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FEDERAL COMMUNICATIONS COMMISSION
OFFICE OF SECRETARY

Before the
FEDERAL COMMUNICATIONS COMMISSION
Washington, DC 20554

In the matter of

Notice of Universal Service Comments	)))	CC docket number 96-45

Reply Comments of the
Resident Representative to the United States

I am the Resident Representative to the United States from the Commonwealth of the Mariana Islands (CNMI). I am the elected official that is responsible for the official representation of the CNMI before federal officials and agencies. As I am not the chief administrator of the CNMI government I restrict my positions to replies of general policy and regulatory considerations taken by other contributers.

Universal Service - In General

One goal of the telecommunications act is the preservation and advancement of universal service for all Americans across all sectors of society. Full and productive participation in American society will increasingly depend on access to information and a commitment toward promoting the availability of information resources to all people at affordable prices.

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Access is a key feature of the infrastructure that includes affordable applications, low cost customer equipment, education and training programs. Universal service requires the relative comparability of service throughout the nation regardless of service area and/or other factors.

Pricing Model

The use of a pricing mechanism might seem objectionable because of social considerations (i.e. regardless of what the model finds, the price should be set based on non economic factors). Denying individuals access to basic communications service (even temporarily) because of their economic condition raises grave concerns about fundamental fairness. As a practical matter, it also sparks substantial political resistance.

In many cases, price reductions intended to guarantee wider access do not appear to make great sense. Nor do they seem likely to accomplish their objectives. Increased access is a very desirable goal, but it is not necessarily true that prices are the key to ensuring it. In fact, prices might more properly be viewed as a mechanism for promoting profitability that will foster expansion and upgrade, eventually resulting in a more universally affordable network arrangement. In order to ensure users access to the local phone network when both development and operating costs are high, the decision must be made whether to subsidize development by the network, payment by the users, or both; the relationships among prices, revenues, profits, reinvestment, efficiency, and economies of scope and scale insist that an inefficient, poorly developed network will not operate like an efficient, highly developed one. The service has improved in the CNMI; future actions must be taken with consideration of the economics of providing service.

The benefit of pricing based on competition is that it permits prices to reflect not only the costs, but also the realities of supply and demand. If the price that results from this approach is considered too high, the consideration of providing some users with subsidies must be made, instead of arbitrarily requiring prices for some services to be set at a lower level (offset by artificially inflated prices on other services). To avoid excessive fiscal demands on public funds, such subsidies should be targeted as precisely as possible to reach those who need them most. Such targeting may be facilitated by considering such policy matters as the definition of "universal

effort to identify the minimum feasible level of service to be provided, in light of technical and economic constraints. In general, subsidies should be aimed at two large groups: those with the lowest incomes and those living in areas or among groups upon highest costs on service provision that have been imposed.

In some markets, a low level of competition or consumers' inability to pay (in a poor urban neighborhood, for example), has resulted in service levels that are declining. In such instances, it must be appropriate for the minimum standards within each form of universal service. When developing this requirement, however, the FCC should be careful to determine a level of service that realistically can be funded, as well as the level of service that might be desirable without regard to economics. To avoid producing significant distortion in the marketplace generally, the minimum service requirements should be coupled with some kind of subsidy mechanism to ensure that the service provider receives at least the costs of providing the minimum required level of service. Without this, firms will either shun the market or begin to develop hidden, internal cross subsidies that will ultimately produce widespread, undesirable marketplace effects. In the CNMI there has been great debate regarding the real costs borne by the local exchange carrier. Subsidies can bring about the separation of companies if they are forced to account in this manner as grounds for subsidization (funding in exchange for divestiture).

There is no perfect solution to the problem of coping with new technology. Where new technology leads to increased productivity or adds substantial value, some users will demand it. The challenge then is to facilitate its provision without forcing a broader class of users to pay for unwanted features and capabilities. In addition, technology is constantly evolving; new products and applications are being developed. What is not cost effective today might be economical tomorrow. We recommend that the commission in some manner (maybe through a permanent group familiar with the technology) constantly update the minimum standards regulation. This group should meet regularly rather than being convened only during emergency periods.

