



MCI Communications Corporation

1801 Pennsylvania Avenue, NW
Washington, DC 20006
202 887 2375

Kimberly M. Kirby
Senior Manager
FCC Affairs

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FEDERAL COMMUNICATIONS COMMISSION
OFFICE OF SECRETARY

October 25, 1996

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

ORIGINAL

Re: Ex Parte CC Docket 96-45 - Federal-State
Joint Board On Universal Service

Dear Mr. Caton:

Attached is a summary detailing the status of state universal service proceedings. The list is significant in several respects. First, very few states have initiated universal service proceedings which underlines the need for strong FCC universal service rules. Second, to the extent that state commissions have initiated universal service proceedings many have declined to move forward absent FCC rules. Third, where states have held evidentiary proceedings and issued universal service rules those rules mirror many of the principles MCI has been advocating in this proceeding.

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

Sincerely,

Kimberly M. Kirby

Attachment

No. of Copies rec'd 0+1
List ABCDE

**STATE UNIVERSAL SERVICE PROCEEDINGS
AS OF OCTOBER 15, 1996
COMPILED BY MCI COMMUNICATIONS CORPORATION**

AMERITECH

WISCONSIN

The legislature created a fund and council to address limited issues such as Life-Line and Link-Up, citizens with disabilities, libraries, schools, and hospitals.

NYNEX/SNET

CONNECTICUT

Docket 950617: The Department opened a joint resale, unbundling, and universal service docket. Because of the pending FCC rules, the docket was revised to be limited only to resale issues, excluding universal service. The Department has not reopened the universal service issues.

NEW YORK

Case 94-C-0095, 28425: The Commission opened a universal service case but it is unclear to what extent it affects NYNEX. The Commission committed itself to looking at universal service but not until the price cap plan for NYNEX was approved. NYNEX subsequently petitioned the Commission to remove NYNEX from the universal service proceeding arguing that the universal service issues were resolved in the price cap plan. If the Commission agrees to take NYNEX out of the case, the universal service issues will only pertain to the small NY independent telcos.

VERMONT

The Vermont Legislature established a universal service fund in 1993. The fund currently supports E-911, Lifeline, and Vermont Telecommunications Relay Service (VTRS). High cost area funding has not been authorized. Vermont's USF is distributed on a provider-specific basis,

which has been raised in Docket 5713 as inconsistent with effective competition. The Board has been urged to develop a mechanism that is competitively neutral and does not favor one provider over another (Order in Docket 5713 - Phase I, 05/29/96, 66). This Order points out that the final decision depends on the underlying costs of the elements of basic service, and must await, therefore, the completion of cost studies that will be done in Phase II. In Docket 5713 - Phase I, the Commission proposes that the Vermont General Assembly authorize a Vermont High Cost Fund, consisting of a customer voucher system in high cost areas in order to maintain universal service in a competitive market. Phase III will focus on the importance of structuring a High Cost Fund that avoids incentives to raise telephone prices in rural areas.

BELLSOUTH

FLORIDA

Florida legislation passed in 1995 requires that the PSC make a recommendation to the legislature by January 1, 1997 on Universal Service. The following provisions are:

- (1) For the purposes of this section, the term "universal service" means an evolving level of access to telecommunications services that, taking into account advances in technologies, services, and market demand for essential services, the commission determines should be provided at just, reasonable, and affordable rates to customers, including those in rural, economically disadvantaged and high-cost areas. It is the intent of the Legislature that universal service objectives be maintained after the local exchange market is opened to competitively provided services. For a period of 4 years after the effective date of this section, each local exchange telecommunications company shall be required to furnish basic local exchange telecommunications service within a reasonable time period to any person requesting such service within the company's service territory.
- (2) The Legislature finds that each telecommunications company should contribute its fair share to the support of the universal service objectives and carrier-of-last resort obligations. For a transitional period not to exceed January 1, 2001, an interim mechanism for maintaining universal service objectives and funding carrier-of-last resort obligations shall be established by the commission, pending the implementation of a permanent mechanism. The interim mechanism shall be implemented no later than January 1, 1996, and shall be applied in a manner that ensures that each alternative local exchange telecommunications company contributes its fair share to the support of universal service and carrier-of-last-resort obligations.
- (4) Prior to the expiration of this 4-year period, the Legislature shall establish a permanent universal service mechanism. The commission is directed to research the issue of a universal service and carrier-of-last resort mechanism and recommend to the Legislature what the

commission determines to be a reasonable and fair mechanism for providing to the greatest number of customers basic local exchange telecommunications service at an affordable price. The recommendation shall be provided no later than January 1, 1997. The recommendation shall address, at a minimum, the following:

