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Before the  
FEDERAL COMMUNICATIONS COMMISSION  
Washington, DC 20554

AUG - 6 1996

FEDERAL COMMUNICATIONS COMMISSION  
OFFICE OF SECRETARY

In the Matter of )  
 )  
Federal-State Joint Board ) CC Docket No. 96-45  
on Universal Service )

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**MOTION TO ACCEPT LATE-FILED PLEADING**

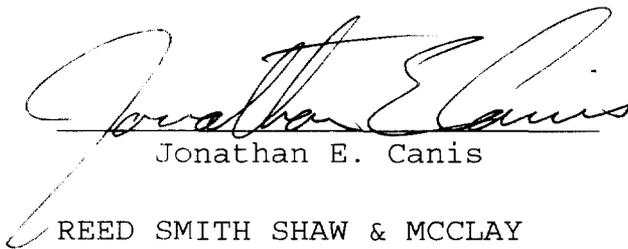
The attached Further Comments of the Virgin Islands Telephone Corporation ("Vitelco"), which are being filed simultaneously herewith, were not submitted by the filing deadline of August 2, 1996. Vitelco was unable to file its Further Comments in a timely manner because key personnel were unavailable to review and complete the Comments. These personnel were out of the office on an emergency basis, restoring service outages that were caused by Hurricane Bertha, which struck the Virgin Islands in July.

Vitelco has acted as promptly as possible, and is submitting its Further Comments within two business days of the scheduled filing date. By this prompt action, Vitelco has attempted to minimize any inconvenience to the Joint Board

members or Commission Staff associated with the late filing. Moreover, because the Commission has not authorized replies to the Further Comments no party will be prejudiced by a grant of this motion. Further, because the matters under consideration in the instant proceeding are of critical importance to telecommunications carriers and their customers, Vitelco believes that the public interest would be served by compiling the fullest and most comprehensive public record possible.

For the reasons discussed above, Vitelco respectfully requests that the Commission grant this Motion to Accept Late-Filed Pleading.

Respectfully submitted,



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Telephone Corporation

August 6, 1996

**Before the  
FEDERAL COMMUNICATIONS COMMISSION  
Washington, DC 20554**

In the Matter of	)	
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**FURTHER COMMENTS OF THE VIRGIN ISLANDS TELEPHONE CORPORATION**

VIRGIN ISLANDS TELEPHONE CORPORATION

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August 6, 1996

## SUMMARY

### SUMMARY OF ANSWERS TO UNIVERSAL SERVICE QUESTIONS

1. It is not appropriate to assume that current rates are affordable. Vitelco's rates are barely affordable only because of interstate contributions to the basic local loop via the Universal Service Fund and Carrier Common Line. In their absence Vitelco's local rates would need to double or triple making them no longer affordable.
2. Each of these factors should be considered in determining affordability but in the Virgin Islands telephone expenditures as percentage of income and cost of living are most important. Virgin Islands disposable income is only 60 percent of the U.S. average, while its cost of living is among the highest in the U.S.
3. A specific benchmark rate has the problem inherent in any "proxy" by not considering things vital to the determination of affordability, like income levels and the cost of living. This means that the same benchmark rate could be affordable to one person, absolutely unaffordable to the next person and cheap to the third person.
4. If a carrier cannot provide universal service then that carrier must be denied universal service support? Receiving universal service support carries with it "carrier of last resort" obligations. Providing universal service support to a carrier that cannot provide universal service gives an unfair competitive advantage to that carrier.
5. Local loops do not fully represent the costs of providing the core services. Significant other costs are central office switching costs, transport costs, information services costs and billing costs.

6. The services and functionalities eligible for discounts should only include commercially available services as defined by the Act. The benefits of such discounts to the extent possible should accrue to the students.
7. Inside wiring is a very competitive and unregulated service which should not be eligible for universal service support. The market should be relied on to keep prices affordable.
12. Discounts should be directed to the administrative level closest to the intended beneficiaries - the students. This means distributing funds directly to schools or libraries to purchase telecommunications services.
22. Separate funding mechanisms and accounting procedures should be established for Core services, schools, libraries and rural health care providers.
26. No modifications are required to the current High Cost Fund to comply with the Telecommunications Act of 1996.
27. Incorporating an affordability standard - universal service telecommunication expenditures as a percentage of income can improve the targeting of the High Cost Fund.
28. A competitive carrier, which meets all carrier of last resort obligations, should be entitled to high cost funds based on its own book costs, capped at an amount no greater than the book costs of the incumbent exchange carrier.
31. Rural companies are defined in the Communications Act - Section 3(47).
32. Rural companies should not be required to transition to either a system of proxy costs or a system of competitive bidding. Proxies should not be used for determining universal service support. If another carrier is to receive support, it should be based on its own costs.