The process of responding to changing technological conditions must be a flexible process that can consider both market conditions and technological options and provide broad and flexible guidance.

As we pointed out in our comments on universal service completed in April, we had questions relating to the applicability of a nationwide pricing model on insular areas because the determinants and market conditions are not standard. So in that sense we are satisfied that the insular areas have been excluded from the use of the proxy model. We are concerned however with the support levels being determined based on imbedded costs only. We feel that this only ensures status quo service and relies on the service levels at one place and time and does not look at future market conditions. We recommend that the Commission work with and offer regular technical assistance to the insular areas and Alaska in the development of specialized pricing models that would more broadly respond to the market than simply using imbedded costs.

Low Income Service

This is perhaps the most important section of the order to customers of the CNMI. In the CNMI the majority of the population are low income residents who bring in wages under $4.00 per hour. As there have been instances of civil rights abuses and other circumstances that result in the alienation of people from the mainstream of the CNMI society, we view local phone service as an essential ingredient in improving the living conditions of low income residents. Currently local connection and access charges as well as significant security deposits make local phone service unavailable to large numbers of low income people. We can not fault the local phone server for charging high deposits as frequently high bills are abandoned because of the non ability to pay. The solution to this issue is the creation of a specialized form of local access that does not permit long distance calling We are supportive of the Lifeline program as described in the joint board recommendations.

Some states are leading the way toward attaining this goal through creative application. For example, New York has developed a program that enables low-income households to receive basic service for as little as one dollar per month plus usage charges, with installation charges as low as ten dollars. A proposal to require all providers (including some cable systems) to contribute toward universal service expenses also is being considered in New York. California has established a fund to provide telecommunications equipment and services for the deaf and others with disabilities. California also requires telephone companies to contribute toward a fund that helps low-income households receive telephone service.

Recommendation:

We strongly support the implementation of these recommendations with full application in the CNMI. In addition a price support for service connection for low income parties is encouraged.

Health Care

As insular areas are not mentioned in this order we are concerned that we will not be covered by these programs. The CNMI is well removed from the mainland and is in fact some 5,000 miles from Hawaii. The CNMI has developed an on island health care system but it still requires off island care with costs exceeding $10,000,000 annually.

Recommendation

Although we continue to upgrade our services, regional services (CNMI and Guam) as well as continued use of mainland facilities is necessary. We view health care access as being vital to the well being of patients because other options such as air lifting sometimes are not available. We require telecommunications facilities that can handle the latest in on line and mobile services including upgrading of band width capacities on a regular basis. While fiber optic cables are the first step, we require advanced software as well. We recommend that the FCC fund regular technical assistance meetings and training sessions so city/town can constantly assess the technology. Although the private sector (hospitals) attends trade shows and other demonstrations of technology; it is important for telecommunication and other infrastructure policy makers to be up to speed on the requirements of technology

Competitively Neutral

Although the Board found that competitively neutral collection and distribution of funds was consistent with the congressional mandate, it must also be cognizant of the fact that in trying to promote competition especially in rural or insular areas with one dominant local exchange carrier, the universal support mechanism will be extremely important to competitors of the dominant carrier. The process must ensure that these smaller entities are eligible for funding as the dominant carriers will be. We are concerned that

thresholds and other qualifying criteria be completed to ensure that small providers of service can receive and share in universal price supports. In addition, There are also administrative methods for increasing competition. For example the regulatory framework could be relaxed for telecommunications carriers that lack market power.

The CNMI faces many challenges because of its demographic and locational makeup. In countries and freely associated states surrounding the CNMI, universal service remains an important but difficult goal to attain. At the end of 1992, several places in the region had less than one telephone per 50 people. The CNMI has seen great improvement in the telecommunications services offered to residents.

Recommendation

The establishment of fair and equitable Interconnection pricing policies are among the most important and complex aspects of telecommunications regulation; and they play critical roles in any effort to promote a more competitive market environment. Without true and honest base charges, fledgling competition almost certainly will languish. Without clear, true and sensible pricing policies, market development, social considerations, and efforts to encourage entry are likely to be confused and unsuccessful, as well as targets for political dissatisfaction.

Respectively Submitted:

Juan N. Babauta

Juan N Babauta
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January 10, 1997