

this time.

387. Further, the Joint Board recommends that the Commission prohibit carriers receiving universal service support for providing Lifeline service from disconnecting such service for non-payment of toll charges.¹²⁸⁶ As the NPRM noted, recent studies suggest that disconnection for non-payment of toll charges is a significant barrier to universal service.¹²⁸⁷ We find that low-income consumers should not be prevented from making local telephone calls because they did not pay long distance charges, because such local calls could be emergency telephone calls or calls to schools, government offices, or health care providers. We conclude that this requirement is consistent with section 254(c) because access to calls is "essential to education, public health, or public safety" and "consistent with the public interest, convenience, and necessity."¹²⁸⁸ We also find that a rule prohibiting carriers from disconnecting Lifeline subscribers' local service for non-payment of toll charges will create an incentive for carriers to offer low-income consumers toll-limitation services to manage their toll expenditures.

388. We further recommend, however, that the Commission provide state utilities regulators with the authority to grant carriers a limited waiver of this requirement if the carrier can establish that: (1) it would incur substantial costs in complying with such a requirement; (2) it offers toll-limitation services to its Lifeline subscribers at no charge; and (3) telephone subscribership among low-income consumers in the carrier's service area is at least as high as the national subscribership level for low-income consumers. We recommend that this waiver be extremely limited and that a carrier should be required to meet a very heavy burden to obtain a waiver. Furthermore, we recommend that the waiver would terminate after two years, at which time carriers could reapply for the waiver.

389. The Joint Board also recommends, in its discussion of Link Up in section VIII. C., *infra*, that the Commission implement a national policy prohibiting telecommunications carriers from requiring Lifeline-participating subscribers to pay service deposits in order to initiate service if the subscriber voluntarily elects to receive toll blocking.¹²⁸⁹

390. Some commenters suggest that free access to information about telephone

¹²⁸⁶ This recommendation should not be construed to affect the ability of the states to implement a policy prohibiting disconnection of local service for non-payment of toll charges for non-Lifeline customers.

¹²⁸⁷ NPRM at para. 56 (*citing Subscribership Notice at 13005-06*).

¹²⁸⁸ 47 U.S.C. § 254(c)(1)(A), (D).

¹²⁸⁹ Our recommendation does not address the issue of whether states may allow a LEC to request a service deposit from a customer with an outstanding balance owed to another LEC.

service for low-income consumers should receive universal service support.¹²⁹⁰ These commenters appear to be concerned that low-income consumers will be unable to place calls to gain telephone service information if the calls would otherwise be an in-region toll call, or if the state's Lifeline program allows only a limited number of free calls. Similarly, NAD suggests that universal service support mechanisms should provide support so that TTY users can make free relay calls to numbers providing LEC service information.¹²⁹¹ We conclude that the states are best suited to determine, pursuant to section 254(f), whether to require carriers to provide free access to information about telephone service for low-income consumers, because they are most familiar with the number of consumers in their state affected by charges for these calls and may do so pursuant to 254(f) through their own universal service support mechanism. We also find that the record in this proceeding is inadequate to permit a recommendation on this subject that would comport with competitive neutrality by assuring consumers' access to such information for all service providers. We find that the same concerns militate against providing support for low-income consumers with disabilities making relay calls to gain access to LEC service information.

391. Some commenters favor universal service support for usage of interexchange and advanced services for low-income consumers.¹²⁹² We find, however, that it is unclear whether providing support for such services is necessary at this time. We believe the steps we suggest today for ensuring universal service for low-income consumers are likely to increase their access to interexchange and advanced services. In the event that low-income consumers lack access to such services in the future, impeding the achievement of universal service goals, we recommend that the Commission revisit this issue.

392. Other commenters propose support for special-needs equipment for low-income subscribers with disabilities.¹²⁹³ We note, however, that the 1996 Act specifically addresses access to telecommunications services and equipment by individuals with disabilities outside the context of section 254.¹²⁹⁴ We therefore conclude that these matters need not be addressed by this Joint Board because they will be addressed in a separate proceeding to implement section 255.

¹²⁹⁰ See, e.g., CNMI comments at 19-20; Edgemont comments at 12; Michigan Consumer Federation comments at 20.

¹²⁹¹ NAD reply comments at 22.

¹²⁹² See, e.g., Brite comments at 1-2; Governor of Guam comments at 12-14; New Mexico AG comments at 4.

¹²⁹³ See, e.g., Council of Organizational Representatives reply comments at 3; Michigan PSC comments at 2; NAD reply comments at 8; New York DPS comments at 15; United Cerebral Palsy Ass'n reply comments at 2.

¹²⁹⁴ See 47 U.S.C. § 255.

393. Commenters propose other services and functionalities for low-income consumers that they assert should be supported through universal service support mechanisms, such as caller ID at a reduced rate,¹²⁹⁵ "soft dial tone" or "warm line,"¹²⁹⁶ support for optional services at regular rates,¹²⁹⁷ and multi-lingual information regarding billing and rates.¹²⁹⁸ Although these proposed services may benefit low-income customers, we find that the states are best positioned to ascertain, pursuant to section 254(f), whether these types of proposed support should be provided to low-income customers, due to the states' greater familiarity with regional and local demographic, socio-economic, and rate-making factors and may do so pursuant to 254(f) through their own universal service support mechanism.

394. Moreover, the inclusion of additional services and functionalities beyond those necessary to effectuate a comprehensive federal universal service policy would be inappropriate and may have the effect of unreasonably and unnecessarily expanding all carriers' universal service obligations, with inevitable effects on rates.¹²⁹⁹ Therefore, we limit our recommendation to the services and rules described *supra* and the modifications to Lifeline and Link Up described *infra*.

C. Reevaluation of Existing Low-Income Support Programs

1. Background

395. Section 254(b)(3) states that consumers in all regions of the Nation, including low-income consumers, "should have access to telecommunications and information services, including interexchange services and advanced telecommunications and information services, that are reasonably comparable to those services provided in urban areas and that are available at rates that are reasonably comparable to rates charged for similar services in urban areas."¹³⁰⁰ Section 254(b)(1) provides that telecommunications services should be "affordable," and section 254(d) requires all providers of interstate telecommunications service to contribute to universal service support on an equitable and nondiscriminatory basis. Section 254(j),

¹²⁹⁵ NTIA reply comments at 7.

¹²⁹⁶ See, e.g., Edgemont comments at 16; PacTel comments at 22.

¹²⁹⁷ Texas OPUC comments at 17.

¹²⁹⁸ See, e.g., La Raza comments at 6-7; Virginia CC comments at 4; Ohio Consumers' Council reply comments at 16; .

¹²⁹⁹ Increases in the size of the fund, regardless of the magnitude, will in most cases be reflected through increased rates. This result, of course, negatively affects the overall affordability of rates.