33. Proxy models should not be used for determining universal service support. This is one of many examples where proxy costs should be overridden and actual costs relied upon.
34. Lifeline and Linkup are needed to ensure that low income customers in insular areas have affordable telecommunications service.
- 35-40. Using proxies to quantify the amount of support needed for high cost areas is a
- 42-44. bad idea because proxies will not accurately reflect the costs of high cost areas &
- 46-48. like the U.S. Virgin Islands. The present system which is working well uses actual costs which are more accurate than proxies.
41. Support for insular areas, Alaska and all other eligible areas should be based on actual costs.
45. The model and its algorithms must be a public document.
46. If a proxy model is adopted then publicly available data must be used to develop it or it should not be adopted.
69. Vitelco's Carrier Common Line based on fully distributed costs is \$6.1. The company does not know if any part of this amount should be considered a subsidy.
70. Interstate Telecommunications service providers should continue to pay for a portion (25 percent) of the loop cost for every interstate minute used.
71. Lifeline and Linkup should be funded through imposition of a surcharge on interstate retail revenues of all telecommunications service providers.
72. All telecommunications service providers should contribute to the administration of the fund even if the contribution is de minimis.

**FEDERAL COMMUNICATIONS COMMISSION**  
**Washington, DC 20554**

In the Matter of )  
 )  
Federal-State Joint Board ) CC Docket No. 96-45  
on Universal Service )

**FURTHER COMMENTS OF THE VIRGIN ISLANDS TELEPHONE CORPORATION**

The Virgin Islands Telephone Corporation ("Vitelco"), by its undersigned counsel and pursuant to the Commission's Public Notice,<sup>1</sup> hereby respectfully submits its Further Comments on a number of questions posed by the Common Carrier Bureau.

**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?

It is not appropriate to assume that current rates for basic universal services are affordable without examining a

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<sup>1</sup> *Common Carrier Bureau Seeks Further Comment on Specific Questions in Universal Service Notice of Proposed Rulemaking*, CC Docket No. 96-45, DA 96-1078, released July 3, 1996.

company's existing rates and their relationship to the income level of the subscriber base, their serving area etc.

Universal service rates in U.S. Virgin Islands are barely affordable only because of interstate contributions to the basic local loop via the Universal Service Fund and Carrier Common Line. In the absence rates in the Virgin Islands must double or triple and no longer being affordable and jeopardizing universal service in the territory.

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?

Each of these factors should be considered in determining affordability. The importance of telephone expenditures as a percentage of income and cost of living as a determinant of affordability are obvious in the U.S. Virgin Islands. In the Virgin Islands disposable income is only 60 percent of the US average and approximately 25 percent of the population receives welfare assistance. Cost of living in the Virgin Islands is among the highest under the American Flag.

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?

Vitelco has stated in previous comments on this subject that using proxies to quantify the amount of support needed for high cost areas is a bad idea because a proxy will not accurately reflect the costs of many high cost areas. An accurate proxy in the Virgin Islands must account for the cost implications of devastating hurricanes, mountainous topography, intense sunlight, a unique island service area and many other factors.

A specific benchmark rate has the problem inherent in any "proxy" by not considering things vital to the determination of affordability, like income levels and the cost of living. This means that the same benchmark rate could be affordable to one person, absolutely unaffordable to the next person and cheap to the third person.

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 a carrier cannot provide universal service then that carrier must be denied universal service support. Receiving universal service support carries with it "carrier of last resort" obligations. Providing universal service support

to a carrier that cannot provide universal service gives an unfair competitive advantage to that carrier.

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.

Local loops do not fully represent the costs of providing the core services. Significant other costs are central office switching costs, transport costs, information services costs and billing costs.

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

Due to time constraints the result of dealing with the serious service ramifications of three recent hurricanes, Vitelco has not yet addressed many of the issues raised by questions 6 through 25.

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

A fund for schools and libraries separate from the high-cost or universal services fund should be established. The services and functionalities eligible for discounts should only include commercially available telecommunications services as defined by the Act. The benefits of such discounts should accrue primarily to the students.

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?

Inside wiring is a very competitive and unregulated service which should not be eligible for universal service support because the market will serve to keep prices affordable.

