

Before the
FEDERAL COMMUNICATIONS COMMISSION
Washington, DC 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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GTE's COMMENTS IN RESPONSE TO QUESTIONS

GTE Service Corporation and its affiliated
domestic telephone operating companies

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TABLE OF CONTENTS

	<u>PAGE</u>
INTRODUCTION AND SUMMARY	1
RESPONSES	5

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GTE Service Corporation and its affiliated domestic telephone operating companies ("GTE"), responding to the FCC's Public Notice DA 96-1078, 1996 FCC LEXIS 3466, proposing seventy-two questions with reference to the captioned proceeding ("D.96-45") and recommended action pursuant to the Telecommunications Act of 1996 (the "1996 Act") hereby offer the following comments in response to questions:

INTRODUCTION AND SUMMARY¹

The Commission, taking into account the Joint Board's recommendations, must adopt and implement an integrated plan that is designed to achieve the universal service goals of the 1996 Act as well as the statute's pro-competitive and deregulatory goals. It must be stressed that GTE's plan, as described in its prior comments and in the responses to questions *infra*, is carefully structured as an entire program, with each part related constructively to each other part. GTE emphasizes the importance of avoiding arbitrarily picking pieces of this program and layering them onto incompatible concepts and schemes. In particular, nothing is more far-fetched than proposals that

¹ All statutory references are to 47 U.S.C. unless otherwise specified.

universal service support be available to any party that qualifies as an eligible telecommunications carrier under §214(e). Any such asymmetric plan would leave massive obligations on certain competitors while granting the same universal service support to largely unregulated competitors. This would: (i) be automatically ineffective; (ii) fail to preserve and advance universal service; (iii) destroy the workability of GTE's (or any) proposal; (iv) prevent the Commission from carrying out its assignment under §254 to develop an effective and sufficient universal service plan; and (v) be contrary to the pro-competitive and deregulatory goals of the 1996 Act.

Existing rates for local service can be considered affordable because they have been the subject of decades of attention from federal agencies, including the FCC, and from state regulatory agencies aimed at keeping local service prices low. However, in establishing a reference point as to what is "affordable," the Commission and the Joint Board should not base their finding on the rate levels currently in place, but should instead make an objective determination of how much customers should be expected to pay. Indeed, it is GTE's opinion that in many areas existing rates do not exceed, and in fact are well below the affordable level.

The "core" service rate in a given area should be considered to be "reasonably comparable" to rates in other areas if it does not exceed the national affordability guideline.

The initial level of universal service support should be based on the difference between the actual rate which Carriers of Last Resort ("COLRs") are allowed to charge in an area and a market price estimate developed using a proxy cost study. Once competitive bidding is conducted in an area, the results from the bidding would replace

the estimates generated on a cost basis. All COLRs should be required to provide the defined "core" service package in order to qualify for support. This is necessary to ensure that all customers have available to them the services the Commission has determined to be essential, and to ensure that the plan is competitively neutral.

The telecommunications requirements of schools, libraries and rural health care providers vary widely, as does the current level of technology integration in any given locale. No single technology / platform or list of services will fit all situations, nor will the judgments and preferences of school administrators always come out at the same point. Accordingly, the Commission should adopt a flexible framework. To impose on telecommunications carriers any obligation to provide inside wire or other such educational infrastructure would fall completely outside the letter and spirit of the 1996 Act. The 1996 Act serves to promote competition for services to educational and health care entities because it requires the creation of a new external funding source to assist eligible entities in obtaining telecommunications services. All telecommunications service providers are aware of this fact, and have strong business motivation to seek to provide services to eligible entities. The resale constraints in §254(h)(3) clearly prohibit an eligible entity from using universal support funding to obtain services that are resold in any fashion, whether for profit or "at cost." Funds that enable eligible educational entities and libraries to obtain network services at a reduced price should be directed to the states in the form of block grants, and state agencies should be used to distribute funds.

