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October 30, 1996

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

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

Dear Mr. Caton:

Today MCI sent a letter to each Joint Board member regarding MCI's universal service unitary fund proposal. Please include the enclosed letters as part of the record in this proceeding.

Sincerely,

Kimberly M. Kirby

Kimberly M. Kirby

Attachments

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Jonathan B. Sallet
Chief Policy Counsel

October 30, 1996

The Honorable Reed E. Hundt
Chairman
Federal Communications Commission
1919 M Street, N.W., Room 814
Washington, DC 20554

Dear Chairman Hundt:

MCI would like to focus your attention on two policy issues that will have a major effect on whether the reform of universal service policy will be successful in stimulating competition in local markets throughout the United States: the need for a unitary fund and the definition of "service areas" for carriers eligible to receive universal service support.

For several years, MCI has advocated a unitary state-federal universal service subsidy mechanism covering the entire subsidy needed to preserve local rates at an affordable level (e.g., the current nationwide average of $20 per month). The subsidy would be assessed on all revenues, interstate and intrastate, of interstate telecommunications carriers, which would include, for example, local exchange providers offering exchange access, and would fund the difference between the forward looking costs of basic universal service and the nationwide benchmark for affordable service. A unitary subsidy mechanism would be easier to administer than any alternative and would provide much greater certainty to companies making financial decisions on whether to make investments to serve high cost areas.

Others have suggested that a carrier's interstate revenues alone would be assessed. The only way to accommodate the significantly reduced funding base for the subsidy under such circumstance, would be to set the nationwide benchmark at a much higher level, e.g., $40 a month. Otherwise, interstate services would bear a disproportionate share of the cost of universal service. In turn, to maintain local rates below this high nationwide benchmark, most states would have to establish large subsidy mechanisms funded from assessments on telecommunications carriers' intrastate revenues. This would have several deleterious effects.

Because the assessment rate would be different for interstate and intrastate revenues, the price to a customer of an identical service (e.g. toll service) sold under two different jurisdictional umbrellas (interstate vs. intrastate) could never be equalized. This is at odds with a well-functioning, competitive market. It would force reliance on jurisdictional reporting by ALL telecommunications carriers, and increase regulatory burdens and distortions, rather than lead the way to less regulation. Moreover, even if there were no enforcement problems associated with jurisdictional reporting, carriers would be given an incentive to structure rates for bundled offerings in a manner that would increase the reported revenues from the jurisdiction with the lower universal service assessment. For example, a carrier that faced a higher interstate assessment rate could discount interstate toll service to customers willing to pay a higher flat rate for local service. This makes no sense. Pricing decisions and practices should be driven by cost, not by government rules.

It is also important to provide certainty to the marketplace, as soon as possible. The development of a comprehensive, unitary universal service mechanism by federal and state regulators is very important to carriers making plans to invest in the local markets. If a comprehensive plan dealing with the universal service subsidy is not established within the statutory time limits, the investment climate will be chilled, and progress toward competition and deregulation in telecommunications markets will be significantly hampered.

The universal service subsidy also must be available in a competitively neutral manner and, therefore, "service areas," for the purpose of universal service support, must be defined so as not to inhibit competition. Specifically, defining the "service area" as the entire area served by the incumbent LEC would be a barrier to entry because, in the near term, new entrants would not be able to provide service for the entire area and, therefore, they would not be eligible to receive universal service support for those areas where they could provide service. New entrants would not be able to provide a competitively viable service if they do not receive universal service support where the incumbent does receive support. Thus, defining the "service area" as the entire area served by the incumbent LEC could prevent the development of competition in any area served by the LEC. In addition, there is no need to define "service areas" broadly because forward-looking cost models, such as Hatfield, identify the cost of basic universal service on a disaggregated basis-- indeed, down to census block groups-- which effectively precludes any fear that new entrants could gain a competitive advantage by serving only lower cost customers while receiving the same level of support as the incumbent that serves a larger area.

I would be happy to discuss these issues with you at any time.

Sincerely,

Jonathan B. Sallet

cc: William F. Caton, Secretary, Federal Communications Commission