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

Funds should be directed to the administrative level closest to the intended beneficiaries - the students. This means distributing funds directly to schools or libraries to purchase telecommunications services, rather than implementing a pure discount plan. The objective should be to maximize the benefit to the students.

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

The Act provides schools and libraries, rural health care facilities and core universal services with different requirements. Thus, separate funding mechanisms and accounting procedures should be established for Core services, schools, libraries and rural health care providers.

#### High Cost Fund

Due to time constraints the result of dealing with the serious ramifications of three recent hurricanes, Vitelco has not yet addressed the issues raised by questions 29 and 30.

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?

No modifications are required to the current High Cost Fund to comply with the Telecommunications Act of 1996. The USF is an explicit program which meets the requirements of the Act.

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

Incorporating an affordability standard - universal service telecommunication expenditures as a percentage of income can improve the targeting of the High Cost Fund.

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?

A competitive carrier, which meets all carrier of last resort obligations, should be entitled to high cost funds based on its own book costs and not on the book costs of the incumbent local exchange carrier. The high cost funds for the CLEC should be capped at no more than the book costs of the ILEC. This will encourage new entrants to serve all customers and not merely cream skim the high volume customers.

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

Rural companies are defined in the Communications Act - Section 3(47).

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

Rural companies should not be required to transition to either a system of proxy costs or a system of competitive bidding to determine support. Proxies are poor indicators of the cost of providing universal service and should not be used for determining support. If another carrier is permitted to receive support in the rural area it should be based on its own costs of providing the core universal services.

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

This is one of many examples of where a proxy should be overridden. The carrier would then receive assistance based on its "actual", not proxy costs. This is the correct method of calculating a company's support in the first place.

### Proxy Models

Most of Vtelco's responses in this section will reference - the following "general remarks" rather than addressing each question on proxy models separately.

Vitelco has stated in previous comments on universal service that using proxies to quantify the amount of support needed for high cost areas is a bad idea because a proxy will not accurately reflect the costs of many high cost areas. An accurate proxy for the Virgin Islands must account for the cost implications of devastating hurricanes, mountainous topography, intense sunlight, a unique island service area and many other factors.

The proxy models are very complex -- indeed, they are more complex than developing the actual costs themselves. Since actual costs are more accurate than proxy costs, it makes little sense to develop very complex systems for proxy costs when systems are already established to produce actual costs.

34. What, if any, programs (in addition to those aimed at high-cost areas) are needed to ensure that insular areas have affordable telecommunications service?

Lifeline and Linkup are needed to ensure that low income customers in insular areas have affordable telecommunications service.

35. US West has stated that an industry task force "could develop a final model process utilizing consensus model assumptions and input data," US West comments at 10. Comment on US West's statement, discussing potential legal issues and practical considerations in light of the requirement under the 1996 Act that the Commission take final action in this proceeding within six months of the Joint's Board's recommended decision.

See General Remarks.

36. What proposals, if any, have been considered by interested parties to harmonize the differences among the various proxy cost proposals? What results have been achieved?

See General Remarks.

37. How does a proxy model determine costs for providing only the defined universal service core services?

See General Remarks.

38. How should a proxy model evolve to account for changes in the definition of core services or in the technical capabilities of various types of facilities?

See General Remarks.

39. Should a proxy model account for the cost of access to advanced telecommunications and information services, as referenced in section 254(b) of the Act? If so, how should this occur?

See General Remarks.

40. If a proxy model is used, what, if any, measures are necessary to assure that urban rates and rates in rural, insular, and high-cost areas are reasonably comparable, as required in Section 254(b)(3) of the 1996 Act.

See General Remarks.

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

Support for insular areas, Alaska and all other eligible areas should be determined based on actual costs. See General Remarks.

42. Will support calculated using a proxy model provide sufficient incentive to support infrastructure development and maintain quality service?

See General Remarks.

43. Should there be recourse for companies whose book costs are substantially above the costs projected for them under a proxy model? If so, under what conditions (for example, at what cost levels above the proxy amount) should carriers be granted a waiver allowing alternative treatment? What standards should be used when considering such requests.

See General Remarks.

44. How can a proxy model be modified to accommodate technological neutrality?

See General Remarks.

45. Is it appropriate for a proxy model adopted by the Commission in this proceeding to be subject to proprietary restrictions, or must such a model be a public document?

While the individual company input may be proprietary, the model and all of its algorithms and assumptions must be a public document.

46. Should a proxy model be adopted if it is based on proprietary data that may not be available for public review?

See General Remarks.

If a proxy model is adopted then publicly available data must be used to develop it or it should not be adopted.