While the existing USF could have a place within the overall policy framework the Commission adopts, it is inconsistent with the requirements of the 1996 Act. Rather

than attempt to modify the current USF, the Commission should develop a new framework which is better suited to a competitive environment. However, for a transitional period, the current USF mechanism could be retained for non-price cap companies serving rural areas.

Price cap companies cannot be excluded from eligibility for high-cost support as a matter of law. Indeed, any carrier that undertakes the COLR obligation established by a state regulatory agency must be treated in the same manner, *i.e.*, it should have the same obligations and receive the same level of support.

Every practical effort should be made to resolve differences among the proxy cost models which have been presented to the Commission in this proceeding. GTE suggests instead that, wherever possible, groups of like-minded parties should work together voluntarily to narrow the differences between these models. However, it is likely that it will not be possible to produce a single model that will achieve a consensus among all parties in this proceeding; thus the Commission will have to make a final determination, using the best information on the record, within six months of the Joint Board's recommendation.

There is no need for proxy cost models to evolve to capture the costs of every technology that could be used to provide local service. The proxy model's purpose should be to provide an initial value for the support level in each area. After that, an auction mechanism will provide a better means for adjusting the support level over time.

RESPONSES

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?

Yes, existing rates can be considered affordable because they have been the subject of decades of attention from federal agencies, including the FCC, and from state regulatory agencies aimed at keeping local service prices low.² Moreover, the high subscription levels that currently exist throughout the nation serve as one form of confirmation of the affordability of local service.

Indeed, it is GTE's opinion that existing rates in many areas are below the affordable level. Demand studies suggest that the demand for local service is extremely inelastic with respect to changes in price from current levels. If rates for local service could be increased toward market levels, the funding needed to maintain those

² It is important to emphasize that the most important definitional issue in the design of a universal service plan is the definition of the service to be supported. This is the function the Commission wishes the universal service provider to perform. For lack of a better term, GTE has referred to it as the carrier of last resort ("COLR") obligation. The price ceiling imposed on the "core" service, to which this question refers, is one of the requirements that may be imposed on a COLR. There is no distinction between "high cost support" and support for the COLR function; they are one and the same. In order for the new universal service plan to meet the requirements of the 1996 Act, the plan must be built around a clear logical framework, of which the COLR obligation is an integral part. This is true regardless of whether the support level is determined on a cost basis, or through competitive bidding. Thus, while GTE will discuss the definition of the COLR obligation *infra* in its answers to the Commission's questions on bidding, this framework is also relevant here as a basic underpinning of the universal service plan, whether GTE's auction proposal is adopted or not. For further discussion of the COLR obligation and how it should be applied, see also Attachment 2, which contains an excerpt from a paper by Dennis C. Weller, Chief Economist for GTE Telephone Operations, presented at Rutgers University Ninth Annual Western Conference, July, 1996.

rates could be greatly reduced, and any competitive distortions created by universal service policy could also be minimized. It is therefore important that the market intervention practiced on local service rates and terms should be the minimum necessary to achieve universal service policy goals.³

Rates for local service are regulated by state commissions, and changing them is outside the scope of this proceeding. In order to be sufficient and competitively neutral, universal service mechanisms must support the full difference between these rates and market rate levels. This should be accomplished through a combination of state and Federal mechanisms.

However, in establishing a reference point as to what is "affordable," the Commission and the Joint Board should not base their finding on the rate levels currently in place, but should instead make an objective determination of how much customers should be expected to pay. Such a reference point could serve several functions in the Federal plan. First, it could be used as a guideline for the level to which rates could be allowed to rise; incentives could be established within the Federal plan to encourage states to rebalance local rates toward this level. Second, a reference point (perhaps a second, higher one) could be used to divide responsibility for funding between the Federal plan and state plans. In areas where costs exceeded this level, Federal funding would be provided to ensure that local rates did not exceed this amount.