¹³⁰⁰ 47 U.S.C. § 254(b)(3).

however, provides that "[n]othing in [section 254] shall affect the collection, distribution, or administration of the Lifeline Assistance Program provided for by the Commission under regulations set forth in section 69.117 of title 47, CFR, and other related sections of such title."¹³⁰¹

396. As noted in the NPRM, the Commission's Lifeline program currently provides support that reduces the charges low-income consumers in participating jurisdictions incur for some state-specified level of local service that includes access to the public switched telephone network (PSTN) and some local calling.¹³⁰² States may choose to participate in either of two Lifeline Assistance plans. Under Plan 1, an eligible subscriber's monthly telephone bill is reduced by an amount equal to the \$3.50 federal subscriber line charge imposed on such subscribers.¹³⁰³ Half of the reduction comes from a 50 percent waiver of the charge; the other half comes from the participating state, which matches the federal contribution by an equal reduction in the local rate. Under this plan, subscribers who satisfy a state-determined means test may receive assistance for a single telephone line in their principal residence. Under Plan 2, which expands Plan 1 to provide for waiver of the entire residential SLC (up to the amount matched by the state), a subscriber's bill may be reduced by twice the SLC (or more, if the state more than matches the value of the federal waiver).¹³⁰⁴ The state contribution may come from any intrastate source, including state assistance for basic local telephone service, connection charges, customer deposit requirements, or state taxes. Under both plans, the interstate portion of Lifeline is billed to IXC's by NECA.¹³⁰⁵ While Plan 2 requires the verification of participating subscribers' eligibility, Plan 1 requires only that subscribers' eligibility be "subject to verification."¹³⁰⁶ Of the 43 states or other jurisdictions participating in Lifeline, only California offers a Lifeline program under Plan 1.¹³⁰⁷

¹³⁰¹ 47 U.S.C. § 254(j). Section 69.117 of the Commission's rules addresses the conditions and mechanisms for waiver of the subscriber line charge for Lifeline participants. 47 C.F.R. § 69.117.

¹³⁰² 47 C.F.R. § 69.104(j)-(l). Currently, 41 states plus the U.S. Virgin Islands and the District of Columbia participate.

¹³⁰³ 47 C.F.R. § 69.104(j).

¹³⁰⁴ 47 C.F.R. § 69.104(k).

¹³⁰⁵ 47 C.F.R. § 69.117.

¹³⁰⁶ 47 C.F.R. § 69.104(j).

¹³⁰⁷ Indus. Analysis Div., FCC, *Monitoring Report May 1995 CC Docket No. 87-339*, at tbl. 2.1 (1995) (*Monitoring Report*). California allows subscribers to self-certify their eligibility to participate in the Lifeline program.

397. Link Up helps low-income subscribers initiate telephone service by paying half of the first \$60.00 of installation charges.¹³⁰⁸ Where a LEC has a deferred payment plan, Link Up will also pay the interest on any balance up to \$200.00, for up to one year.¹³⁰⁹ To be eligible for this program, subscribers must meet a state-established means test, and may not, unless over 60 years old, be another's dependent for federal income tax purposes.¹³¹⁰

398. The NPRM sought comment generally on whether "changes to our Lifeline and Link Up programs should be made as part of an overall mechanism to ensure that quality services are available at just, reasonable, and affordable rates for low-income subscribers."¹³¹¹ The NPRM proposed to amend the Link Up program by removing it from the jurisdictional separations rules through which it is now funded for low-income subscribers of incumbent LECs and funding the program through a new universal service mechanism consistent with sections 254(d) and (e). In the NPRM, the Commission also sought "comment and a Joint Board recommendation on how to define eligible low-income customers."¹³¹² The NPRM observed that the states currently determine Lifeline eligibility based on means-tested criteria they select.¹³¹³

399. In its Public Notice, the Commission's Common Carrier Bureau asked: (1) whether the new universal service fund should provide support for Lifeline and Link Up in order to make the subsidies technologically and competitively neutral, and (2) if so, whether the amount of the Lifeline subsidy still should be tied to the amount of the SLC.¹³¹⁴

2. Comments

400. Retain Lifeline and Link Up in their Current Form. A majority of commenters support the Lifeline and Link Up programs, with most asking only that support for these

¹³⁰⁸ 47 C.F.R. § 36.711.

¹³⁰⁹ 47 C.F.R. § 36.711(a)(2).

¹³¹⁰ 47 C.F.R. § 36.711(b).

¹³¹¹ NPRM at para. 65.

¹³¹² NPRM at para. 59.

¹³¹³ NPRM at para. 61.

¹³¹⁴ Public Notice at Question 71.

programs be maintained or increased.¹³¹⁵ Missouri PSC, Washington UTC, and Ohio PUC support Lifeline and Link Up in their current form.¹³¹⁶

401. Effect of Section 254(j). A few commenters appear to read section 254(j) as precluding the Commission from making any changes to the Lifeline program.¹³¹⁷ Bell Atlantic, however, interprets section 254(j) to permit the Commission to leave the Lifeline program in place if it wishes to do so, even though the program may currently conflict with other goals in the statute.¹³¹⁸

402. Change Lifeline and Link Up. NTIA and Citizens Utilities propose changes to the Lifeline program. Some commenters suggest mandating that all states participate in the Lifeline program.¹³¹⁹ NTIA, for example, maintains that the 1996 Act appears to require federal support for low-income consumers regardless of whether the state in which they live matches federal low-income support.¹³²⁰ NTIA observes, however, that removing the matching requirement might reduce the incentive for currently-participating states to continue providing support, and therefore advocates reducing the matching requirement to 25 percent of the federal support level.¹³²¹ North Dakota PSC would make participation in Lifeline and Link Up a condition for carriers to receive any type of universal service support.¹³²² Michigan PSC proposes that the Commission modify the programs so that federal and the state funds would each contribute 50 percent of customers' costs associated with Link Up, Lifeline, and special needs equipment; federal support mechanisms and the provider would each contribute 50 percent of customers' costs associated with a special low-income local service package

¹³¹⁵ See, e.g., Farmers Tel. comments at 4-5; Michigan PSC comments at 2; Mon-Cre comments at 5; Ohio PUC comments at 7 (advocating expanding Lifeline to waive the entire subscriber line charge); South Dakota comments at 1-7; Sprint comments at 21 (suggesting that more effort be made to educate low-income consumers about the existence of Lifeline and Link Up); TCA comments at 5; Telec Consulting comments at 15; Winnebago Tel. comments at 1; U S West further comments at 31 (supporting the programs but believing the Commission should re-examine the caps placed on these programs as rates are rebalanced).

¹³¹⁶ Missouri PSC comments at 12; Ohio PUC comments at 7; Washington UTC comments at 12.

¹³¹⁷ See, e.g., Ad Hoc Telecom. Users comments at 2 n.1; Associated Communications comments at 3; PacTel comments at 22; Washington UTC comments at 14; Puerto Rico Tel. Co. further comments at 22.

¹³¹⁸ See, e.g., Bell Atlantic further comments at 15.

¹³¹⁹ Citizens Utilities comments at 17; NTIA reply comments at 14-15.

¹³²⁰ NTIA reply comments at 14-15.

¹³²¹ NTIA reply comments at 14-15.

¹³²² North Dakota PSC comments at 2-3.

including, among other options, toll restriction.¹³²³ Western Alliance notes that while rural subscribers may pay only \$10.00 per month for local, flat-rate calling, they may pay at least twice that much for short-haul toll calls to the nearest schools, hospitals, local government offices, and other destinations.¹³²⁴ Western Alliance therefore suggests that Lifeline support be provided for such toll calls.¹³²⁵

403. Change Lifeline and Link Up to Support Competitive Neutrality. A large number of commenters argue for changing the way Lifeline and Link Up are funded in order to achieve competitive neutrality.¹³²⁶ Specifically, many commenters contend that the new universal service support mechanism should provide support for Lifeline and Link Up because having all telecommunications providers -- not just IXC's -- contribute will make the subsidies competitively neutral.¹³²⁷ Additionally, several commenters suggest basing contributions on a contributor's revenue rather than on the carrier's number of presubscribed lines, as the current Lifeline and Link Up programs do. They assert that this change would make the assessment more competitively neutral.¹³²⁸ But other parties, such as NCTA, PacTel, and SNET, propose that Lifeline and Link Up should not receive support through universal service support mechanisms.¹³²⁹ PacTel and SNET oppose changing the current contribution mechanism because the current programs are explicit support mechanisms specifically targeted to individual subscribers.¹³³⁰

404. Commenters suggest that in addition to changing the way in which Lifeline and

¹³²³ Michigan PSC comments at 2.

