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Federal Communications Commission
Office of Secretary

April 16, 1997

The Honorable Reed E. Hundt
Chairman
Federal Communications Commission
1919 M Street, NW
Washington, DC 20554

Re: *In the Matters of Federal-State Joint Board on Universal Service and Access Reform, CC Docket Nos. 96-45 and 96-262*

Dear Chairman Hundt:

As a company serving large portions of the western United States, U S WEST is vitally concerned with the Commission's implementation of the universal service provisions of the Telecommunications Act of 1996. Recent news stories, and proposals made by some parties to this proceeding suggest a retreat from the clear directives of the Act to implement new explicit support mechanisms sufficient to assure the availability of affordable basic telephone service to all rural Americans.

We are also concerned about efforts to reform access charges. As an incumbent provider of service in our 14 state region, we support the Commission's stated intentions to remove implicit support currently contained in access charges. The Commission should assure, however, that the replacement mechanisms for this implicit support are themselves sustainable in the new competitive marketplace. Also, access reform should not reduce the overall level of access payments until the new explicit mechanisms are approved and in place.

As a provider of cable and other broadband services outside of our region (and a potential provider of facilities-based competition), we have a keen interest in access reform. Revenues from access services represent a significant portion of the cash flow which a new entrant will consider when making the decision to invest in building competing networks. In making the necessary access reforms, the Commission should take care to avoid the unintended consequences of disincenting facilities-based competition through unreasonable reductions in access charges.

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Recently the Commission has received two comprehensive proposals for access reform and universal service. BellSouth, PacTel and SBC (BS/PT/SBC) filed their proposal on April 2, 1997, and Bell Atlantic, NYNEX and AT&T (BA/NY/AT) filed theirs on April 4, 1997 . U S WEST strongly supports the BS/PT/SBC plan because it moves in the right direction on these two key dockets. We oppose the BA/NY/AT plan because in many areas it clearly moves in the wrong direction. With the May 8 deadline fast approaching, as well as other uncertainties as discussed below, we feel that the BS/PT/SWB plan offers a reasonable interim framework while other details of a more permanent plan can be worked out.

Following is a brief summary of U S WEST's major advocacy points on access reform and universal service, and how the BA/NY/AT and BS/PT/SBC proposals stack up against these objectives:

1. The Telecommunications Act of 1996 states that affordable service must be provided to all Americans living in high cost rural areas. Attempts to defer implementation of explicit universal service support mechanisms for over one year, or to restrict explicit universal service support to customers served by small rural telephone companies will deprive many Americans of the support they need to have access to affordable basic service.

- Over 60% of customers living in areas requiring support at a $30 benchmark level are served by companies which are not "rural telephone companies" under the definitions of the 1996 Act.

- Sufficient new explicit support mechanisms must be approved and implemented before present implicit support mechanisms can be reduced or removed.

The BA/NY/AT plan provides funding to "rural" LECs (about $1B) but ignores the vast majority of rural customers who are served by larger LECs. Their plan perpetuates the present system where support is "targeted" based on statewide averages of cost resulting in low cost urban customers supporting high cost rural customers . This averaging will not be sustainable in a competitive local marketplace. The BS/PT/SBC plan establishes an interim explicit interstate-only high cost fund of $5.7B which would be sufficient to assure affordable service to all Americans during the transition period.

2. Access charges provide a significant amount of implicit support for affordable universal service. IXCs benefit greatly from the availability of ubiquitous end-user connections to originate and terminate their calls.

- IXCs must continue to provide support for affordable universal service. This is particularly true if rate increases to basic service customers are to be avoided.

- Access reform which results in a decrease in total payments by IXCs to implicit universal service support cannot be implemented unless and until sufficient new explicit support mechanisms are in place.

- Despite TV, radio and print ads to the contrary, IXCs should not be allowed to totally walk away from their historical support for universal connectivity.

The BA/NY/AT plan provides significant reductions in IXC access charges which are not offset for non-rural LECs by targeted explicit support. The BS/PT/SBC plan establishes an explicit fund which allows for access reductions without sacrificing necessary support for affordable universal service.

3. Present access charges contain significant amounts of fixed costs which are recovered on a minutes-of-use basis. Access reform needs to move most, or all, of these fixed costs to a fixed charge to IXCs.

- Such a shift would not represent an increase in the amount recovered from IXCs, but would be a change in the way these costs are recovered. It should not result in a change in what end-users pay.

- The fixed charge should be of sufficient size to allow a meaningful reduction in minutes-of-use charges.

