an affordability benchmark be based on a nationwide average level of costs which recognizes different calling scopes.<sup>7</sup> Using nationwide average costs to establish the benchmark ensures reasonably comparable rates.

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<sup>5</sup>Federal Communications Commission, "Trends in Telecommunications", Table 8, May 1994 at p. 13.

<sup>6</sup>U.S. Energy Information Administration, "Household Energy Consumption and Expenditures, 1990" and U.S. Bureau of Labor Statistics, "Consumer Expenditures in 1991", BLS Report 835, December 1992.

<sup>7</sup>Calling scope differences could be reflected by determining a calling scope for each wire center based on the type of wire center calling plan for residence service and the number of working lines in the geographic area of the wire center calling plan. A lower benchmark could be set for smaller calling scopes. States should establish affordability benchmarks which also recognize calling scopes.

USTA recommended using nationwide average loop cost to replace the current EUCL cap at the federal level.<sup>8</sup> EUCL prices would be set at a level equal to interstate loop costs or the affordability benchmark, whichever is lower. In some service areas, the new EUCL price will be lower than the existing single line or multi-line EUCL prices because current EUCL prices are averaged over a study area. In other service areas, EUCL prices will increase to the affordability benchmark because current prices are far below costs. The Lifeline Assistance program should be expanded to cover any increased EUCL prices to ensure affordability for low income customers.<sup>9</sup>

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?

Use of a specific national benchmark rate for core universal services within a proxy model can be undertaken if the proxy is used simply to identify high cost areas. The advantage of such a process would be to better target the high cost areas most in need of support. However, if the proxy is to be used to quantify the amount of support for high cost areas, it is likely that the proxy will not accurately reflect the costs of some high cost areas. Thus, the benchmark will not

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<sup>8</sup>Thus, under USTA’s plan, assuming that the customer’s total expenditure was expected to be \$28, the federal affordability benchmark would be set at nationwide interstate average loop cost, i.e., \$6.00. If interstate loop costs for a carrier were \$10 and the rate was \$3.50, a carrier could recover \$4.00 from the interstate fund (\$10 - \$6). The remaining \$2.50 would be recovered through rate rebalancing. The remaining \$22 of the total expenditure level would be recovered in the intrastate jurisdiction. Thus, if intrastate costs were \$40 and the local rate was \$15.00, a carrier could recover \$18 from an intrastate fund (\$40 - \$22). Again, the remaining \$7.00 would be recovered through rate rebalancing.

<sup>9</sup>This recommendation was priced out by GVNW in its Comments, CC Docket No. 96-45, filed April 12, 1996 at Appendices 1-5.

represent affordability in those areas. Since the highest cost areas typically are served by small, rural telephone companies and are not likely to experience competition, USTA has requested that proxies not be mandated for rural telephone companies and that these companies be permitted to continue to receive support based on the current USF and DEM weighting programs. The use of different benchmark rates, as discussed above to recognize calling scope differences, could lessen this disadvantage.

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?

If no carrier in an area is able to provide the core definition, it would appear that the definition could be a barrier to entry and detrimental to the development of competition. In those service areas where only one carrier is eligible to receive universal service support based on a determination by the state and that carrier is unable to provide one or more of the core services, the impact on competition would be negligible, but the carrier should be given additional time to provide the service without losing support in order to ensure that the customers of that carrier will receive the core services at affordable rates.

If an eligible carrier is providing the core services and receiving support and a competitor enters the same serving area, but cannot provide all of the core services, the competitor should not be eligible for universal service support. This does not represent a threat to competition, but simply recognizes that universal service support should only be provided to those carriers who take on the obligations to provide universal service. Universal service support should be competitively neutral and should not be provided to carriers who seek to maximize revenues in niche markets.

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.

Under USTA's proposed definition, which specifies *access* to directory assistance and emergency services, the local loop is the actual cost of providing access to these services. However, access to some advanced services may require a different form of local loop connection, such as fiber optic cable. In those instances the local loop cost may not represent the actual cost of providing the service. That is one reason why USTA has suggested that the Federal-State Joint Board adopt USTA's definition initially and utilize a later proceeding under § 706 of the Act to investigate whether certain advanced services meet the criteria for inclusion in the definition of universal service and how the costs of providing such advanced services can be determined and supported.

