GTE Service Corporation
1850 M Street, N.W., Suite 1200
Washington, DC 20036
202 463-5200

April 18, 1997

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

EX PARTE: **Access Reform (CC Docket 96-262), Price Caps (CC Docket 94-1), Transport Rate Structure (CC Docket 91-213), Universal Service (CC Docket 96-45)**

Dear Mr. Caton:

Today, representatives of GTE Service Corporation and GTE Telephone Operations met with Jim Schlicting, Katherine Schroder, and Rich Lerner of the Common Carrier Bureau to discuss comments submitted by GTE in the above captioned proceedings. The attached was used to augment the discussion.

Please call me if you have any questions.

Sincerely,

W. Scott Randolph
Director - Regulatory Matters

Attachments

c: Jim Schlicting
Katherine Schroder
Rich Lerner

ACCESS REFORM AND UNIVERSAL SERVICE SUBSIDIES

- Implicit subsidies are excess contributions generated by higher than cost-based prices for certain services in order to support lower than cost-based prices for other services.
- Cost-based prices for subscriber loops would recover those costs on a flat rated basis.
- Capped residential SLCs and a residually priced CCL means the CCL recovers residential loop costs from IXCs which the FCC has decided not to recover from the residential customer due to concerns about residential service affordability.
- Therefore, the CCL is an implicit subsidy designed to support universal service goals.

ACCESS REFORM AND UNVERSAL SERVICE

- Replacing the CCL with an increased multi-line SLC and a PSL charge maintains, and in many cases increases, implicit universal service subsidies.
    - This is contrary to the Telecom Act of 1996.
    - This is contrary to the Joint Board's emphasis on competitive neutrality.

WHY THE PRESUBSCRIBED LINE CHARGE REPLACEMENT OF THE CCL IS CONTRARY TO THE TELECOM ACT OF 1996 AND GOOD PUBLIC POLICY

- The multi-line SLC recovers, and in most cases, exceeds the interstate allocated costs of these particular loops.
    - SLC costs are based on average loop costs
    - Multi-line loop costs are, overall, less than average
        - Generally located in more densely populated area
        - Generally of less than average loop length
        - Large volume of loops to a single location permits the use of very efficient technology
- Most large multi-line customers avoid much of CCL subsidy payments through the use of special access arrangements coupled with IXC volume discounted services.
- A residually priced and averaged PSL charge continues to include residential loop costs in prices for business services
    - Pricing the multi-line PSL higher than the single-line PSL would increase the amount of implicit subsidy derived from multi-line customers.

SOLUTIONS TO THE PSL DILEMMA

- An *imperfect* interim solution, moving in the right direction
    - Convert the CCL to a residence and single line business PSL, possibly capped at $2.50 per line
        - Would, on average, associate subscriber loop cost with the "right" customers, and charging it to one of the "users" of the loop, i.e., the presubscribed IXC
        - Would, in some cases, charge the "wrong" IXC when the customer uses 10XXX access.

- A *better* interim solution moving further in the right direction
    - Link the CCL cost explicitly to the universal service plan
    - Fund the subscriber loop costs not included in SLC prices from a universal service fund
    - All providers of interstate services contribute to the fund based on a percent of interstate retail revenue
    - The interstate USF contribution recognized as a "real" component of loop cost
        - For the LEC, the USF contribution is a component of the existing SLC
        - The total USF requirement is the difference between cost and SLC price
    - Deaverage loop costs to better target of the support, remove more implicit subsidies, and price on a more economically rational basis.