- Requiring a disproportionate recovery of fixed costs from multi-line business customers and second residential lines will exacerbate implicit support within access rate structures. The 1996 Act requires the removal of implicit support, and its replacement with "specific, predictable and sufficient" explicit support mechanisms.

While both plans recognize this reality and establish fixed charges per presubscribed line (PSL), they differ in the amount of costs to be shifted to PSL recovery. The BA/NY/AT plan caps the residential PSL charge at $1 which, we believe, will not allow for sufficient reductions in MOU rates. They also advocate a different PSL charge for residential and business customers. The BS/PT/SBC proposal provides for a $2 cap on all lines which we believe will permit more appropriate access rate reductions. They also oppose any price differential between first and second residential lines and a higher charge for multiline business customers.

In addition, we would offer the following observations regarding the development of an interim and permanent plan:

- Any plan for universal service and access reform should be based upon the following principles:

1. Recognition that the current regulatory pricing structure contains significant implicit subsidies to support universal service for all Americans.
2. At the federal level the primary cause of the difference between forward-looking costs and current pricing is a subsidy for below cost residential rates.
3. The 1996 Act requires that these implicit subsidies be made explicit.
4. Any continuing subsidy scheme must recognize the substitutability of unbundled network elements for current retail services.
5. Universal service support means a competitively neutral subsidy must be devised for all customers in high cost areas, not just those who are served by "rural telephone companies".

- U S WEST believes that the intent of Congress for affordable service nationwide can only be met through a carefully targeted explicit high cost fund which is funded by both interstate and intrastate revenues. Given that it may take some time to sort out the details of implementing a combined fund, the need to move forward with access reform may make an interim interstate-only fund an appropriate first step towards a combined fund. However, the BS/PT/SBC proposal is only an interim fix which makes the current implicit subsidies more explicit. The Commission should still move forward on a combined and targeted high cost fund.

- We believe that a high-cost universal service fund should be based on a well designed proxy cost model, such as the Benchmark Cost Proxy Model (BCPM) developed by Sprint, Pacific Bell and U S WEST. We are actively working with the state and federal joint board staff to help them finalize the details of a proxy model which will be consistent with the specifications in the Joint Board's recommended decision. Until this work is completed, current measures of implicit interstate support (such as the CCL and TIC) are a reasonable surrogate until the fund can be appropriately sized and targeted.

- U S WEST believes that an essential part of access reform is to move the recovery of the fixed cost components of access (i.e., CCL, Switch Trunk Ports and TIC) out of minutes-of-use charges and into flat-rate charges. One plan which has received considerable discussion is to assess a flat-rate charge to IXCs based upon the number of their presubscribed lines (PSL). While this approach can be useful, we also believe that it is important to clarify when a PSL charge will apply to loops which we provide. The current subsidies that exist in the interstate jurisdiction compensate the ILECs for underpriced residential lines. Until residential service is priced at its true cost the subsidy must remain. As long as CLECs are merely reselling an ILEC's facilities -- sham unbundling (which is the same as resale) or a similar scheme that requires no CLEC facilities to be built to the customer -- the PSL charge should apply.

- We are very concerned about proposals to apply a different level of PSL and/or SLC charge to second residential lines and to multiline business customers. We are concerned that this approach might not be sustainable, since it will be difficult to identify which lines are "first" lines in multi-occupant housing units and in situations where the customer subscribes to local service from more than one carrier. Even if these logistics can be overcome, charging a higher price for some lines would perpetuate implicit support between rate payers, in opposition to the clear directives in the Act that implicit support be removed from the rate structure. As a consequence of this implicit support, the competitive dynamics for local exchange service will change, since higher margin customers will be clearly identified to the IXCs and charged more if they remain with the incumbent carrier.

- The BS/PT/SWB plan states that terminating access "...should be no higher than originating usage charges." U S WEST also believes that the Commission should not mandate that terminating access be lower than originating access charges. That is, we believe that the Commission should allow LECs to reduce originating and terminating access charges by the same amounts and have originating and terminating access prices remain equal.

In conclusion, U S WEST now supports the well-reasoned interim plan for universal service and access reform advanced by Bell South, Pacific Bell and Southwestern Bell, and will be working with them to advance this plan in the remaining period of advocacy on this proceeding. We look forward to working with you to expeditiously implement the necessary pricing changes to enable local competition to move forward rationally and benefit consumers.

Sincerely,

Bruce K. Posey

Bruce K. Posey
Vice President, Federal Relations

cc: Commissioner James H. Quello
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