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Communications

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October 9, 1996

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Mr. William F. Caton
Acting Secretary
Federal Communications Commission
1919 M Street, NW, Room 222
Washington, DC 20554

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Federal Communications Commission
Office of Secretary

RE: Federal State Joint Board on Universal Service (CC Docket No. 96-45)

Dear Mr. Caton:

On Wednesday, October 9, 1996, Brian Kidney and I, on behalf of AirTouch Communications, met with John Nakahata, Legal Advisor to Chairman Hundt, to discuss the above referenced proceedings. Please associate with the above-referenced proceeding.

Two copies of this notice are being submitted to the Secretary in accordance with Section 1.1206(a)(1) of the Commission's Rules.

Please stamp and return the provided copy to confirm your receipt. Please contact me at 202-293-4960 should you have any questions or require additional information concerning this matter.

Sincerely,

Kathleen Q. Abernathy

Attachment

cc: John Nakahata

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List A B C D E

Universal Service and CMRS

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AirTouch Communications

October 1996

Telecom Act Implications

- Fundamental theme of '96 Telecom Act is competition.
- The intent behind a competitive telecommunications market is that products and services will be offered more efficiently, with more innovation, and at lower prices than under a monopoly environment presided over by traditional regulation.
- Universal Service is the Commission's first real test to advance competition over traditional regulation.
- Universal Service is simply about promoting ubiquitous access and usage of basic telephone service.
- Traditional regulation has achieved near ubiquitous local telephone subscribership by subsidizing local residential service rates for <u>all</u> consumers with charges to business and long distance customers.
- Competition in the local telephone market will do more to stimulate subscribership among the general population than the hidden subsidies that have existed for decades under traditional regulation.
- Universal Service support mechanisms should focus on areas where there is a demonstrated market failure.
- Continuing to subsidize consumers who are capable of paying the full cost of basic telephone service undermines the competition which the Commission is trying to foster.

Universal Service Principles

- The fund should be as small and targeted as possible to reduce distortions to competition.
  - Universal Service is not about keeping incumbent LECs whole; rate rationalization will not only fix revenue requirements, it will level the competitive landscape so new entrants can compete for customers whose basic telephone rates are today being unnecessarily subsidized.
  - "Lifeline" rates could be created and made available for low income subscribers.
  - Auctions for the ability to serve high cost areas with the least subsidy would promote efficiency with no competitive distortion.
- The funding mechanism should be competitively neutral.
  - Universal Service support fees should be based on network usage (minutes of use) rather than operator revenues because access and usage define the goals of universal service. Fees based on operator revenues disproportionately affect the economics of premium services, making them less competitive.
- The Commission should affirmatively recognize the unique status of CMRS as preempted from contributing to State Universal Service funds, paying only into the Federal fund.
  - The 1993 Budget Act Amendments preempted State regulation of CMRS rates, including payment into State funds supporting Universal Service, until such time as CMRS service becomes "a substitute for land line telephone exchange service for a substantial portion of the communications within such State." 47 USC 332 (c)(3)(A)

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Universal Service Principles

- Universal Service should be narrowly defined to ensure the availability of basic telecommunications services to those who cannot otherwise obtain service.

- Competition will best deliver services that consumers value most. Where there is no demonstrated market failure, there is no need for subsidy.

    - Regulation should not create entitlements funded by private telecommunications operators for consumer access to services which they do not value.

- Universal Service support should be available to any provider of basic telecommunications service that demonstrates its ability to be the low cost provider in a given area.

- Universal Service fees should be clearly identifiable on customer bills. Hidden subsidies undermine competition, accountability and fairness, and perpetuate uneconomic behavior.

- Current Universal Service policies need to be reformed before they are expanded to new causes.

- New services to schools and libraries should be targeted to specific needs of individual institutions, and should be provided using competitive principles.

    - Discounts mandated by '96 Telecom Act should be based on incremental cost for incumbent LECs, and be competitively offered and priced by others. There is no need for subsidy pooling.

    - Such discounts already exist in competitive markets; e.g., AirTouch offers rates to government agencies reflecting discounts over 20% below comparable retail.