¹³²⁴ Western Alliance further comments at 16.

¹³²⁵ Western Alliance further comments at 16.

¹³²⁶ See, e.g., CompTel comments at 19-20; GTE comments at 22; MCI comments at 5-6; RTC further comments at 34-35; USTA further comments at 31-32; Vitelco further comments at 15.

¹³²⁷ See, e.g., AT&T reply comments at 21 (adding that states can establish separate state-specific funds if they deem it necessary); Ameritech further comments at 47; BellSouth further comments at 56; CompTel further comments at 14; CFA further comments at 27; GSA further comments at 16; GTE further comments at 60; MCI further comments at 32-33; MFS further comments at 53; NYNEX further comments at 48; Sprint further comments at 19.

¹³²⁸ CompTel comments at 19-20; NECA further comments at 39; USTA further comments at 31-32; Vitelco further comments at 15.

¹³²⁹ See, e.g., NCTA further comments at 25; PacTel further comments at 59; SNET further comments at 7; SWBT further comments at 46.

¹³³⁰ PacTel further comments at 59 (also stating that all Lifeline and Link Up providers should be potential recipients of funds); SNET further comments at 7.

Link Up funds are collected, the Commission should alter the basis on which Lifeline benefits are determined for low-income consumers in order to further competitive neutrality.¹³³¹ Specifically, some commenters suggest not basing the amount of support on the SLC.¹³³² These commenters propose several alternatives for determining support for low-income individuals. For example, some commenters suggest that Lifeline support should be based on a rate determined to be affordable by low-income consumers.¹³³³ Professor Patricia Worthy proposes a federal low-income rate set at one percent of the federal minimum wage, based on research showing that low-income consumers spend approximately one percent of their incomes on telephone service.¹³³⁴ Universal service support mechanisms would provide support for the difference between one percent of the minimum wage and a low-income subscriber's monthly bill.¹³³⁵ This would mean low-income consumers should pay a maximum rate of \$8.93 per month for telephone service (which would include a flat rate with a 120-free call allowance, DTMF, access to emergency services, access to operator services and 12 free calls per month, access to long distance carriers, a white pages listing, free toll blocking, and blocking for 900, 976, and 976-like services).¹³³⁶

405. Puerto Rico Tel. Co. recommends giving a LEC an \$8.00 per month universal service support payment for each customer living below the poverty line.¹³³⁷ The LEC would credit the customer's account \$6.00 per month and keep \$2.00 to cover costs. Based on the average residential service rate of \$15.00 per month (excluding the SLC, taxes, and DTMF service), low-income consumers' monthly rates would be approximately \$9.00.¹³³⁸

¹³³¹ See, e.g., Ameritech further comments at 47; CompTel further comments at 14; MCI further comments at 32; Time Warner further comments at 56; U S West further comments at 31; Professor Patricia Worthy further comments 8-11.

¹³³² See, e.g., Ameritech further comments at 47; CompTel further comments at 14; MCI further comments at 32.

¹³³³ See, e.g., Puerto Rico Tel. Co. reply comments at 7-11; Professor Patricia Worthy further comments at 8-11.

¹³³⁴ Professor Patricia Worthy further comments at 8-11. See also USTA comments at 16 n.21 (concluding that Americans spend an average of one percent of their income on universal services).

¹³³⁵ Professor Patricia Worthy further comments at 8-11. Alternatively, Professor Worthy would set the federal low-income rate at the average of current state Lifeline rates.

¹³³⁶ Professor Patricia Worthy further comments at 10.

¹³³⁷ Puerto Rico Tel. Co. reply comments at 7-10.

¹³³⁸ *Id.* (also suggests stimulating network expansion of services to low-income people by providing incentive payments to eligible carriers that extend service to previously unserved residential subscribers).

406. LCI recommends providing low-income consumers a subsidy that is the difference between prevailing rates for the package of designated services and the rate level at which these services become affordable.¹³³⁹ It states that under the 1996 Act, explicit and predictable support mechanisms must be developed to ensure that low-income individuals can afford the designated services.¹³⁴⁰ It argues that the best way to determine who is eligible for low-income support is through the existing Lifeline and Link Up programs.¹³⁴¹

407. MCI maintains that Lifeline and Link Up should be tied to the total costs of the loop, rather than the SLC.¹³⁴² Under MCI's proposal, support would be determined by the difference between the nationwide average local rate and the economic cost of the service.¹³⁴³ Citizens suggests expanding support beyond the SLC to cover an eligible consumer's total monthly cost of universal service.¹³⁴⁴ MFS proposes that Lifeline support be fixed at current levels and adjusted as the Commission believes necessary to address the needs of low-income individuals.¹³⁴⁵

408. Some commenters advocate keeping the amount of support for low-income consumers tied to the SLC.¹³⁴⁶ GSA takes this position because the SLC is the portion of the subscriber's local service bill that is subject to federal regulation.¹³⁴⁷ BellSouth and TCI argue that keeping support linked to the SLC will prevent increases to low-income consumers' bills if the SLC is otherwise increased.¹³⁴⁸ If the SLC increases, BellSouth, Ohio Consumers' Counsel, Wisconsin PSC, Maine PUC and USTA maintain that Lifeline support should

¹³³⁹ LCI comments at 7.

¹³⁴⁰ LCI comments at 7.

¹³⁴¹ LCI comments at 7.

¹³⁴² MCI further comments at 32-33.

¹³⁴³ MCI further comments at 32-33. *See also* Sprint further comments at 19 (advocating de-linking the amount of support from the SLC and tying it to a specified percentage of local rates).

¹³⁴⁴ Citizens Utilities comments at 17.

¹³⁴⁵ MFS further comments at 53.

¹³⁴⁶ *See, e.g.,* Bell South further comments at 56; Florida PSC further comments at 17 (at least at the outset tied to the subscriber line charge); NCTA further comments at 25; SWBT further comments at 46; TCI further comments at 40.

¹³⁴⁷ GSA further comments at 16.

¹³⁴⁸ BellSouth further comments at 56; TCI further comments at 40.

increase accordingly.¹³⁴⁹

409. Some commenters advocate making Lifeline benefits "portable," i.e., assignable to the provider of the subscriber's choice.¹³⁵⁰ Because the federal component of Lifeline currently is a waiver of the SLC, Lifeline benefits cannot be applied to services without a SLC (such as wireless services or voice mail). GTE suggests that Lifeline customers receive a credit that can be applied to any telecommunications service they select, whether wireline or wireless.¹³⁵¹ GTE further contends that the amount of the credit should equal at least the subscriber line charge and be linked to an inflation index so that the passage of time does not dilute the effectiveness of the program.¹³⁵² 360 recommends giving the subsidy directly to consumers through vouchers consumers could use with the telecommunications provider of their choice.¹³⁵³ TIA and Michigan Consumer Federation also suggest vouchers, with the latter emphasizing that vouchers should be convenient and non-stigmatizing.¹³⁵⁴ AT&T maintains that small, rural carriers should be exempted from a portability requirement because the administrative costs of portability could outweigh the benefits.¹³⁵⁵

410. Modify Link Up. Some commenters also propose modifications to the Link Up program. MCI, NCTA, and LDDS, for example, suggest modifying the Link Up program so that it is no longer based on jurisdictional separations rules, and therefore all telecommunications carriers can be required to participate.¹³⁵⁶ PULP argues that support should be increased so that qualifying customers pay no more than \$10.00 in installation

¹³⁴⁹ BellSouth comments at 13; Maine PUC comments at 21; Wisconsin PSC comments at 11-12; Ohio Consumers' Council reply comments at 16; USTA reply comments at 9.