³ See GTE's D.96-45 Reply Comments filed May 7, 1996, at 20-23, describing the price "rebalancing," on a revenue neutral basis, that is needed to move the prices for many access and business services closer to economic costs and remove the hidden support these services provide for local service prices.

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?

The "core" service rate in a given area should be considered to be "reasonably comparable" to rates in other areas if it does not exceed the national affordability guideline. The 1996 Act does not require that rates be exactly equal between rural and urban areas, or be geographically averaged, in order to be "reasonably comparable." See §254(b)(3).

In determining the "affordable" rate guideline, the Commission may wish to consider variations in income by area. This could be done by setting the guideline as a percentage of median household expenditure in an area. This approach does have certain pitfalls, however. If the areas used to measure income are large (such as states), then more extreme variations within those areas will not be captured. If smaller areas are used, the guideline will vary widely across these areas. However, even within a small area, customers are not homogeneous. Some customers with modest incomes may be harmed by this approach if they happen to live in areas where the median expenditure is high. It should be remembered that the most extreme differences in income across households will be addressed by income-based mechanisms such as Lifeline and Linkup.

The Commission should not consider other factors, such as subscribership, in establishing its affordability guideline. Subscribership is affected by many exogenous factors, as well as by policy instruments other than the local rate. The Commission has established a record on many of these other factors in its subscribership proceeding. The Federal plan should not attempt to compensate for geographic differences in these

other variables by adjusting the local rate. Experience has shown that the local rate should not be relied on as the sole policy tool for addressing subscribership concerns; reductions in the local rate may be "pushing on a string." For example, the District of Columbia has a relatively low subscribership level, even though it has very low local rates, particularly for lifeline service.

The Commission is not in a good position to consider the effects of differences in calling scope on affordability. Local calling scopes, the structure of local calling plans, and rates for extended area and toll services vary widely from place to place. In many areas, several different service options are available. The most logical course for the Commission to follow in designing the Federal plan is to define the national "core" service without usage. Each state would then be free to augment the definition to include some package of usage as it sees fit, and to fund any such usage through its own state plan. State commissions would be in a better position than the FCC to sort through the specifics of geography, community of interest, and so on, in their own 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?

There is no benchmark rate "in" a proxy model, as question number 3 implies. The benchmark rate is an affordable price level selected by the FCC and the Joint Board as the maximum price that consumers should be expected to pay for the "core" universal service. A proxy model (e.g., the Benchmark Cost Model or "BCM") is a cost model that generates estimates of the cost of service in different geographic areas. The estimates from such a model could be used to develop estimates of what the

market price for the “core” service might be. GTE suggests that the initial level of support should be based on the difference between the actual rate which Carriers of Last Resort (“COLRs”) are allowed to charge in an area and this market price estimate. Once competitive bidding is conducted in an area, the results from the bidding would replace the estimates generated on a cost basis.

The national affordability benchmark should not affect the estimate of the market price, and therefore is independent of the proxy model itself. Further, since the total amount (state and Federal) of support needed is based on the difference between the actual rate and the market price estimate, it would also be independent of the Federal benchmark or affordability guideline. However, the Federal benchmark would affect the proportion of the needed funding that would be provided by the Federal plan.

The use of the benchmark would thus give the Commission a policy tool for controlling how much of the overall funding requirement would be contributed by the Federal plan, and how much would be left to the states. This would allow the Commission to make an objective policy choice in this regard, rather than simply base the Federal plan on the results of the current separations process. The benchmark would also allow the Federal plan to establish limits on the variation in rates that would be allowed as a matter of rational policy; by doing so, a plan so structured would fulfill the Commission's obligation under the Act to ensure that rates are affordable and reasonably comparable.

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?