Loop costs do not represent the total cost of providing the other core services included in USTA's definition. Switching and transport costs represent a significant portion of the costs of providing these services. USTA has recommended that rural telephone companies retain their ability to recover high switching costs through the continuation of weighted DEM for only those companies. The importance of this mechanism was well documented in the record established in CC Docket No. 80-286. If bulk billed, weighted DEM is an explicit, support mechanism which meets the requirements of the Telecommunications Act of 1996.

## **Schools, Libraries, Health Care Providers**

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

If a separate mechanism for schools and libraries is established, as proposed by USTA, then the services or functionalities eligible for discounts should only include commercially available telecommunications services as defined by the Act. However, if a pricing discount plan is implemented, it may be less desirable to have a broad list of available services because of the regulatory difficulties created by such an approach.

### **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?**

Internal connections within the school do not fall under the definition of telecommunications services, and thus should not be eligible for universal service support. Installation of wiring or other networking technologies (i.e., equipment-based wireless systems and local area networks) is a one-time capital investment in equipment. The primary purpose of a new universal service fund should be to ensure that the recurring charges for telecommunications services provided by telecommunications carriers are affordable. It is not designed to support the purchase of equipment offered by a multiplicity of non-carrier vendors.<sup>10</sup> In addition, a fund large enough to enable schools to achieve significant discounts on the cost of installing internal

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<sup>10</sup>The classification of inside wire as a telecommunications service could qualify providers such as electricians as telecommunications service providers who would be required to contribute to the universal service funding mechanism.

connections could strain the public's willingness to support the universal service for education concept. Non-telecommunications services, such as inside wiring and on-line services, are highly competitive, unregulated services. The market properly should be relied upon to ensure affordability.

**8. To what extent would 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 Joint Board should rely on § 706 to create incentives for carriers to continue to upgrade their networks and extend the reach of advanced technologies. As economic investments in broadband and other advanced technologies are made (as a result of competitive pressures and § 706 incentives) and advanced telecommunications services become commercially available, schools, libraries and rural health care providers will benefit.

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

USTA has proposed a mechanism that would distribute universal service funds or credits directly to schools or school districts to purchase telecommunications services. Such a mechanism is most consistent with the competitive and deregulatory principles of the Telecommunications Act of 1996. By enabling schools to determine which services are desired and to spend their universal service funds with any telecommunications service provider, all competitors in a given market, and all technologies, have an equal opportunity to compete for the school's business. Given the rate that new technologies, new services, and new providers are

entering the telecommunications market, administering a discount by service approach could be slow and burdensome. Schools may not be able to take advantage of leading-edge offerings at discounted rates. Distributing credits to schools would ensure that schools had funds to purchase whatever service or technology is available and from whatever carrier that offers the best deal.

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?

§ 254(h)(3) should be construed to prohibit all resale of services whether for profit or at cost. Allowing schools to resell telecommunications services they receive at discounts would result in ineligible institutions or individuals benefiting from this special universal service provision. It is not technically feasible to accurately attribute network usage to multiple institutions using shared networks.

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

Even if these public institutions were allowed to offer these service on a resold basis, the network usage attributable to different parties could not be separated.

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

While USTA believes that funds should be allocated to schools and libraries rather than implementing a pure price discount plan, it may not be necessary to allocate funds to the states. Direct allocation methods may be established where feasible. This will minimize bureaucracy and will ensure maximum use of the collected funds.

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

With a funds to schools and libraries approach, a credit mechanism could be used as the method of managing the funds. Schools and libraries could use credits to purchase telecommunications services and the service provider could seek reimbursement for the credits from the universal service fund. However, if a pricing discount plan is implemented, a billing credit approach could be examined as a more appropriate method than the regulatory intensive effort required to change every tariff price in every jurisdiction for every service defined as a special service.

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?