¹³⁵⁰ See, e.g., California PUC comments at 16-17; CompTel comments at 19-20; MCI comments at 19 (allowing consumers to select the services they want); New Jersey BPU comments at 5; PCIA comments at 15; PacTel further comments at 60 (suggesting that a flexible credit applicable to a call control/spending feature may be of more value to consumers); Time Warner further comments at 56.

¹³⁵¹ GTE further comments at 22.

¹³⁵² GTE further comments at 22 n.47. See also Time Warner further comments at 56 (supporting "portable" subsidies expressed as specific dollar amounts, rather than as percentage "discounts" off the regular price of the service).

¹³⁵³ 360 comments at 8.

¹³⁵⁴ Michigan Consumer Federation comments at 23; TIA comments at 2 n.2.

¹³⁵⁵ AT&T comments at 9 n.12 (once a state commission determines that it is in the public interest for a rural carrier to interconnect with new entrants in their territory pursuant to § 251(f)(1)(B), however, the subsidy should become portable).

¹³⁵⁶ LDDS comments at 19; MCI comments at 5-6; NCTA comments at 15.

charges.¹³⁵⁷ Texas OPUC suggests that the Link Up program be supported by new universal service support mechanisms, rather than by IXCs.¹³⁵⁸ Catholic Conference would amend Link Up to provide assistance for more than one initiation of service per year.¹³⁵⁹

411. Who Should Determine Eligibility. Most states and state public utility commissions argue that the states should determine eligibility criteria for universal service low-income support.¹³⁶⁰ Michigan Consumer Federation argues that states should possess wide latitude to tailor eligibility criteria to reflect local needs and circumstances.¹³⁶¹ It maintains that use of national standards could result in support that is too generous for some states and insufficient for others.¹³⁶² Other commenters note that the states should base eligibility on enrollment in a federal program.¹³⁶³ AT&T maintains that states initially should set the maximum income threshold to establish eligibility and then identify one or more assistance programs in which a consumer must participate in order to qualify.¹³⁶⁴ NCTA, however, maintains that low-income customers eligible for support should be defined consistently across the country, rather than on a state-by-state basis.¹³⁶⁵

412. Bases on Which to Determine Eligibility. Commenters suggest a variety of methods to determine eligibility for support. Florida PSC recommends providing support to individuals who receive state assistance.¹³⁶⁶ NCTA¹³⁶⁷ suggests basing eligibility on whether the consumer receives federal assistance from one of the four major assistance programs: Aid

¹³⁵⁷ PULP comments at 20.

¹³⁵⁸ Texas OPUC comments at 17.

¹³⁵⁹ Catholic Conference comments at 22. *See also* NTIA reply comments at 18-19 (suggesting allowing subscribers to receive more frequent assistance with installation charges if they accept toll blocking).

¹³⁶⁰ *See, e.g.*, Alaska comments at 14; Ohio PUC comments at 11 (but recommending that no household earning more than 150 percent of the poverty level be eligible for support); Virginia CC comments at 4.

¹³⁶¹ Michigan Consumer Federation comments at 19.

¹³⁶² Michigan Consumer Federation comments at 19.

¹³⁶³ *See, e.g.*, AT&T comments 17-18 n.22; Virginia CC comments at 4 (advocating reliance on existing identifiers, e.g., Medicaid and Food Stamps, rather than inventing new definitions).

¹³⁶⁴ AT&T comments at 17-18 n.22.

¹³⁶⁵ NCTA comments at 14.

¹³⁶⁶ Florida PSC comments at 17.

¹³⁶⁷ NCTA comments at 14-16.

to Families with Dependent Children (AFDC);¹³⁶⁸ Supplemental Security Income (SSI);¹³⁶⁹ Food Stamps;¹³⁷⁰ and Medicaid.¹³⁷¹ PULP proposes to include customers receiving either federal or state-funded assistance, while providing the states with the ability to include consumers who have incomes slightly above the levels required to receive federal government assistance.¹³⁷² MPSC, among others, emphasizes that enrollment should be automatic, so that recipients of AFDC, for example, are automatically enrolled in Lifeline.¹³⁷³ New York DPS supports automatic enrollment and re-evaluating eligibility using merged telephone company and social service agency databases.¹³⁷⁴ New York DPS claims that the merged databases reduce costs by terminating support to ineligible households, while also increasing subscribership among qualifying households.¹³⁷⁵ Other commenters suggest providing support to people who receive an Earned Income Credit on their tax returns.¹³⁷⁶ Community Colleges maintains that community colleges should be considered low-income consumers.¹³⁷⁷ Catholic Conference recommends extending subsidies to schools and shelters that supply telephone service free of charge to the indigent, homeless, migrant workers, and victims of domestic violence.¹³⁷⁸ La Raza advocates providing support to non-profit charitable organizations that

¹³⁶⁸ AFDC provides transitional financial assistance to needy families. Federal and state governments share the cost. The federal government provides broad guidelines and program requirements, and states are responsible for program formulation, benefit determinations, and administration.

¹³⁶⁹ SSI provides financial assistance to people who are 65 or older, blind, or have a disability and who meet certain income guidelines.

¹³⁷⁰ The Food Stamp Program is designed to increase the food purchasing power of eligible low-income households. Benefits are available to nearly all households that meet federal eligibility tests. Recipients of AFDC and SSI generally are automatically eligible for food stamps.

¹³⁷¹ States are required to provide Medicaid coverage for most individuals who receive federally assisted income maintenance payments, such as AFDC and SSI. In addition, states have the option of providing Medicaid coverage to other groups.

¹³⁷² PULP comments at 19.

¹³⁷³ Montana PSC comments at 5.

¹³⁷⁴ New York DPS comments at 14.

¹³⁷⁵ New York DPS comments at 14.

¹³⁷⁶ Florida PSC comments at 17.

¹³⁷⁷ Community Colleges comments at 5.

¹³⁷⁸ Catholic Conference comments at 21-22.

offer advanced telecommunications services to low-income consumers.¹³⁷⁹

413. Several commenters suggest that households living below a certain percentage of the poverty line should be eligible for support.¹³⁸⁰ Puerto Rico Tel. Co. uses the poverty line as the demarcation of eligibility for support.¹³⁸¹ AARP, for example, suggests that households with income below 125 percent of the poverty line are eligible for support, while Edgemont advocates a 150 percent demarcation level.¹³⁸² Several parties explicitly oppose using poverty levels as the determining factor.¹³⁸³ NCTA believes that poverty levels do not define with sufficient certainty who is covered and, ultimately, the size of the subsidy.¹³⁸⁴

414. Ameritech, NYNEX, MFS, and NCTA emphasize that universal service support should be specifically targeted to only those customers who in fact need assistance to obtain the designated services.¹³⁸⁵ In this way, Ameritech contends, assistance for low-income consumers can work in tandem with the affordability benchmark rate for high cost areas.¹³⁸⁶

415. La Raza recommends that the Commission set a universal service goal with regard to low-income consumers to give effect to section 254(b).¹³⁸⁷ The goal La Raza advocates would be that carriers in each state should work to achieve the statewide average rate of subscribership among low-income, minority, and limited-English-speaking communities in that state.¹³⁸⁸ Similarly, NTIA recommends that the Commission adopt a "National Subscribership Goal" to ensure that the number of households with telephones among low-

¹³⁷⁹ La Raza comments at 17-18.