47. If it is determined that proprietary data should not be employed in the proxy model, are there adequate data publicly available on current book costs to develop a proxy model? If so, identify the source(s) of such data.

See General Remarks.

48. Should the materiality and potential importance of proprietary information be considered in evaluating the various models?

See General Remarks.

### Competitive Bidding

Due to time constraints the result of dealing with the serious ramifications of three recent hurricanes, Vitelco has not yet addressed the issues raised by questions 49 through 55.

### Benchmark Cost Model (BCM)

Questions 56 through 63 are based on the Benchmark Cost Model - which is a proxy model. Vitelco has not analyzed this proxy model. Furthermore, Benchmark costs have not even been developed for the Virgin Islands.

Vitelco has consistently rejected the use of proxy costs such as the Benchmark Cost Model for establishing universal service costs and support. Actual costs instead should be used. See general remarks in the Proxy Models section.

### Cost Proxy Model Proposed by Pacific Telesis

Vitelco has not evaluated the cost proxy model proposed by Pacific Telesis and therefore will not respond to questions 64 through 68. Vitelco has consistently rejected the use of proxy costs for establishing universal service costs and support. Actual costs instead should be used. See general remarks in the Proxy Models section.

SLC/CCLC

69. If a portion of the CCL charge represents a subsidy to support universal service, what is the total amount of the subsidy? Please provide supporting evidence to substantiate such estimates. Supporting evidence should indicate the cost methodology used to estimate the magnitude of the subsidy (e.g., long-run incremental, short-run incremental, fully-distributed).

Carrier Common Line for the Virgin Islands Telephone Corporation is as follows based on 1995 fully distributed costs:

Total interstate common line revenue requirement  
\$8.5 million

Subscriber line charges  
2.4 million

Carrier common line revenue requirement (NECA Pool)  
6.1 million

The company does not know if any part of this amount should be considered a subsidy.

70. If a portion of the CCL charge represents a contribution to the recovery of loop costs, please identify and discuss alternatives to the CCL charge for recovery of those costs from all interstate telecommunications service providers (e.g., bulk billing, flat rate/per-line charge).

One alternative to recovering the CCL charge from interexchange carriers is the often mentioned rebalancing of rates by eliminating over a period of years the CCL charge with an offsetting increase to the Subscriber Line Charge. Vitelco does not favor this approach because it would increase its core

rate for universal service about \$10 per month. This would jeopardize universal service.

Vitelco believes that all interstate telecommunications service providers should continue to pay for a portion (25 percent) of loop costs for every interstate minute used.

#### **Low-Income Customers**

71. Should the new universal service fund provide support for the Lifeline and Linkup programs, in order to make those subsidies technologically and competitively neutral? If so, should the amount of the lifeline subsidy still be tied, as it is now, to the amount of the subscriber line charge?

The Lifeline and Linkup programs should be funded through the imposition of a surcharge on interstate retail revenues of all telecommunications service providers in order to make those subsidies technologically and competitively neutral.

#### **Administration of Universal Service Support**

72. Section 254(d) of the 1996 Act provides that the Commission may exempt carriers from contributing to the support of universal service if their contribution would be "de minimis." The conference report indicates that "[t]he conferees intend that this authority would only be used in cases where the administrative cost of collecting contributions from a carrier or carriers would exceed the contribution that carrier would otherwise have to make under the formula for contributions selected by the Commission." What levels of administrative costs should be expected per carrier under the various methods that have been proposed for funding (e.g., gross revenues,

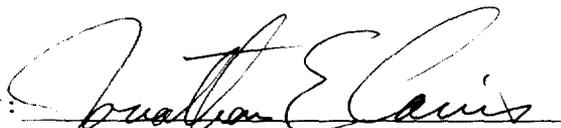
revenues net of payments to other carriers, retail revenues, etc.)?

Each and every carrier should be required to contribute to the fund even if the contribution is "de minimis." All telecommunications carriers must contribute at least \$100 to the TRS fund to cover administrative costs. The same practice could be extended to the Universal Service Fund.

For the reasons discussed above, Vitelco respectfully requests that the Joint Board and the Commission adopt Universal Service rules and policies in conformance with the discussion contained herein.

Respectfully submitted,

By:

  
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August 6, 1996

**CERTIFICATE OF SERVICE**

I, Jonathan E. Janis, hereby certify that the foregoing  
"Further Comments of the Virgin Islands Telephone Company" was  
sent, this 6th day of August 1996, by U.S. first class mail,  
postage prepaid, to the following:

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