Simple measures will be needed to ensure that funds are being spent appropriately. For example, if an electronic account system was created which restricted fund reimbursement to the offering of the specified telecommunications services, many of the accountability concerns could be alleviated.

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)?

USTA recommends the use of a simplified process. States already know what schools exist within their borders, so each state could provide a list of qualified schools to the fund administrator. Before a qualified school receives its distribution, it could complete a simple form providing check off boxes to verify the existence of a technology plan and provide answers to a few simple questions required to demonstrate progress in meeting the Act's goals.

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?

Under a funds to schools and libraries approach, base service prices would not be required and the issues raised by this question would disappear. If schools and libraries are provided with telecommunication service credits and schools and libraries seek the best price from competitive alternatives, regulators will not have to determine base service prices. Companies will compete to provide services to schools and libraries, especially since schools and libraries have been given these funds to be used to purchase services. As a result, the competitive market will establish pricing levels. If the Joint Board requires base service prices, regulators will have to establish base service prices for which discounts would apply. Clearly, this approach is very problematic. For example, any incremental costing approach would require extensive regulatory proceedings to determine the costs for every service identified as a special

service. While this approach would be incredibly burdensome for incumbent telephone companies, it would be even more difficult for all of the new, competitive providers entering each market. If an incremental cost approach were implemented, every new competitor in every market it serviced should be required to produce cost studies for all of its services since every telecommunications carrier, even those not deemed eligible telecommunications carriers, are subject to the discount provisions of the Act. Clearly such an approach is unnecessary and will inhibit competition in the education market.

Likewise, using the lowest commercially-available rate poses unreasonable burdens. It may be difficult to even identify the lowest commercially-available rate. Many times, the "best" rate will be provided to large volume customers in a packaged offering. This best price may be proprietary or may not even be identifiable because of the packaging of service offerings. Tariff rates are also problematic as a basis for a price discount plan. In many cases, services offered to schools and libraries are not described in tariffs. This is particularly true for new, competitive telephone companies who are not required to file detailed tariffs. This will become even more prevalent as competition increases, service packaging expands and incumbent telephone companies are relieved of tariff filing requirements. Basing the solution on today's regulatory model of tariff pricing constructs is short-sighted.

Establishing a national pricing discount plan is problematic because there is no clear way to establish the base service prices for which a national discount would apply. The funds to schools and libraries approach solves this problem and appropriately allows the competitive marketplace to establish pricing levels for schools and libraries.

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

This question illustrates another serious problem with implementing a pricing discount scheme. Many schools and libraries already receive discounts on services. Overlaying a national pricing discount plan is simply not feasible, particularly since some of these discount plans have resulted from regulatory agreements reached in state jurisdictions. The funds to schools and libraries approach solves this problem. Where schools and libraries already have a discount pricing option, they simply purchase the service at that discounted price using the credits provided by the universal service fund. The funds to schools and libraries approach naturally integrates with the many discount plans already in existence.

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.

USTA's comments filed April 12, 1996 in this proceeding at Attachment 1 lists scores of examples that show collaboration among schools, state commissions, state departments of education and incumbent exchange carriers. Many of the initiatives include Internet access, teacher training, equipment donations, and special telecommunications rates, all of which provide significant benefit to students. Over the last few years, those initiatives total about \$500 million. The variety and scale of incumbent exchange carrier contributions to classrooms reflect the diversity of needs that local schools and ratepayers identify as most acute. USTA's proposal is flexible enough to continue the tradition of meeting the unique needs of local schools. An approach that mandates pricing discounts on specific telecommunications services will not be

able to match that level of flexibility.

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?

While USTA has explained that a discount plan is not the best approach, additional assistance could be provided to schools and libraries that are economically disadvantaged or that experience higher telecommunications costs because of the need for long distance services or exceptionally long dedicated transport connections. Additional funding should be allocated to schools and libraries through the funds to schools and libraries approach as a means to accommodate these special needs. Under the USTA approach, schools and libraries may use funding to purchase intraLATA and interLATA toll if they choose switched access to the NII. If schools and libraries choose dedicated connections, they may decide to use funding to purchase dedicated circuits.

