

Kenneth Rust
Director
Federal Regulatory Matters

NYNEX

February 12, 1997

Ex Parte

Mr. William F. Caton
Acting Secretary
Federal Communications Commission
1919 M Street, N.W. - Room 222
Washington, D.C. 20554

FEB 12 1997
COMMUNICATIONS DIVISION
FEDERAL BUREAU OF INVESTIGATION

Re: CC Docket No. 96-45

Dear Mr. Caton:

Today, Frank Gumper, Vin Callahan, and I, representing NYNEX, and John Broton, representing Bell Atlantic, met with Kathy Levitz, Jeanine Poltronieri, and Tim Peterson, of the FCC Common Carrier Bureau, regarding the item captioned above. The attached material was used during the presentation and ensuing discussion, during which the NYNEX and Bell Atlantic representatives elaborated and clarified views already a part of their comments in this matter.

Any questions on this matter should be directed to me at either the address or the telephone number shown above.

Sincerely,



Attachment

cc: K. Levitz
J. Poltronieri
T. Peterson

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List ABCDE



Universal Service

An Analysis and Overview of Census
Block Group Based Proxy Models

February 12, 1997

Current CBG Based Proxy Models

Need to address the following key concerns to be defensible, fair and unbiased:

- Inter-regional fund flows create winners and losers
- Proxy models create an opportunity for arbitrage
- Hatfield Model 2.2.2 cannot be used to develop a national fund size
 - Hatfield does not estimate costs for non-Bell service areas
- New releases (BCPM and Hatfield 3.0) do not appear to resolve these key issues adequately

**Comparison of RBOC Funding Levels Between BCM2 and Hatfield
Models
Using \$30 Benchmark
All Dollars in Thousands (000)**

RBOC	BCM2 Model	Hatfield Model	Funding Difference
Ameritech	\$ 377,904	\$ 272,290	\$ (105,614)
Bell Atlantic	\$ 417,184	\$ 109,157	\$ (308,027)
BellSouth	\$ 887,185	\$ 431,057	\$ (456,128)
NYNEX	\$ 460,032	\$ 96,150	\$ (363,882)
Pacific	\$ 193,118	\$ 249,906	\$ 56,788
SBC	\$ 440,108	\$ 682,682	\$ 242,574
US West	\$ 541,725	\$ 811,084	\$ 269,359
Total	\$ 3,317,256	\$ 2,652,326	

**Comparison of State Funding Levels Between BCM2 and Hatfield Models
Using \$30 Benchmark
All Dollars in Thousands (000)**

	BCM2	Hatfield	Difference
Ameritech	\$377,624	\$272,290	\$(105,334)
Illinois	\$68,847	\$92,973	\$24,126
Indiana	\$58,008	\$34,605	\$(23,403)
Michigan	\$139,411	\$56,298	\$(83,113)
Ohio	\$74,177	\$33,863	\$(40,314)
Wisconsin	\$37,181	\$54,551	\$17,370
Bell Atlantic	\$416,855	\$109,157	\$(307,698)
Delaware	\$13,902	\$41	\$(13,861)
Maryland	\$56,844	\$310	\$(56,534)
New Jersey	\$49,875	\$256	\$(49,619)
Pennsylvania	\$118,182	\$28,124	\$(90,058)
Virginia	\$79,992	\$41,226	\$(38,766)
Wash DC	\$-	\$-	\$-
West Virginia	\$98,060	\$39,200	\$(58,860)
Bellsouth	\$887,186	\$431,057	\$(456,129)
Alabama	\$96,555	\$86,829	\$(9,726)
Florida	\$98,368	\$43,852	\$(54,516)
Georgia	\$102,450	\$74,185	\$(28,265)
Kentucky	\$84,692	\$34,527	\$(50,165)
Louisiana	\$118,681	\$30,618	\$(88,063)
Mississippi	\$127,522	\$68,563	\$(58,959)
North Carolina	\$71,940	\$28,359	\$(43,581)
South Carolina	\$66,723	\$23,550	\$(43,173)
Tennessee	\$120,255	\$40,574	\$(79,681)
NYNEX	\$460,034	\$96,150	\$(363,884)
Maine	\$77,293	\$17,309	\$(59,984)
Massachusetts	\$85,358	\$32	\$(85,326)
New Hampshire	\$53,978	\$3,198	\$(50,780)
New York	\$188,978	\$67,433	\$(121,545)
Rhode Island	\$15,698	\$-	\$(15,698)
Vermont	\$38,729	\$7,988	\$(30,741)
Connecticut		\$190	\$190
Pacific	\$193,118	\$249,906	\$56,788
California	\$172,568	\$204,207	\$31,639
Nevada	\$20,550	\$45,699	\$25,149
			\$-
SBC	\$440,109	\$682,682	\$242,573
Arkansas	\$64,175	\$72,090	\$7,915
Kansas	\$46,665	\$83,710	\$37,045
Missouri	\$76,832	\$130,198	\$53,366
Oklahoma	\$70,690	\$120,934	\$50,244
Texas	\$181,747	\$275,750	\$94,003
US West	\$541,688	\$811,084	\$269,396
Arizona	\$74,830	\$86,660	\$11,830
Colorado	\$74,164	\$65,557	\$(8,607)
Idaho	\$32,230	\$40,664	\$8,434
Iowa	\$35,018	\$69,714	\$34,696
Minnesota	\$58,366	\$94,885	\$36,519
Montana	\$21,713	\$59,789	\$38,076
Nebraska	\$23,282	\$80,360	\$57,078
New Mexico	\$47,681	\$75,561	\$27,880
North Dakota	\$13,754	\$45,322	\$31,568
Oregon	\$40,810	\$60,856	\$20,046
South Dakota	\$34,109	\$27,993	\$(6,116)
Utah	\$28,828	\$37,573	\$8,745
Washington	\$40,469	\$46,673	\$6,204
Wyoming	\$16,434	\$19,477	\$3,043
Total	\$3,316,614	\$2,652,326	

