



# PUBLIC NOTICE

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## **COMMON CARRIER BUREAU SEEKS FURTHER COMMENT ON SPECIFIC QUESTIONS IN UNIVERSAL SERVICE NOTICE OF PROPOSED RULEMAKING**

### **CC DOCKET 96-45**

**Comment Date: August 2, 1996**

On March 8, 1996, the Commission adopted a Notice of Proposed Rulemaking (NPRM) that sought comment on the Congressional directives set out in Section 254 of the Telecommunications Act of 1996 (1996 Act) and that established a Federal-State Joint Board to recommend changes to our regulations to implement Section 254 of the 1996 Act.<sup>1</sup> Specifically, the NPRM asked for comment on: 1) goals and principles of universal support mechanisms; 2) support for rural, insular, and high-cost areas and low-income consumers; 3) support for schools, libraries, and health care providers; 4) enhancing access to advanced services for schools, libraries, and health care providers; 5) other universal service mechanisms; and, 6) administration of support mechanisms.

Comments and Reply Comments in this proceeding were received on April 12, 1996 and May 7, 1996, respectively. Having reviewed the submissions, the Common Carrier Bureau, at the request of the staff of the Federal-State Joint Board, seeks further comment on specific issues relating to the subjects previously noticed in this proceeding. Interested parties are invited to file comments on the attached list of questions. Commenters should restate and underline each question above their responses. Commenters also must provide a brief summary of their comments, not to exceed three sentences per question or three single-spaced pages in total, as a preface to their comments. The comments and comment summary should follow the order of the questions. Comments should be filed on or before **August 2, 1996**. Interested parties must file an original and four copies of their comments with the Office of the Secretary, Federal Communications Commission, Room 222, 1919 M Street, N.W., Washington, D.C. 20554. Comments should reference CC Docket No. 96-45. Parties must also serve comments on the Federal-State Joint Board and Joint Board staff in accordance with the attached service list.

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<sup>1</sup> Federal-State Joint Board on Universal Service, Notice of Proposed Rulemaking and Order Establishing Joint Board, CC Docket No. 96-45, FCC 96-93 (released March 8, 1996).

Parties should send one copy of their comments to the Commission's copy contractor, International Transcription Service, Room 140, 2100 M Street, N.W., Washington, D.C. 20037. Comments will be available for public inspection during regular business hours in the FCC Reference Center, Room 239, 1919 M Street, N.W., Washington, D.C. 20554.

Parties are also asked to submit comments on diskette. Such diskette submissions would be in addition to and not a substitute for the formal filing requirements addressed above. Parties submitting diskettes should submit them to Ernestine Creech, Common Carrier Bureau, Accounting and Audits Division, 2000 L Street, N.W., Suite 257, Washington, D.C. 20554. Such a submission should be on a 3.5 inch diskette in an IBM compatible format using WordPerfect 5.1 for Windows software in a "read only" mode. The diskette should be clearly labelled with the party's name, proceeding, and date of submission. The diskette should be accompanied by a cover letter.

For further information on schools, libraries and health care providers contact:

Irene Flannery, 202 418-0847

For further information on other issues contact:

Gary Seigel, 202 418-0879

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## **Attachment 1: Questions**

### Definitions Issues

1. Is it appropriate to assume that current rates for services included within the definition of universal service are affordable, despite variations among companies and service areas?
2. To what extent should non-rate factors, such as subscribership level, telephone expenditures as a percentage of income, cost of living, or local calling area size be considered in determining the affordability and reasonable comparability of rates?
3. When making the "affordability" determination required by Section 254(i) of the Act, what are the advantages and disadvantages of using a specific national benchmark rate for core services in a proxy model?
4. What are the effects on competition if a carrier is denied universal service support because it is technically infeasible for that carrier to provide one or more of the core services?
5. A number of commenters proposed various services to be included on the list of supported services, including access to directory assistance, emergency assistance, and advanced services. although the delivery of these services may require a local loop, do loop costs accurately represent the actual cost of providing core services? To the extent that loop costs do not fully represent the costs associated with including a service in the definition of core services, identify and quantify other costs to be considered.