- (a) Whether a subsidy or some other mechanism is necessary.
 - (b) If a subsidy is necessary, the minimum amount needed and a mechanism to collect the required amount.
 - (c) If a subsidy is necessary, a mechanism to distribute the subsidy funds.
 - (d) If a subsidy is necessary, from which providers of telecommunications services the subsidy should be collected.
 - (e) Whether the deaveraging of basic local exchange telecommunications service rates should be required to more appropriately reflect the cost of providing service.
 - (f) Whether targeted subsidies are more appropriate than average basic local exchange telecommunications service pricing for maintaining universal service objectives.
- (5) After January 1, 2000, an alternative local exchange telecommunications company may petition the commission to become the universal service provider and carrier of last resort in areas requested to be served by that alternative local exchange telecommunications company. Upon petition of an alternative local exchange telecommunications company, the commission shall have 120 days to vote on granting in whole or in part or denying the petition.

KENTUCKY

KY recently issued a generic competition order, most of which is dedicated to universal service issues. The commission intends to move forward with reform (pre-FCC).

BELL ATLANTIC

PENNSYLVANIA

On October 9, 1996, the PUC withdrew from consideration proposed universal service rules before the state legislature.

VIRGINIA

Open docket with no action being taken at this time.

PACTEL

CALIFORNIA

On August 5, 1996, an ALJ's Proposed Decision (PD) in the California PUC's (CPUC) Rulemaking and Investigation on Universal Service (Case Nos. R.95-01-020 and 95-01-021) was issued.

Highlights of PD:

Bases cost of universal service and subsidy on TSLRIC of geographic serving areas known as Census Block Groups (CBGs). (Avg. cost statewide \$18.39; total subsidy about \$260 million; and less than a third [about 3.73 out of 12.7 million total] of the lines need a subsidy).

Reached cost and subsidy amount using Pacific Bell's Cost Proxy Model (CPM), instead of Hatfield, and adjusted the CPM's cost and total required subsidy down from a \$1.7 billion dollar subsidy to the \$260 million. Example adjustments are to increase fill factors on feeder routes and to exclude the cost of second and additional lines to households from the calculation.

Establishes a competitively neutral End User Surcharge to collect the subsidy. About a 1.5% "sales tax" on a customer's total bill for common carrier telecommunications services (regardless of the carrier and including cellular) as a direct and separately stated add-on to the bill.

Subsidy available to multiple carriers of last resort (COLR), so long as COLR offers universal service (by facilities and/or resale) throughout the CBG upon which the subsidy is based.

Auction is safety net, but looking in to auctions as alternative means of sizing subsidy in workshops for possible adoption in three years.

\$20 million for support to schools and libraries.

SOUTHWESTERN BELL

KANSAS

State US Proceedings
MCI Communications Corporation

The KS proceeding is universal service in name only, as what it really does is simply implement a newly-enacted KS law that says access rates go down and rates go up so the LECs don't lose any money.

TEXAS

Texas has begun a rulemaking on US, but that does not seem to be progressing. The TX process appears to be "on hold" for now.

US WEST

ARIZONA

The Arizona Corporation Commission, on April 24, 1996, in Decision # 59623, adopted rules creating an Arizona Universal Service Fund. Those rules were created through a workshop process. The Commission's definition of basic universal service is single party service to the first point of switching; local usage; touch tone; white pages listing; access to 911 and E911; operator services; directory assistance; and relay services plus access to interexchange services. The Commission will establish the amount of subsidy needed based on benchmark rates less cost. For large LECs (US WEST - more than 200,000 access lines) cost is defined as TSLRIC.