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?

USTA believes that an appropriate adjustment to the funding received by any school can be derived by taking into account the community's economic circumstances. The specific determinant could be one that is already used to characterize economic disadvantage in federal and state programs. However, any additional allocation must not be overwhelmed by the cost of researching what the determinant should be.

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?

USTA recommends that several factors be taken into account in constructing the correct funding amount for each school. For example, the number of students, number of economically disadvantaged students, and interoffice mileage to the nearest interexchange carrier point of presence or Internet service provider are factors that should contribute in determining the funding level.

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

The Act establishes different requirements for providing discounts to schools and libraries than it does for providing comparable rates to rural health care providers. Both are, in turn, different from the requirements for the provision of core universal services. Thus, separate funding should be adopted. However, it is possible for funding support for each to be administered as part of the same fund so long as separate accounting practices are maintained by the fund administrator.

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 McKinsey Report and the NII KickStart Initiative provide a detailed study directly targeted to the issue of funding requirements for schools and libraries. As such, it would appear they represent the best available estimate for funding the discount provisions applicable to

schools and libraries.

Regardless of the source of the study data, it is important to establish a specific fixed fund size upon which the funding for schools and libraries can be based. Contributors must know the amount of contribution required. Once an initial fund size is established, the Commission may adjust it in accordance with the Act as experience is gained.

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 McKinsey Report, in Appendix B, lists three other studies which "estimate the national costs of connecting all public schools to the NII." USTA is not aware of a similar study for rural health care providers.

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

USTA is unaware of any cost estimates that specifically address the discount funding estimates for eligible private schools. However, it would appear that the McKinsey Report data contained in Exhibits 16 and 17 can be extrapolated to include private schools.

## **High Cost Fund**

### **General Questions**

**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?**

As noted above, USTA recommends continuing the current USF and DEM weighting mechanisms for rural telephone companies. The maintenance of these programs will ensure that the customers in rural areas have affordable rates. The USF is an explicit program which meets the requirements of the Act in that it is specific, predictable and sufficient. The DEM weighting mechanism shares those characteristics. However, DEM weighting amounts should be bulk billed to interexchange carriers in order to ensure that the recovery is explicit.

**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?**

The use of smaller geographic areas, such as a wire center, will provide greater efficiency by more effectively identifying high cost areas. This ensures that support is directed to the areas where affordable rates fall short of costs. This is particularly true in non-rural areas where the use of a geographic area smaller than a study area will reduce the effects of cost averaging. However, in the rural areas, a smaller geographic area may not always produce a significant improvement in targeting. Therefore, USTA recommended that an area no larger than a wire center be used as the geographic area for calculating universal service support for non-rural telephone companies. While the Act specifies that the serving area for rural telephone companies

should remain a study area until certain conditions are met, rural telephone companies should have the option to deaverage universal service support amounts below the study area level.

In addition, as USTA has suggested, the use of an affordability benchmark which recognizes what customers reasonably should expect to pay for service will also help target support. Under such a system, support would be provided when costs exceed the benchmark and the amount of support should be lesser of costs minus existing rates or costs minus the benchmark rate.

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?

The advantages and disadvantages of basing payments to competitive carriers on the book costs of incumbent exchange carriers depends upon whether the service area is rural or urban. In rural areas, the Act acknowledges that only one carrier will be eligible for support unless it can be shown that the public interest will be served by permitting multiple eligible carriers. Therefore, USTA has recommended that in rural areas, a competitive carrier which is eligible for support should receive support based on upon its own costs.<sup>11</sup> This will provide the proper incentives to discourage cream skimming of only the highest volume customers, which would be

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<sup>11</sup>In addition, only the incumbent, rural telephone company should be eligible to participate in the current USF and DEM weighting programs. There is no need to impose more costs on the interstate jurisdiction by allowing additional carriers to participate in these programs. These programs will help incumbent exchange carriers continue to recover the embedded costs of providing universal service as part of their obligations as carriers of last resort. Other eligible carriers in rural areas should only be eligible to receive funding above a benchmark as discussed above.