GTE has recommended that the FCC and Joint Board establish a definition of the "core" universal service based upon the functionality to be provided.⁴ The instant question underscores the need for adoption of a technologically neutral definition so that a carrier's choice of technology is not unduly influenced by the potential availability of universal service support monies. Further, to keep the total support amounts to a reasonable level, and to allow the market to guide the development of new services, the "core" service should contain a limited number of features that are essential for basic telecommunications, rather than including a "laundry list" list of advanced functions.⁵

There is considerable variation today across geographic areas in the service package available to local customers. It is likely, therefore, that in some areas the service currently provided by the incumbent LEC will not satisfy the definition chosen by the Commission. An appropriate transition mechanism should be adopted which would allow carriers to adjust their services to meet the definition. This might include, for example, a transition to single party service in areas where it is not available today.

However, leaving aside such transitional issues, all COLRs should be required to provide the defined "core" service package in order to qualify for support. This is necessary to ensure that all customers have available to them the services the Commission has determined to be essential, and to ensure that the plan is

⁴ See GTE's CC Docket No. 80-286 Comments filed October 28, 1994, at 22-23.

⁵ See GTE's D.96-45 Comments filed April 12, 1996, at 2-3.

competitively neutral. It would not be neutral to provide the same support to two competing carriers, while allowing one carrier to provide less than the full “core” service. Each carrier will then be free to choose the technology it will use to provide the specified functionality. A carrier may also choose not to be a COLR, and to adopt technology which cannot provide all of the COLR definition.

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.

Loop costs represent a large portion of the total cost of providing core universal service. However, other costs must be included if the total cost of core service is to be determined.

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?

The 1996 Act requires the Commission to define a set of “special” services for which discounts would be available. GTE suggests that this definition should be broad enough to accommodate reasonable differences in the needs of different institutions.

The telecommunications requirements of schools, libraries and rural health care providers vary widely, as does the current level of technology integration in any given locale. No single technology platform or list of services will fit all situations, nor will the judgments and preferences of school administrators always come out at the same point. Accordingly, the Commission should adopt a flexible framework. However, special services should not include “core” services, which are supported at affordable

levels by a separate program). Nor should it include items which schools may need to complete their plans, but which are not telecommunications services. These items would include customer premises equipment ("CPE"), computers, software, training, and inside wire.

Rather than offer discounts for services in the form of a percentage reduction in specific service prices, GTE recommends, in response to question number 12 *infra*, an approach that is more flexible and efficient, and more appropriate to a competitive environment, *i.e.*, where schools and libraries can choose among numerous telecommunications service providers.⁶ Under this suggested approach, an annual and predictable fund would be established and made available equitably to eligible schools and libraries in the form of either money or credits that could be used to purchase any special telecommunications service from any telecommunications provider.⁷

The only restrictions that should apply are: (1) schools and libraries should be able to order a telecommunications providers commercially available telecommunications services, or the additional telecommunications services that a

⁶ A separate process is needed for schools and libraries than that used for rural health care providers because of the different requirements of the 1996 Act. Compare §254(h)(1)(E) with §254(h)(1)(A). See n.12 *infra*.

⁷ See GTE's D.96-45 Comments filed April 12, 1996, at 19-21.

provider voluntarily chooses to offer;⁸ and (2) the service provider is chosen by the eligible entity through a process that is subject to periodic audit by the fund administrator.

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. The 1996 Act addresses the provision of telecommunications services. The definition of telecommunications services within the 1996 Act does not include inside wiring and "other internal connections."

The intent of the 1996 Act is to provide eligible entities with telecommunications services that are affordable. It is not concerned with end user or customer-owned equipment such as inside wire. Inside wire is an important element of the educational infrastructure, along with computers, software, local area networks ("LANs"), curriculum development, electrical power, ventilation and air conditioning. But Congress no more contemplated the furnishing of inside wire under the 1996 Act than it did air conditioning or software. To impose on telecommunications carriers any obligation to provide such educational infrastructure would fall completely outside the letter and spirit of the 1996 Act. The FCC determined years ago that inside wire fell outside the scope of telecommunications services.