Inter-Regional Fund Flow Issue

- Census Block Group creates potential bias against Northeast and Mid-Atlantic regions
 - » uniform distribution vs. clustering

Preliminary View of BCPM and Hatfield 3.0

- Late releases prohibit a timely validation of the models
- Adequate review of the latest releases requires:
 - national analysis
 - state-to-state comparisons
 - RBOC to RBOC analysis
 - meaningful evaluation of the models as requested by the Commission

Arbitrage Issue

- Geographical mismatches between universal service funding and unbundled network elements create serious gaming opportunities

Necessary Linkage between Universal Service and Network Elements

Universal Service = Network Elements plus Retail Costs

- a) Network Elements =
- Loop
 - Port
 - Local Switching (500-700 MOUs)
 - Transport and Terminating Access
 - Access to E911, Operator Services and Directory Assistance
- b) Retail Costs =
- State Approved \$ per line to Cover Customer Care Costs for Basic Service

Example of inconsistent deaveraging of Universal Service support and unbundled elements.

UNBUNDLED ELEMENTS			UNIVERSAL SERVICE COSTS		
Zones	Areas	Average BCM2 Cost/Month*	<i>Range of costs for individuals wire centers within Zone 1:</i>		
			Wire Centers	Cost/ Month	Line Served
1	Rural	\$38.42	MILTON	\$23.98	12,415
2	Rural/Suburban	\$25.38	ROME	\$26.78	27,951
3	Suburban	\$22.04	GREENFIELD CENTER	\$48.91	4,914
4	Urban	\$20.12	BRAINARDSVILLE	\$124.70	1,010
			ST. REGIS FALLS	\$122.92	1,251
			PUTNAM	\$149.54	482

*Assume retail costs of \$4.00/month

Gaming Opportunity: target high cost wire centers within a zone.

Potential Solutions to Arbitrage Problem

- Only the loop provider gets USF funding
- Share USF funding between loop provider and CLEC
- Deaverage UNEs to Census Block Group
- Use UNEs for USF costing

Alternative to Proxy Models - Unbundled Network Elements

- UNEs eliminate the arbitrage problem
- UNEs utilize state-approved costing methodologies
- Recommend use of actual costs for companies that are not required to make UNEs available
- Further analysis is required to quantify national fund size using UNEs