The AZ commission specifically rejected embedded or fully distributed cost (for large LECs). In the event the FCC adopts something different, the AZ commission may seek a waiver. The commission uses US West census block groups as the basis for its data. Further, all providers must pay into the universal service fund (including wireless) and the fund will be distributed in a competitively-neutral manner. The fund is portable except for rural providers who have a three (3) year moratorium. The AZ fund does not impact Life-Line, Link-Up, and TRS (this is similar to CO).

Universal service is funded half (½) by LECs and half (½) by IXC's. The IXC's pay a surcharge on intrastate toll and the LECs pay a surcharge on total number of access lines.

COLORADO

Colorado has adopted both interim and permanent universal service rules regarding the Colorado High Cost Fund (CHCF). 4 CCR 723-41. These rules implement the new Colorado telecommunications statute (HB 1335). In CO the definition of basic universal service is: single

party service to the first point of switching; local usage; touch tone; white pages listing; access to 911 and E911; operator services; directory assistance; and relay services but includes businesses.

Costing and pricing rules in CO require LECs to file both fully distributed and TSLRIC cost studies. All carriers are required to pay into the fund which is based on total intrastate retail revenues. The CO fund does not impact Life-Line, Link-Up, and TRS (this is similar to AZ). The fund must be distributed in a competitively-neutral manner.

The CO commission supports using a proxy model and will establish a task force in order to determine which model the commission will use.

HAWAII

On May 17, 1996, the Hawaii PUC adopted Universal Service Fund rules (Docket No. 7702). However, the Commission is still accepting comments and, as a result, the "final" Universal Service Fund rules may be slightly modified (open issues include "services to be included" and defining "access").

IDAHO

Idaho has an intrastate universal service fund where IXCs contribute a higher amount and the distribution of support is premised on LEC access rates/local rates.

IOWA

In US West's Interconnection Tariff Proceeding, RPU-95-10, the Board issued rules and found that an interim universal service charge is not warranted at this time.

Iowa also has a separate Universal Service and Resale Rulemaking proceeding (RMU-95-7). A workshop was held in November 1995, but the IUB has taken no action since then. The Commission is awaiting FCC action.

MINNESOTA

Comments on universal service have been submitted in the state's Local Competition rulemaking (P999/R-95-53).

MONTANA

A Blue Ribbon Task Force was created to implement provisions of the 1996 Federal Act. The

draft legislation proposes that an interim universal service access program funded by a surcharge on retail revenues for all interstate services (excluding customer premise equipment in the definition of "service") be established. Funding (totaling \$500,000 for the first year and \$1,000,000 for the second year) will be considered an explicit subsidy which may be shown as a separate item on a provider's bill.

Additionally, the draft legislation proposes that the Montana PSC initiate a universal service and access fund program proceeding to make recommendations to the legislature regarding universal access. The impact on universal access and service in Montana of any federal universal service fund which may result from the current FCC proceedings will be assessed and plans for legislation ensuring that universal access and service goals in Montana are attained will be developed.

NEBRASKA

The NPSC commenced an investigation of universal service (Docket C-1176/PI-14) and accepted written comments. In April the Director of the Telecommunications Department recommended that a task force of no more than 20 members be appointed to submit a recommendation to the Commission in Fall, 1996.

NEW MEXICO

New Mexico has opened a proceeding but no procedural schedule has been issued yet. The state has an intrastate USF to which only U S West currently contributes.

NEVADA

Nevada has not conducted any universal service proceedings and has a very limited high cost fund used by only one company. Rural LECs have traditionally received significant subsidies from NECA. The state has never provided additional subsidies. In fact Nevada eliminated the carrier common line charge (CCL) years ago.

OREGON

The state's ongoing universal service docket is inactive until a FCC decision. A hearing is tentatively scheduled for July 31, 1997.

UTAH

The state has maintained a universal service fund since 1991. The Public Service Commission

State US Proceedings
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recently asked the Division of Public Utilities to revisit universal service but indicated a strong preference for a proxy model. Further actions are on hold until the FCC ruling.

WASHINGTON

The state's ongoing universal service rulemaking is being held in abeyance until FCC action on universal service.

WYOMING

The 1995 legislation instituted a state fund. The Commission opened a rulemaking docket about a year ago. An order has not been issued as the Commission is waiting for a federal decision. Wyoming will need a new statute to achieve neutrality.