⁸ Indeed, §254(h)(1)(B) limits the services that a telecommunications provider must make available to educational entities to those already available ("its services"). Without such caveat, situations might arise where facilities are not available to provide requested services, and either the FCC or states would then have to consider the nature and consequences of construction costs that would be required to provide such services, and how the provider would be compensated for those costs.

More specifically, inside wiring is excluded from the scope of §254(h) for the following reasons:

1. Under §254(h) 1)(A) (concerning health care providers), the essential obligation of the telecommunications carrier is to provide to certain health care providers as requested "telecommunications services which are necessary for the provision of health care services in a State . . . at rates that are reasonably comparable to rates charged for similar services in urban areas in that State."

(i) The furnishing of inside wiring is not a "telecommunications service" as defined ("the offering of telecommunications for a fee directly to the public, or to such classes of users as to be effectively available directly to the public, regardless of the facilities used") in §153(41) because inside wiring does not furnish "telecommunications" as defined in §153(38) inasmuch as inside wire does not constitute "the transmission, between or among points specified by the user, of information of the user's choosing, without change in the form or content of the information as sent and received", in fact does not constitute transmission of any kind.

(ii) To the extent a telecommunications carrier furnishes inside wire, it is not subject to FCC regulation inasmuch as, under §153(39), a "telecommunications carrier shall be treated as a common carrier under this Act only to the extent that it is engaged in providing telecommunications services..." and, as shown *supra*, inside wire does not constitute "telecommunications service."

(iii) Inside wire furnished by telecommunications carriers cannot be "necessary for the provision of health care services in a State" inasmuch as the FCC found that the public interest requires its removal from regulated offerings because: "Like CPE services, inside wiring installation and maintenance are severable from underlying common carrier transmission services, and are susceptible to being provided by a wide variety of competing firms."⁹

2. Under §254(h)(1) B) (concerning educational providers and libraries), a telecommunications carrier serving a geographic area upon a *bona fide* request shall provide to specified parties at a discount "any of its services that are within the definition of universal service under [§154](c)(3)."

(i) Inside wire cannot be within the definition of universal service under §154(c)(3) because, as discussed *supra*, it is not a "telecommunications service."

(ii) Inside wire cannot be deemed part of the existing services ("its services") of GTE or any other Incumbent Local Exchange Carrier ("ILEC") inasmuch as furnishing inside wire was deregulated by FCC decision.

⁹ *Detariffing the Installation and Maintenance of Inside Wiring*, CC Docket No. 79-105, 1 FCC Rcd 1190-1192 (1986).

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 Joint Board should place heavy reliance on the mandate of §706 of the 1996 Act that deployment of an advanced telecommunications capability should be encouraged "by utilizing, in a manner consistent with the public interest, convenience, and necessity, price cap regulation, regulatory forbearance, measures that promote competition in the local telecommunications market, or other regulating methods that remove barriers to infrastructure investment."

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

The 1996 Act itself serves to promote competition because it requires the creation of a new external funding source that will assist eligible entities in obtaining telecommunications services. Thus, entities that could not previously afford desired services now have the opportunity to obtain federal financial assistance. All telecommunications service providers are aware of this fact, and have strong business motivation to seek to provide services to eligible entities.

Further, GTE's approach discussed in the response to question number 12 will promote competition because it is based on competitive neutrality. Schools, libraries and rural health care providers can choose any available special services from the telecommunications provider that best meets their needs. The price of the service would be the best price the institution can obtain from its chosen provider, independent

of the discount.¹⁰ The institution would then receive the discount separately in the form of a credit or direct funding which would assist the institution in purchasing the service. This proposal is inherently neutral among carriers because it does not operate directly on the carrier's price, but instead supports the institution's purchase directly. This eliminates any possibility that the required discounts, as implemented by a particular carrier, could create either an advantage or disadvantage for that carrier, relative to other providers. It also eliminates the regulatory burden of establishing, reviewing, and tariffing different rates for this purpose.