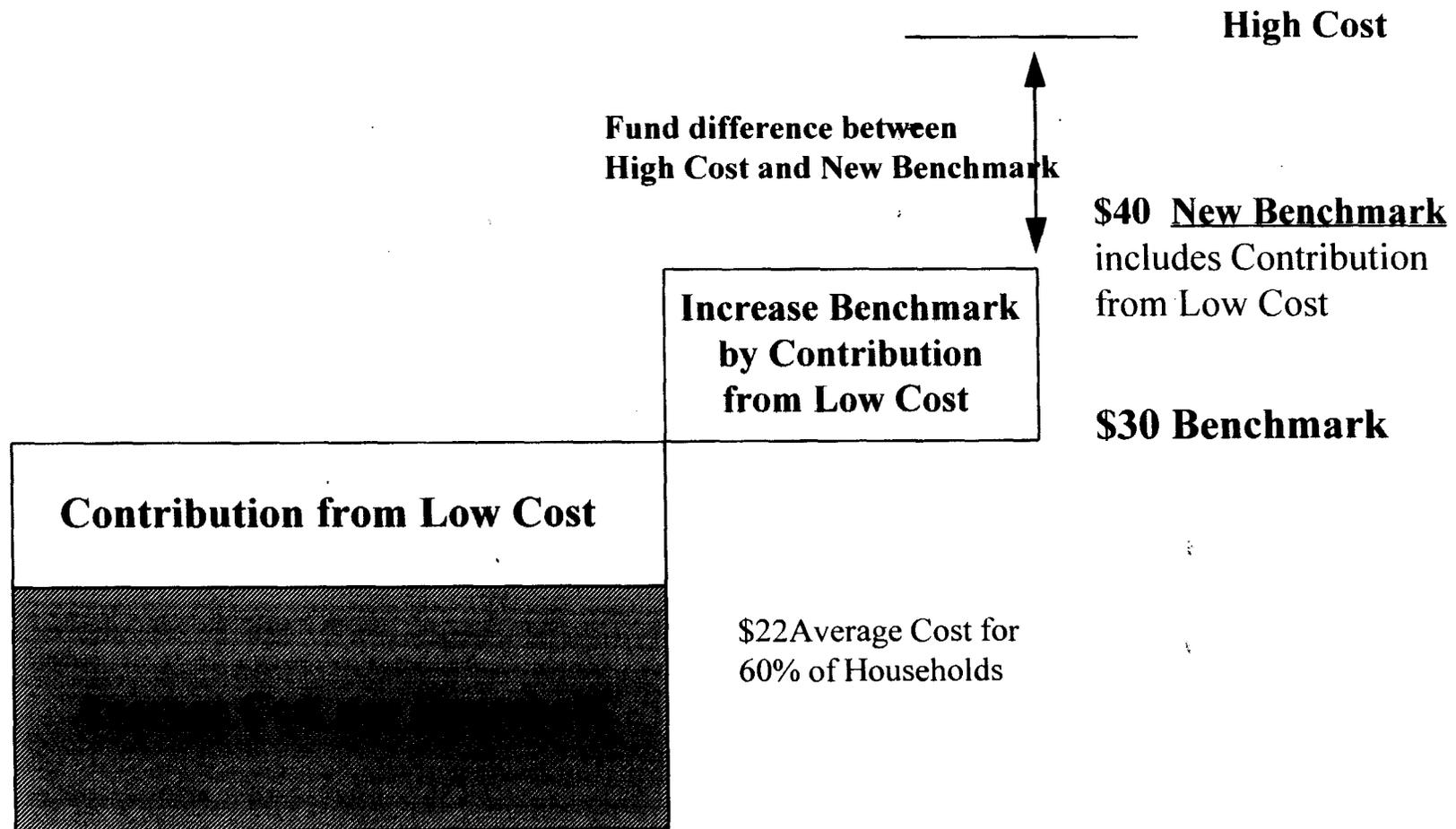
Steps Needed to Create UNE Alternative

- Determine the Benchmark
- Identify state-approved prices for UNEs
- Functionally define UNEs for universal service
- Determine and apply the retail-to-wholesale discount rate
- Quantify USF costs.

Determination of the Benchmark

- Joint Board recommendation for average revenues would be approximately \$27 per line
- Assuming a \$30 benchmark, the Joint Board recommendation provides 100% of USF funding above \$30
- Need to take into account the contribution from residence customers whose costs are below the benchmark

Benchmark must be Increased by Existing Subsidy



Unbundled Network Elements Issues

- **What if:**
 - State does not deaverage UNEs: No universal service funding
 - State prices too low:
 - » smaller universal service fund
 - » encourages competitors to use UNEs
 - State prices too high:
 - » larger universal service fund
 - » creates incentives for competitors to develop network facilities
- **Advantages:**
 - Solves the arbitrage issue
 - Creates level playing field for all participants
 - Provides funding where individual states are identified as high-cost