¹³⁸⁰ See, e.g., AARP comments at 20-21 (advocating self-certification, with verification, for qualifying households); Puerto Rico Tel. Co. comments at 10; Edgemont reply comments at 4. See also NASUCA comments at 7 (advocating self-certification).

¹³⁸¹ Puerto Rico Tel. Co. comments at 10.

¹³⁸² AARP comments at 20-21; Edgemont reply comments at 4.

¹³⁸³ See, e.g., Virginia CC comments at 3-4; NCTA reply comments at 17.

¹³⁸⁴ NCTA comments at 17.

¹³⁸⁵ NCTA comments at 17; NYNEX comments at 13; Ameritech reply comments at 17; MFS reply comments at 3.

¹³⁸⁶ Ameritech reply comments at 17.

¹³⁸⁷ La Raza reply comments at 4.

¹³⁸⁸ La Raza reply comments at 4.

income households is at least equal to the national average.¹³⁸⁹

3. Discussion

a. Lifeline

416. We continue to be concerned about the low subscribership levels among low-income consumers. Current penetration rates are only 87.1 percent among households with annual incomes less than \$10,000.00 and 75 percent among households with annual incomes less than \$5,000.00.¹³⁹⁰ Affordable access is also an issue in insular jurisdictions, where the cost of providing service is high and incomes are often low. In Puerto Rico, which has a higher than average percentage of low-income consumers, telephone subscribership is 72 percent, compared to almost 94 percent in the rest of the United States.¹³⁹¹ Additionally, the Governor of Guam maintains that low-income consumers in Guam may not have access to interexchange and advanced services at affordable rates.¹³⁹² Subscribership levels among low-income consumers indicate that changes in the current Lifeline program are warranted.

417. Currently, only 41 states, the District of Columbia and the U.S. Virgin Islands participate in Lifeline.¹³⁹³ Therefore, the Joint Board recommends modifying the federal Lifeline program to reach low-income consumers in every state.¹³⁹⁴ We further recommend that, in order to be eligible for support from the new national universal service support mechanism pursuant to section 214(e)(1), carriers must offer Lifeline assistance to eligible low-income customers. We find that these modifications will serve as a means of fulfilling the statutory principle that telecommunications services should be available to low-income consumers "in all regions of the Nation."¹³⁹⁵ Moreover, we conclude that these proposed changes are consistent with section 254 and the pro-competitive goals of the 1996 Act. The

¹³⁸⁹ NTIA reply comments at 12.

¹³⁹⁰ Indus. Analysis Div., FCC, *Monitoring Report May 1995 CC Docket No. 87-339 (1996) (Monitoring Report)*.

¹³⁹¹ Puerto Rico Tel. Co. comments at 8.

¹³⁹² Governor of Guam comments at 12-13.

¹³⁹³ Indus. Analysis Div., FCC, *Monitoring Report May 1995 CC Docket No. 87-339*, at tbl. 2.1 (1996) (*Monitoring Report*). The states without Lifeline programs are: Delaware; Indiana; Iowa; Kansas; Kentucky; Louisiana; Nebraska; New Hampshire; New Jersey; and Puerto Rico.

¹³⁹⁴ Hereinafter, "states" will refer to all states, territories, and commonwealths within the jurisdiction of the United States.

¹³⁹⁵ 47 U.S.C. § 254(b)(3).

Commission's current Lifeline program requires states to provide support from intrastate sources to reduce Lifeline subscribers' bills by an amount at least equal to the amount of federal support. As a result, low-income consumers in states choosing not to provide such matching support lack the opportunity to benefit from the Lifeline program. We recommend that the Commission modify the Lifeline program to ensure that low-income consumers may receive Lifeline support without regard to the state in which they reside.¹³⁹⁶ We are reluctant, however, to recommend mandatory participation by states or carriers in a program that requires states to generate support from the intrastate jurisdiction.

418. One possible solution to this problem would be to eliminate the requirement of intrastate matching support as a condition of receiving federal support for Lifeline. We are concerned, however, that eliminating the matching requirement might reduce a state's incentive to provide intrastate support to reduce Lifeline rates further. Although the current Lifeline program, which provides for total reductions of at least \$7.00 in Lifeline subscribers' bills (including state matching support)¹³⁹⁷ has been successful,¹³⁹⁸ we are uncertain whether \$3.50 in federal support, absent state matching, would reduce low-income consumers' monthly bills sufficiently to achieve our goals here. Moreover, we find that it would be desirable to maintain a state role in the Lifeline program, to the extent possible, because of the states' greater familiarity with income levels, demographic patterns, and other factors affecting low-income subscribership.

419. In order to reconcile our finding that Lifeline support should be extended to all states with our desire to maximize states' incentives to generate matching intrastate support for the program, we recommend that the Commission eliminate the state matching requirement and provide for a baseline level of federal support that would be available to low-income consumers in all states. In order to ensure adequate Lifeline support in states that choose not to generate intrastate matching funds, we believe this baseline federal support level should exceed the current \$3.50. To maximize matching incentives, however, we believe the baseline support level should be less than \$7.00. We therefore propose a baseline federal level halfway between the two figures at \$5.25, and recommend that the Commission seek additional information on this issue before establishing a precise baseline level. To create

¹³⁹⁶ See 47 U.S.C. § 254(c)(3) (establishing a policy of universal service support for "[c]onsumers in all regions of the Nation, including low-income consumers").

¹³⁹⁷ All states that currently participate in Lifeline participate in Plan 2, which provides for a full waiver of the \$3.50 SLC and requires state matching (for a total of \$7.00 in support), with the exception of California. See *FCC Monitoring Report*, CC Docket No. 80-286, Table 2.1 (rel. May 1996). Although California participates in Plan 1, and therefore receives only \$1.75 in federal support per subscriber, California generates intrastate support to allow Lifeline rate reductions of at least \$7.00 in total.

¹³⁹⁸ Its success is demonstrated by commenters' widespread support of the program, as well as Congress's endorsement of it in section 254(j).

further incentives for matching, we recommend that the Commission provide for additional federal support equal to one half of any support generated from the intrastate jurisdiction, up to a maximum of \$7.00 in federal support.

420. Although we believe this recommendation will best reconcile our competing objectives of providing adequate nationwide support and maximizing state matching incentives, we are concerned that the implementation of this recommendation could have no direct effect on Lifeline subscribers' rates in many populous states with existing Lifeline programs, and could instead result only in a larger percentage of the total support being generated from federal sources. Therefore we recommend that the Commission seek additional information on ways to avoid this unintended consequence before implementing this recommendation.

421. We also find it essential that the state members of the Joint Board maintain a continuing role in refining specific aspects of the Lifeline program. The state members of the Joint Board will submit a report to the Commission on Lifeline issues. The report of the state members will be filed prior to the Commission's decision on the Lifeline program in this proceeding. Thereafter, the Commission and the state members should continue to work cooperatively and remain integrally involved in refining the Lifeline program.