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?

The resale constraints in §254(h)(3) clearly prohibit an eligible entity from using universal support funding to obtain services that are resold in any fashion, whether for profit or "at cost."

GTE recommends that community networks be encouraged by providing federal funding for the non-profit portion of such networks by basing support upon the relative usage by the educational entity and other users, with provision for audit of reported percent of use by the fund administrator.¹¹

¹⁰ The institution would be free to choose its supplier, and the price, using any method it finds to be best. Thus, the price could be the tariffed rate of a LEC, or it could be the offer selected by the school after issuing an RFP and soliciting bids from different carriers.

¹¹ See GTE's D.96-45 Comments filed April 12, 1996, at n.37.

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?

See response to question number 10.

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

Yes, funds that enable eligible educational entities and libraries to obtain network services at a reduced price should be directed to the states in the form of block grants.¹²

GTE submits that adoption of the following plan could satisfy the requirements of the 1996 Act, be administratively feasible, and enable the entire process to be managed in an efficient and consistent manner.

The first step in the administrative process GTE proposes would be to identify the total nationwide amount of funding needed for the network service component of the level of functionality chosen by public policy makers to be provided to eligible

¹² It could also be useful for each state to appoint an administrative agency to assist rural health care entities in obtaining service under the provisions of §254(h)(1)(A). This agency would determine if a requesting entity were eligible under the 1996 Act and review requests for discounted network services to ensure they were *bona fide*, using criteria similar to those discussed *supra*

Compensation for price reductions provided to rural health care entities requires a comparison of the difference between an urban price and a price for similar services offered to rural non-health care providers. §254(h)(1)(A) The respective regulatory agencies should establish a "range of reasonableness" applicable to all carriers that seek universal service funding for services provided to rural health care entities so as to limit the variance between urban and rural prices. Adherence to such a price range should be required for Federal funding eligibility. Moreover, if no such rural services are currently offered, the involved regulatory agency should solicit competitive bids for use in establishing a comparison point for support calculation.

educational entities and libraries.¹³ Once this amount has been identified, each state would be allocated a "block grant" amount of funds.¹⁴

Next, each state would establish an administrator with responsibility to: (i) serve as a central focal point for information about available funds; (ii) review requests for support for network services to ensure the requesting entity is eligible under the 1996 Act; (iii) review each request to ensure it is "*bona fide*";¹⁵ (iv) authorize dispensing of universal service funds either to the eligible entity or directly to the chosen network service provider;¹⁶ and (v) perform audits, as found necessary, to ensure that funds were being efficiently used and/or to resolve complaints from service providers over the choice of supplier by an eligible entity. Upon approval by the administrator of an

¹³ A public policy decision that establishes the total amount of support to provide on a nationwide basis will yield a specific level of discount available to eligible educational entities, if apportioned equally among all eligible entities. This approach will also harmonize the state and Federal discount methodologies.

¹⁴ The Joint Board could rely on a panel of educators to suggest a fair method for apportioning these funds among states.

¹⁵ To be considered a *bona fide* request by the state administrator, a school's plan would specify each of the components required to create an effective program. The network services provider would be pre-selected by the school on the basis of a bidding or similar process. The plan's budget would also show that all of the necessary non-network components (e.g., inside wiring, CPE, computers, educational application software and training in its use) are already present, or commitments for their funding have been obtained from sources other than the universal service fund. The plan would also authorize access to all documents that might be necessary to perform an audit of the use of funds.

¹⁶ Under this approach, the network services provider would not be required to tariff an entirely new and separate set of "discounts" for eligible entities. Rather, the eligible entity would purchase services either at the "normal" rate, or as part of a package offering in response to the entities' request for bid. The difference between the price obtained and the funds provided by the administrator would yield the discount percentage.

amount of funding, the eligible entity would be authorized to present a written request to the network service provider.¹⁷ The administrator should also ensure that the total amount authorized in all of the plans within the state is no greater than the total amount assigned to that state.¹⁸

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

Under GTE's recommended approach described in the response to question number 12, the administrator could provide funds either directly to schools or libraries entities, or to network services providers themselves, whichever option proved to be more efficient.