### Schools, Libraries, Health Care Providers

6. Should the services or functionalities eligible for discounts be specifically limited and identified, or should the discount apply to all available services?
7. Does Section 254(h) contemplate that inside wiring or other internal connections to classrooms may be eligible for universal service support of telecommunications services provided to schools and libraries? If so, what is the estimated cost of the inside wiring and other internal connections?
8. To what extent should the provisions of Sections 706 and 708 be considered by the Joint Board and be relied upon to provide advanced services to schools, libraries and health care providers?
9. How can universal service support for schools, libraries, and health care providers be structured to promote competition?
10. Should the resale prohibition in Section 254(h)(3) be construed to prohibit only the resale of services to the public for profit, and should it be construed so as to permit end user cost based fees for services? Would construction in this manner facilitate community networks and/or aggregation of purchasing power?

11. If the answer to the first question in number 10 is "yes," should the discounts be available only for the traffic or network usage attributable to the educational entities that qualify for the Section 254 discounts?
12. Should discounts be directed to the states in the form of block grants?
13. Should discounts for schools, libraries, and health care providers take the form of direct billing credits for telecommunications services provided to eligible institutions?
14. If the discounts are disbursed as block grants to states or as direct billing credits for schools, libraries, and health care providers, what, if any, measures should be implemented to assure that the funds allocated for discounts are used for their intended purposes?
15. What is the least administratively burdensome requirement that could be used to ensure that requests for supported telecommunications services are bona fide requests within the intent of section 254(h)?
16. What should be the base service prices to which discounts for schools and libraries are applied: (a) total service long-run incremental cost; (b) short-run incremental costs; (c) best commercially-available rate; (d) tariffed rate; (e) rate established through a competitively-bid contract in which schools and libraries participate; (f) lowest of some group of the above; or (g) some other benchmark? How could the best commercially-available rate be ascertained, in light of the fact that many such rates may be established pursuant to confidential contractual arrangements?
17. How should discounts be applied, if at all, for schools and libraries and rural health care providers that are currently receiving special rates?
18. What states have established discount programs for telecommunications services provided to schools, libraries, and health care providers? Describe the programs, including the measurable outcomes and the associated costs.
19. Should an additional discount be given to schools and libraries located in rural, insular, high-cost and economically disadvantaged areas? What percentage of telecommunications services (e.g., Internet services) used by schools and libraries in such areas are or require toll calls?
20. Should the Commission use some existing model to determine the degree to which a school is disadvantaged (e.g., Title I or the national school lunch program)? Which one? What, if any, modifications should the Commission make to that model?
21. Should the Commission use a sliding scale approach (i.e., along a continuum of need) or a step approach (e.g., the Lifeline assistance program or the national school lunch program) to allocate any additional consideration given to schools and libraries located in rural, insular, high-cost, and economically disadvantaged areas?
22. Should separate funding mechanisms be established for schools and libraries and for rural health care providers?

23. Are the cost estimates contained in the McKinsey Report and NII KickStart Initiative an accurate funding estimate for the discount provisions for schools and libraries, assuming that tariffed rates are used as the base prices?
24. Are there other cost estimates available that can serve as the basis for establishing a funding estimate for the discount provisions applicable to schools and libraries and to rural health care providers?
25. Are there any specific cost estimates that address the discount funding estimates for eligible private schools?

### High Cost Fund

#### General Questions

26. If the existing high-cost support mechanism remains in place (on either a permanent or temporary basis), what modifications, if any, are required to comply with the Telecommunications Act of 1996?
27. If the high-cost support system is kept in place for rural areas, how should it be modified to target the fund better and consistently with the Telecommunications Act of 1996?
28. What are the potential advantages and disadvantages of basing the payments to competitive carriers on the book costs of the incumbent local exchange carrier operating in the same service area?
29. Should price cap companies be eligible for high-cost support, and if not, how would the exclusion of price cap carriers be consistent with the provisions of section 214(e) of the Communications Act? In the alternative, should high-cost support be structured differently for price cap carriers than for other carriers?
30. If price cap companies are not eligible for support or receive high-cost support on a different basis than other carriers, what should be the definition of a "price cap" company? Would companies participating in a state, but not a federal, price cap plan be deemed price cap companies? Should there be a distinction between carriers operating under price caps and carriers that have agreed, for a specified period of time, to limit increases in some or all rates as part of a "social contract" regulatory approach?
31. If a bifurcated plan that would allow the use of book costs (instead of proxy costs) were used for rural companies, how should rural companies be defined?
32. If such a bifurcated approach is used, should those carriers initially allowed to use book costs eventually transition to a proxy system or a system of competitive bidding? If these companies are transitioned from book costs, how long should the transition be? What would be the basis for high-cost assistance to competitors under a bifurcated approach, both initially and during a transition period?