422. We observe that many states currently generate their matching funds through the rate-regulation process. These states allow incumbent LECs to recover the revenue the carrier loses from charging Lifeline customers less by charging other subscribers more. This creates two potential problems. First, this mechanism represents an implicit subsidy, with non-Lifeline subscribers paying more to support Lifeline subscribers. Second, it raises the question of how states would meet their matching requirement for carriers whose rates they do not regulate. Thus, we recommend that matching funds from the intrastate jurisdiction must be generated in a manner that is not inconsistent with the Commission's rules to preserve and advance universal service.¹³⁹⁹

423. To make the Commission's Lifeline program competitively neutral, the Joint Board recommends that support for eligible low-income consumers no longer be achieved through charges levied on only IXCs. We recommend that the programs be supported by a fund to which all telecommunications carriers that provide interstate service contribute on an equitable and nondiscriminatory basis as a function of their revenues, consistent with sections 254(d) and (e). Thus, for example, LECs, wireless carriers, and other interstate telecommunications service providers would contribute. De-linking Lifeline from the Commission's Part 69 rules would promote competitive neutrality by allowing the participation of carriers who do not charge SLCs, such as CLECs and wireless providers. Some commenters oppose changing the current contribution mechanism because the current

¹³⁹⁹ See 47 U.S.C. § 254(f).

programs are specifically targeted to individual subscribers.¹⁴⁰⁰ Nevertheless, we conclude, as do many commenters,¹⁴⁰¹ that the new funding mechanism we recommend will be more competitively neutral than the current system, which passes the entire federal burden of low-income support to IXC's, without sacrificing the targeting that has characterized the current program. We also conclude that low-income consumers will continue to benefit directly under our recommendation.

424. In addition to changing the contribution method for the Lifeline program, we recommend amending the program to enable all eligible telecommunications carriers, not just LEC's, to be eligible to receive support for serving qualified low-income consumers. Currently, only ILEC's serving eligible low-income consumers can receive support. With the approval of state utility commissions, ILEC's offer eligible low-income individuals reduced local rates, with reductions equal to at least the full amount of the SLC (\$3.50), or more, depending on the level of state support.¹⁴⁰² The Commission currently certifies state programs based on a demonstration that they offer eligible subscribers a Lifeline rate that is discounted by at least twice the level of SLC waiver that is requested (to account for state matching).¹⁴⁰³ Currently, NECA bills IXC's and disburses funds to the ILEC's to compensate them for SLC's not recovered from end users.¹⁴⁰⁴ We find, however, that eligible telecommunications carriers other than ILEC's should have the ability to compete to serve low-income consumers and in turn receive Lifeline support in a manner similar to the current program. We recommend that in order to participate, a carrier must demonstrate to the public utility commission of the state in which it operates that it offers a Lifeline rate to qualified individuals. We recommend that the Lifeline rate be the carrier's lowest comparable non-Lifeline rate reduced by at least the \$5.25 amount of federal support. We further recommend that support be provided directly to carriers based on the number of eligible consumers they serve under administrative procedures determined by the fund administrator.¹⁴⁰⁵ In the interest of administrative ease, we recommend against the use of vouchers, as proposed by some commenters.¹⁴⁰⁶

¹⁴⁰⁰ PacTel further comments at 59; SNET further comments at 7.

¹⁴⁰¹ See, e.g., AT&T reply comments at 21; Ameritech further comments at 47; BellSouth further comments at 56; CFA further comments at 27; CompTel further comments at 14; GSA further comments at 16; GTE further comments at 60; MCI further comments at 32-33; MFS further comments at 53; NYNEX further comments at 48; Sprint further comments at 19.

¹⁴⁰² See *supra*.

¹⁴⁰³ See 47 C.F.R. § 69.203(g).

¹⁴⁰⁴ 69 C.F.R. § 69.117.

¹⁴⁰⁵ See *infra* section XIII (Administration).

¹⁴⁰⁶ See, e.g., 360 comments at 8; Michigan Consumer Federation comments at 23; TIA comments at 2 n.2.

425. Currently, state agencies or telephone companies administer customer eligibility determinations pursuant to narrowly-targeted programs approved by the Commission.¹⁴⁰⁷ We recommend that the Commission maintain this basic framework for administering Lifeline eligibility in states that provide matching support for the Lifeline program. We believe such criteria provide states with sufficient flexibility to target support based on each state's particular needs and circumstances. We also recommend that the Commission require states that provide matching funds to base eligibility criteria solely on income or factors directly related to income (such as participation in a low-income assistance program). Currently, some states only make Lifeline assistance available to low-income individuals who, for example, are elderly or have disabilities. We find that Congress's intent would best be served if all low-income consumers had access to Lifeline assistance. We further recommend that the Commission adopt specific means-tested eligibility standards to apply in states that choose not to provide matching support from the intrastate jurisdiction. Specifically, we recommend that low-income consumers participating in a state-administered, low-income welfare program (and who are not considered dependents for federal income tax purposes, with the exception of dependents over the age of 60) would be eligible for Lifeline assistance.

b. Link Up

426. The Joint Board recommends that the Commission adopt the changes to the Link Up program's funding mechanism proposed in the NPRM.¹⁴⁰⁸ We recommend that the Link Up funding mechanism be removed from the jurisdictional separations rules, and that the program be funded through equitable and non-discriminatory contributions from all interstate telecommunications carriers. Funding the program through contributions from all interstate carriers will allow for an explicit and competitively neutral funding mechanism consistent with sections 254(d) and (e).

427. We recommend that the Commission amend its Link Up rules to make the present level of Link Up support available to qualifying low-income consumers requesting service from any telecommunications carrier providing local exchange service. Support would be available only for the primary residential connection. As amended, the Link Up rules should thus provide that any eligible telecommunications carrier may draw support from the new Link Up funding mechanism described above if that carrier offers to eligible customers a reduction of its service connection charges equal to one half of the carrier's customary connection charge or \$30.00, whichever is less. Where the carrier offers eligible customers a deferred payment plan for connection charges, we recommend that the Commission provide support to reimburse carriers for waiving interest on the deferred charges for eligible subscribers as Link Up currently provides for incumbent LECs' charges. To ensure that the

¹⁴⁰⁷ See 47 C.F.R. § 69.104(j)-(k).

¹⁴⁰⁸ NPRM at para. 64.

opportunity for carrier participation is competitively neutral, we recommend that the Commission's rules be amended to eliminate the requirement that the commencement-of-service charges eligible for support be filed in a state tariff.¹⁴⁰⁹ In the absence of evidence that increasing the level of Link Up support for connecting each eligible customer would significantly further universal service goals, however, we recommend that the level of support for Link Up not be increased.¹⁴¹⁰

428. With respect to subscribers' eligibility to participate in the Link Up program, the Joint Board recommends that the same modifications be made to the Link Up program that we have recommended for the Lifeline program. That is, we encourage states to set means-tested eligibility criteria, and we recommend that a federal eligibility "floor" be established that would serve as eligibility criteria in states that choose not to define means-tested eligibility criteria of their own. Consistent with some commenters' proposals,¹⁴¹¹ we also recommend that the Commission prohibit states from restricting the number of service connections per year for which low-income consumers who relocate can receive Link Up support.