However, because § 54(h)(1)(A) establishes a different requirement for rural health care providers ("reasonably comparable to rates charges for similar services in urban areas in that State"), those entities should receive vouchers or credits if the price they pay is not reasonably comparable to the urban price.

¹⁷ Unless the services were part of a previously negotiated package, a written request for tariffed services should clearly state the needed network services, including the desired installation dates, quantities of services by bandwidth, signaling protocols, interface requirements, points of origination and termination, relevant traffic load information, and other information needed to ensure the request can be fulfilled efficiently and expeditiously.

¹⁸ §254(h)(1)(B) provides that discount levels will be established by the FCC for interstate services and by the states for intrastate services.

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?

As described in the response to question number 12, as part of the process of obtaining funds, eligible entities should be required to attest or to certify that the support they receive is used only for the intended non-profit educational or health care purposes. Further, a condition of receipt of such support must be the right of the administrator to perform audits.

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)?

As described in the response to question 12 *supra*, each eligible entity desiring funding should be required to provide support materials that allow the central administrator to determine that the entity will effectively use the universal service support. The support materials should include:

- (1) An attestation that the entity is eligible under §254(h).
- (2) A telecommunications plan that describes how all network and non-network components fit together to create an effective program.
- (3) A description of the process used to select the network services, the identity of the selected vendor, the services to be provided, the price to be paid for each service, and the amount of desired support funding.
- (4) A budget showing that all of the necessary components other than telecommunications service (e.g., inside wiring, CPE, computers, educational application software and training in its use) are already present,

or that commitments for their funding have been obtained from sources other than the universal service fund.

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 "base service prices" supported by the federal fund should be the price of the service quoted to the school by the provider it selects. That price could be the tariffed price or a price developed in response to an invitation to bid. This approach allows each eligible entity the maximum flexibility in choosing a service provider, and divorces the fund administrator from the price setting process. GTE's proposal effectively renders question 16 moot, since the FCC and state regulators would not have to establish or administer any discounted rates.

Options (a) and (b) are inappropriate in any case. The 1996 Act directs the Commission to determine what discount institutions should receive, relative to the price they would otherwise pay. This discount is provided to meet public policy goals, and has nothing to do with the structure of the provider's underlying cost. In determining the level of a Rhodes scholarship, does it matter what proportion of Oxford University's cost is fixed or variable? In any event, the discount should not depend on the identity of the supplier, but different suppliers will clearly have different cost structures.

Further, any process that relies on setting discounted rates for each carrier will inherently not be neutral, since different carriers are subject to different regulatory processes. If the rate-setting process has different effects on these carriers, then the

competition among them for the institutions' business could be distorted. GTE's proposal obviates this concern.

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

No further discount should be applicable to existing special rates. However, any eligible entity currently receiving a special rate that believes a better price might be available would be allowed to replace that price using the process described in the response to question number 12.

Moreover, any existing special prices mandated by state regulatory agencies that are applicable only to ILECs and that fail to offset such special price reductions with explicit, sufficient and predictable funding obtained in a competitively neutral manner from all telecommunications service providers, have been rendered null and void by the 1996 Act.¹⁹

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.

GTE provides local service in 28 states, but rather than attempt to document every program in each state GTE herein discusses the single state in which GTE is the largest ILEC -- Hawaii.

¹⁹ See §254(b)(4), (b)(5); and (f), which says (in part) "A State may adopt regulations to provide for additional definitions and standards to preserve and advance universal service within that State only to the extent that such regulations adopt additional specific, predictable and sufficient mechanisms to support such definitions or standards that do not rely on or burden Federal universal support mechanisms.". An ILEC could, of course, voluntarily choose to continue such programs.