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

#### Proxy Models

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

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

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

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

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

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

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

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

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

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

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

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

46. Should a proxy model be adopted if it is based on proprietary data that may not be available for public review?
47. If it is determined that proprietary data should not be employed in the proxy model, are there adequate data publicly available on current book costs to develop a proxy model? If so, identify the source(s) of such data.
48. Should the materiality and potential importance of proprietary information be considered in evaluating the various models?

#### Competitive Bidding

49. How would high-cost payments be determined under a system of competitive bidding in areas with no competition?
50. How should a bidding system be structured in order to provide incentives for carriers to compete to submit the low bid for universal service support?
51. What, if any, safeguards should be adopted to ensure that large companies do not bid excessively low to drive out competition?
52. What safeguards should be adopted to ensure adequate quality of service under a system of competitive bidding?
53. How is collusion avoided when using a competitive bid?
54. Should the structure of the auction differ if there are few bidders? If so, how?
55. How should the Commission determine the size of the areas within which eligible carriers bid for universal service support? What is the optimal basis for determining the size of those areas, in order to avoid unfair advantage for either the incumbent local exchange carriers or competitive carriers?

#### Benchmark Cost Model (BCM)

56. How do the book costs of incumbent local exchange carriers compare with the calculated proxy costs of the Benchmark Cost Model (BCM) for the same areas?
57. Should the BCM be modified to include non-wireline services? If wireless technology proves less costly than wireline facilities, should projected costs be capped at the level predicted for use of wireless technology?
58. What are the advantages and disadvantages of using a wire center instead of a Census Block Group as the appropriate geographic area in projecting costs?
59. The Maine PUC and several other State commissions proposed inclusion in the BCM of the costs of connecting exchanges to the public switched network through the use of microwave,

trunk, or satellite technologies. Those commenters also proposed the use an additional extra-high-cost variable for remote areas not accessible by road. What is the feasibility and the advisability of incorporating these changes into the BCM?

60. The National Cable Television Association proposed a number of modifications to the BCM related to switching cost, fill factors, digital loop carrier subscriber equipment, penetration assumptions, deployment of fiber versus copper technology assumptions, and service area interface costs. Which, if any, of these changes would be feasible and advisable to incorporate into the BCM?

61. Should the support calculated using the Benchmark Cost Model also reflect subscriber income levels, as suggested by the Puerto Rico Telephone Company in its comments?

62. The BCM appears to compare unseparated costs, calculated using a proxy methodology, with a nationwide local benchmark rate. Does use of the BCM suggest that the costs calculated by the model would be recovered only through services included in the benchmark rate? Does the BCM require changes to existing separations and access charge rules? Is the model designed to change as those rules are changed? Does the comparison of model costs with a local rate affordability benchmark create an opportunity for over-recovery from universal service support mechanisms?

63. Is it feasible and/or advisable to integrate the grid cell structure used in the Cost Proxy Model (CPM) proposed by Pacific Telesis into the BCM for identifying terrain and population in areas where population density is low?

#### Cost Proxy Model Proposed by Pacific Telesis

64. Can the grid cell structure used in the CPM reasonably identify population distribution in sparsely-populated areas?

65. Can the CPM be modified to identify terrain and soil type by grid cell?

66. Can the CPM be used on a nationwide basis to estimate the cost of providing basic residential service?

67. Using the CPM, what costs would be calculated by Census Block Group and by wire center for serving a rural, high-cost state (e.g., Arkansas)?

68. Is the CPM a self-contained model, or does it rely on on other models, and if so, to what extent?

#### SLC/CCLC

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

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

#### Low-Income Consumers

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

#### Administration of Universal Service Support

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

**Attachment 2: Service List**

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The Honorable Susan Ness, Commissioner  
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The Honorable Julia Johnson, Commissioner  
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The Honorable Kenneth McClure, Vice Chairman  
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The Honorable Sharon L. Nelson, Chairman  
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