429. We find that carriers' high service deposits deter subscribership among low-income consumers.¹⁴¹² Research suggests that carriers often require customers to pay high service deposits in order to initiate service, particularly when customers have had their service disconnected previously.¹⁴¹³ We recommend that the Commission address this barrier to low-income consumers' gaining or regaining access to the network for primary residential channels. We recommend that the Commission implement a national rule prohibiting telecommunications carriers from requiring Lifeline-participating subscribers to pay service deposits in order to initiate service if the subscriber voluntarily elects to receive toll blocking. We recommend in section VIII. B., *supra*, that universal service support be provided so that toll blocking is made available to all Lifeline participants at no additional charge. Although this rule regarding service deposits would not be a part of the Link Up program itself, it would serve the goal of assisting low-income consumers to gain access to the network. GTE maintains that if service deposits are reduced or eliminated, LECs should be reimbursed for such reduction because universal service support should be explicit.¹⁴¹⁴ We find, however,

¹⁴⁰⁹ See 47 C.F.R. § 36.711(d).

¹⁴¹⁰ See, e.g., PULP comments at 20.

¹⁴¹¹ See, e.g., Catholic Conference comments at 22.

¹⁴¹² NPRM at para. 56.

¹⁴¹³ NPRM at para. 56 (citing *Subscribership Notice* at 13005-06).

¹⁴¹⁴ GTE comments at 23.

that our recommendation will not place an undue burden on carriers because service deposits currently serve primarily to guard against the risk of non-payment of toll charges, which many ILECs bill to customers on behalf of IXCs. This same protection will be created by the customer's election to receive toll blocking, a precondition to the restriction against requiring service deposits.

IX. ISSUES UNIQUE TO INSULAR AREAS

A. Background

430. The 1996 Act states that consumers in insular areas should have access to telecommunications and information services, including interexchange services, advanced telecommunications services, and information services, (1) that are reasonably comparable to those services provided in urban areas and (2) that are available at rates that are reasonably comparable to rates charges for similar services in urban areas.¹⁴¹⁵ Congress stated that the Joint Board and the Commission were to consider consumers of insular areas, such as the Pacific Island territories, when developing support mechanisms for consumer access to telecommunications and information services.¹⁴¹⁶ In the NPRM, the Commission requested comment on all issues affecting rural, insular and high cost areas.¹⁴¹⁷ The Common Carrier Bureau's Public Notice asked three questions concerning consumers in insular areas: what, if any, programs (in addition to those aimed at high cost areas) are needed to ensure that insular areas have affordable telecommunications service; if a proxy model is used to determine the amount of universal service support, what, if any, measures are necessary to ensure that urban rates and rates in rural, insular, and high cost areas are reasonably comparable, as required in section 254(b)(3); and how should support be calculated for those areas (e.g., insular areas and Alaska) that are not included under the proxy models.¹⁴¹⁸

B. Comments

431. In General. Several commenters present special circumstances or issues pertaining to insular areas. Guam Tel. Authority states that insular areas are particularly affected by distance-sensitive costs and suggests that the Joint Board and Commission create support for services that are most likely to be affected by distance. For example, it suggests

¹⁴¹⁵ 47 U.S.C. § 254(b)(3).

¹⁴¹⁶ Joint Explanatory Statement at 131.

¹⁴¹⁷ See, e.g., NPRM at paras. 15-17, 23-27.

¹⁴¹⁸ Public Notice at question 6.

including Guam in flat, non-distance-sensitive calling plans, and supporting services that may be prohibitively expensive due to distance, such as toll-free calling, calling card, directory assistance, credit card verification, and number portability.¹⁴¹⁹ The Governor of Guam notes that distance-sensitive rates are high in Guam, because it is over 6,000 miles from San Francisco and 3,700 miles from Honolulu. The Governor of Guam advocates that differences in the cost of providing service due to remoteness or distance be offset by universal service support mechanisms.¹⁴²⁰ The Governor supports total and seamless rate and service integration, domestic rate averaging and universal support between Guam, other insular areas, and all U.S. locations.¹⁴²¹ Since Guam does not contain any urban areas, the Governor suggests that rates within Guam be compared to rates in urban areas located on the U.S. west coast.¹⁴²²

432. Toll-Free Access. CNMI suggests universal service support should be provided for access to toll-free services in insular areas. Currently, the Pacific Island territories are not part of the North American Numbering Plan (NANP). Consequently, in order for residents of the Northern Mariana Islands to place toll-free calls to the U.S., they must pay 99 cents per minute to the Micronesia Telephone Company, which places international (011+1880) calls to Hawaii, where the link to the U.S. domestic 800 network occurs. Thus, toll-free calls in the islands are not currently toll-free.¹⁴²³ CNMI expresses concern that once the Northern Mariana Islands are part of the NANP, businesses that use toll-free numbers (800, 888) will not want to incur the expense of serving the islands. CNMI suggests, that if that happens, its residents will be cut-off from toll-free services because, under the Commission's pay-per-call rules Micronesia Telephone Company will not be able to charge for transporting a call to Hawaii where the call could be linked to the business's toll-free number, as currently occurs. CNMI asserts that Section 254(b)(3), which mandates that all consumers should have access to interexchange services, authorizes the Joint Board and the Commission to ensure that genuine toll-free service without paid access charges is available in insular areas, like CNMI.¹⁴²⁴

¹⁴¹⁹ Guam Tel. Authority comments at 6-7. *See also* Governor of Guam comments at 6-7; Vitelco reply comments at 6-7.

¹⁴²⁰ Governor of Guam comments at 4, 6-7, 18.

¹⁴²¹ Governor of Guam comments at 2.

¹⁴²² Governor of Guam reply comments at 5.

¹⁴²³ Letter from Thomas K. Crowe, Counsel for the Commonwealth of the Northern Mariana Islands, to William F. Caton, Secretary, FCC, September 24, 1996 (Commonwealth of Northern Mariana Islands *Ex Parte*).

¹⁴²⁴ CNMI *ex Parte* at 2, 5.

433. Similarly, CNMI notes that calls to information service providers located in the U.S. are subject to the same charges as "toll-free calls" and therefore are considerably more expensive than rates for information services in the continental U.S.¹⁴²⁵ CNMI asserts that Section 254(b)(3), which requires that all consumers have access to information services at comparable rates, also authorizes the Joint Board and Commission to support access to information services in the Northern Mariana Islands.¹⁴²⁶ Furthermore, CNMI states that telecommunications service costs are extraordinarily high in the Northern Mariana Islands because international ratemaking practices apply to long distance calls between the Northern Mariana Islands and off-island points, including the U.S.; IXCs are subject to high carrier access charges,¹⁴²⁷ and, although consumers must place international calls to reach the U.S., Northern Mariana Islands' consumers are assessed domestic subscriber line charges.¹⁴²⁸

C. Discussion

434. We recognize the special circumstances faced by carriers and consumers in the insular areas of the United States, particularly the Pacific Island territories. We note at the outset that carriers in these areas, like all other carriers, will be eligible for universal service support if they serve high cost areas. In their comments, Vitelco and Puerto Rico Tel. Co. set out some of the problems that carriers in insular areas face in providing telephone service, such as increased costs of shipping equipment and damage caused by hurricanes and tropical storms.¹⁴²⁹ The Hawaii Division of Consumer Advocacy also notes because of Hawaii's remoteness from the mainland carriers faces high costs and technical obstacles in providing service.¹⁴³⁰ For those reasons, we recommend that rural carriers serving high cost insular areas, as well as rural carriers serving high cost areas in Alaska,¹⁴³¹ should continue to receive universal service support based on their embedded costs. We also note that low-income residents living in these areas would benefit from the modifications that we have recommended to the Lifeline and Link-up programs. Likewise, schools, libraries, and rural

¹⁴²⁵ CNMI comments at 14.

¹⁴²⁶ CNMI *Ex Parte* at 5.

¹⁴²⁷ GTE's terminating premium carrier common line charge in CNMI is \$0.0835754 per minute. This rate is 7.66 times higher than GTE's rate in Alaska. See CNMI comments at 10.

¹⁴²⁸ CNMI comments at 9-10.

¹⁴²⁹ See Puerto Rico Tel. Co. reply comments at 12; Vitelco further comments at 9-11.

¹⁴³⁰ State of Hawaii Division of Consumer Advocacy, *ex parte* (dated Oct. 9, 1996).

¹⁴³¹ Carriers in Alaska also confront unique circumstances in providing service, such as limited construction periods and the extreme remoteness of the many rural communities. See Alaska Public Utilities Commission, Public Hearing, August 22, 1996.

health care providers in insular areas will benefit from the programs we recommend for providing telecommunications services to those institutions.

435. We recommend that the Commission take no specific action regarding cost support for toll service to the Northern Mariana Islands at this time, but revisit this issue at a later date. Guam and the Northern Mariana Islands will be included in the North American Numbering Plan by July 1, 1997. To implement section 254(g),¹⁴³² the Commission will require interstate carriers serving the Pacific Island territories to integrate their rates with the rates for services that they provide to other states no later than August 1, 1997.¹⁴³³

436. Once those carriers integrate their rates, the residents of Guam and the Northern Mariana Islands will be able to make 1+ calls to the mainland United States at domestic instead of international rates. Residents of Guam and the Northern Mariana Islands will also have direct access to toll-free (e.g., 800, 888) services. The decision whether to provide toll-free services to a specific area, such as the Pacific Island territories, is a business decision of the carrier's business customer, weighing the cost of toll charges to the islands against the economic benefit of providing toll free access. Businesses currently make that same determination in deciding in which areas to provide toll free access within the fifty states, and, for business reasons, some of them choose to limit access to certain areas.¹⁴³⁴ Similarly, information service providers make the same type of business decision as to whether to locate in a certain area or provide toll-free access to an area. Until the islands join the NANP and are included in carriers' rate averaging, it is difficult for businesses to make such judgments as to whether, and how, to serve the islands.

437. We are concerned that residents of Guam and the Northern Mariana Islands

¹⁴³² 47 U.S.C. § 254(g).

¹⁴³³ An interexchange carrier must establish rates for services provided to the Northern Mariana Islands and Guam consistent with the rate methodology that it employs for services it provides to other states. Carriers can choose among several ways to integrate the rates for services to these islands, including expanding mileage bands, adding mileage bands or offering postalized rates. A carrier must also offer optional calling plans, contract tariffs, discounts, promotions, and private line services using the same rate methodology and structure that it uses in offering those services to subscribers on the mainland. *Policy and Rules Concerning the Interstate, Interexchange Marketplace, Implementation of Section 254(g) of the Communications Act of 1934, as amended*, Report and Order, 11 FCC Rcd 9564, 9596-97 (1996).

¹⁴³⁴ AT&T sells printed yellow page directories of 800 numbers. For each 800 number, the directory indicates whether the number is accessible from the entire U.S. or from only selected geographic areas. Where the number is accessible only from certain states, the relevant states are listed. Geographic restrictions are more common for firms tending to serve specific geographic areas (for example, home improvement contractors) than for firms serving more widely distributed customers (for example, hotels). See AT&T Toll-Free 800 Directory: 1993 Business Edition.

have access to toll free service and information services. We therefore recommend that the Commission revisit the question of comparable access and rates for toll-free and information services at some time after the Pacific Island territories have been included in the NANP and have integrated rates to determine whether there is any need to support these services. We also note that there will periodic review of the definition of universal service and that any change in that definition may justify providing support for these services.

X. SCHOOLS AND LIBRARIES

A. Overview

438. The 1996 Act explicitly designates elementary and secondary schools and libraries among the entities eligible to receive the benefits of universal service support.¹⁴³⁵ Specifically, section 254(c)(3) defines universal service for schools and libraries as telecommunications services and any "additional services" designated by the Commission,¹⁴³⁶ and section 254(h)(2) defines universal service in terms of access to "advanced telecommunications and information services."¹⁴³⁷ Section 254(h)(2) requires the Commission to establish competitively neutral rules designed to enhance access, "to the extent technically feasible and economically reasonable," to advanced telecommunications and information services for elementary and secondary school classrooms and libraries.¹⁴³⁸ The joint conferees stated that they expected the Joint Board to consider the specific needs of schools and libraries in defining the services eligible for universal service support.¹⁴³⁹

439. Section 254(h)(1)(B) provides that services within the definition of universal service shall be provided to schools and libraries at a discount. The discount shall result in "rates less than the amounts charged for similar services to other parties,"¹⁴⁴⁰ and be sufficient to ensure affordable access to and use of such services.¹⁴⁴¹ Section 254 also places several restrictions on schools and libraries receiving services funded by universal service support

¹⁴³⁵ See generally 47 U.S.C. § 254.

¹⁴³⁶ 47 U.S.C. § 254(c)(3).

¹⁴³⁷ 47 U.S.C. § 254(h)(2)(A).

¹⁴³⁸ 47 U.S.C. § 254(h)(2)(A).

¹⁴³⁹ Joint Explanatory Statement at 133.

¹⁴⁴⁰ 47 U.S.C. § 254(h)(1)(B).

¹⁴⁴¹ 47 U.S.C. § 254(h)(1)(B).

mechanisms. Schools and libraries must meet statutory eligibility criteria, may not resell any services provided under section 254, must make a bona fide request for the services, and must use the services for educational purposes.¹⁴⁴² Carriers providing services to eligible schools and libraries shall be compensated for any discount they are required to grant through either an offset to their universal service obligations or reimbursement from universal service support mechanisms.¹⁴⁴³

440. In this section, we recommend that, consistent with section 254(h), all eligible schools and libraries may receive discounts of between 20 and 90 percent on all telecommunications services, Internet access, and internal connections, subject to a \$2.25 billion annual cap. In addition, any funds that are not disbursed in a given year may be carried forward, and may be disbursed in subsequent years without regard to the cap. We find that this recommendation provides schools and libraries with the maximum flexibility to purchase the package of services they believe will be most effective to meet their respective communications needs. We also conclude that economically disadvantaged schools and libraries, as well as schools and libraries located in high cost areas, should receive greater discounts to ensure that they have affordable access to telecommunications and information services. Further, we recommend that schools and libraries be required to comply with several self-certification requirements, designed to ensure that only eligible entities receive universal support and that they have adopted plans for securing cost-effective access to and use of all of the services purchased under section 254(h).

B. Functionalities/Services Eligible for Support

1. Background

441. Section 254 defines the services that are to be supported for schools and libraries in terms of "telecommunications services,"¹⁴⁴⁴ "special" or "additional" services,¹⁴⁴⁵ and access to "advanced telecommunications and information services."¹⁴⁴⁶ Specifically, section 254(c)(3) states that "in addition to the services included in the definition of universal service under paragraph [c] (1), the Commission may designate additional services for such

¹⁴⁴² 47 U.S.C. § 254(h)(1)(B).

¹⁴⁴³ 47 U.S.C. § 254(h)(1)(B).

¹⁴⁴⁴ 47 U.S.C. § 254(c)(1).

¹⁴⁴⁵ 47 U.S.C. § 254(c)(3).

¹⁴⁴⁶ 47 U.S.C. § 254(h)(2)(A).