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April 25, 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), Universal Service (CC Docket 96-45)**

Dear Mr. Caton:

Please associate the attached letter detailing GTE's proposal for an Interim Funding Plan for interstate universal service costs with the captioned dockets. In accordance with Section 1.1206(b)(1) of the Commission's Rules, two copies of this notice are being filed with the Secretary of the FCC.

Please call me if you have any questions.

Sincerely,

Whitney Hatch

Attachment

Geoffrey C. Gould
Vice President
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April 25, 1997

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

Ex Parte: Access Reform (CC Docket 96-262), Universal Service (CC Docket 96-45)

Dear Chairman Hundt:

Congress directed the Commission as part of the Telecommunications Act of 1996 (1996 Act) to adopt policies that are pro-competitive but that also preserve and advance universal service. Congress recognized that to promote fair competition, it would be necessary to rely on explicit, competitively neutral mechanisms to support universal service rather than on the implicit support mechanisms that have existed to date. In addition, although the 1996 Act does not require the Commission to reform its access charge regime, the Commission has properly recognized that interstate access charges contain implicit subsidy flows that may not be compatible with the universal service provisions of the 1996 Act.

As the Commission implements the 1996 Act's paradigm for local exchange competition, it must replace existing hidden support for costs related to universal service with the explicit and sufficient support required by the 1996 Act.[1] Otherwise, the Commission's regulations would distort competition, particularly for attractive business customers. Thus, GTE herein proposes an Interim Funding Plan to fund (i) interstate loop (common line) costs not recovered directly from subscribers, (ii) other interstate universal service-related costs now recovered through usage sensitive switched access charges from interexchange carriers (IXCs), and (iii) existing explicit universal service funding elements (Lifeline, Link-up,

[1] Implicit hidden support results when the price for a service is set at a level that more than recovers the full cost (direct plus reasonable share of common cost) of that service, in order to price another at a level that does not recover the full cost. Thus, a hidden subsidy flows from one service to another.

DEM Weighting, and current high-cost loop support).[2] All telecommunications providers would contribute to funding these costs on the basis of their share of retail interstate revenues.

Because the 1996 Act requires funding to be explicit, the Commission must eliminate implicit support for universal service within interstate prices. Today, for example, ILECs in many cases do not recover the interstate costs of residential loops on an economically efficient, flat-rated basis directly from the users of the loops. Instead, because residential SLCs are capped, multi-line businesses and IXCs support residential loop costs through higher business SLCs and the residually priced Carrier Common Line Charge (CCLC), respectively. Thus, both the bifurcated SLC and the CCLC provide implicit universal service support for residential service.

Several parties recently have presented proposals to the Commission that attempt to address both funding for universal service and the introduction of a more rational access charge pricing structure.[3] GTE urges the Commission to reject any proposal to replace the CCLC with an increased multi-line SLC and a pre-subscribed line (PSL) charge paid by IXCs. Contrary to both the 1996 Act and the Joint Board's recommendations, this approach would maintain, and in many cases increase, the amount of implicit universal service subsidy from some customers and would create a distorted market environment in which genuine competition could not exist.

The SLC today is based on average loop costs. Multi-line loop costs are, overall, less than average because multi-line loops generally are located in more densely populated areas, have a lower than average loop length, and in many cases employ loop technology that provides a large volume of loops to a single location at a very low cost. Thus, the current multi-line SLC recovers a greater percentage of the interstate allocated costs of the loop than the residential and single line business SLCs. An increased multi-line SLC would only add to the disparity in the percentage of cost recovered.

Creating a PSL charge would maintain the implicit subsidy currently in the CCLC. By pricing the residual, averaged multi-line PSL higher than the single-line PSL, the Commission would perpetuate, if not increase, implicit subsidies in a manner decidedly not

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2 This proposal is "interim" because it addresses only certain implicit subsidies in interstate prices.

3 GTE supports, for example, the Southwestern Bell/BellSouth/Pacific Bell proposal that CCL costs be recognized for what they are -- universal service support -- and therefore recovered from a universal service fund. Such an arrangement would be an important part of an interim universal service plan if the Commission decides to limit its initial decision to an interstate plan.

competitively neutral. In both the cases of the SLC and the PSL, the implicit subsidies remaining in ILEC business rates would provide multi-line customers little real choice but to abandon ILEC services in favor of alternative service providers. Not only would this distort business competition as a result of regulatory fiat rather than market incentives, it also would erode universal service support as business customers migrated to other service providers.

Because funding universal service through an increased multi-line SLC and PSL charge would thwart Congress's universal service objectives and distort competition, GTE recommends the following Interim Funding Plan that is based entirely on the funds contained in the current interstate universal service "system."

1. An interim, interstate universal service fund would be established. This Interim Fund would include: the existing High Cost Fund; current Long Term Support; current DEM Weighting Support; Lifeline and Link-up funding; Line-Port costs (estimated at 30% of existing Local Switching costs;) and Common Line costs (comprised of the current Carrier Common Line revenues and ILEC contributions to the Interim Fund.)
2. All interstate telecommunications providers would contribute to the Interim Fund based on each provider's share of total interstate retail revenues.
3. ILECs' share of interstate retail revenues would be based on their interstate subscriber line charge revenues.

While no "new" support would be needed for this Interim Funding Plan, ILEC contributions to the Interim Fund would be included in the Fund itself. ILECs are likely to be prohibited from assessing surcharges on interstate retail customers to recoup the costs inherent in the contributions to the Interim Fund. No other carriers will be similarly constrained by regulation. The total amount of costs recovered from interstate, end user SLC charges and from the new Interim Fund would not exceed the amount of implicit universal service support today contained in access charges or contemplated by the Commission's new access charge plan.

The following chart illustrates the effect of GTE's Interim Funding Plan. A spreadsheet from which this summary was derived also is attached. While IXC and ILEC costs and revenues, respectively, change only by the amount ILECs contribute to the Interim Fund, universal service-related access costs are recovered in a manner which doesn't exacerbate the significant, implicit subsidy burden already borne by large business customers, as would large differentials in multi-line subscriber line charges and presubscribed line charges. Moreover, while IXCs alone will enjoy the benefits of per minute of use rate reductions, other non-IXCs will share the burden of contributing to the Interim Fund.

($000s)	Current	GTE Proposal	Difference
ILEC Revenues			
Per MOU Rates	$12,183,911	$7,286,351	-$4,897,561
USF	$1,715,817	$6,493,206	$4,777,389
SLC	$7,174,513	$7,174,513	$0
Total	$21,074,241	$20,954,069	-$120,172
IXC Costs (Overstated by amount of non-IXC USF contributions)			
Per MOU Rates	$12,183,911	$7,286,351	-$4,897,561
- TS Rate	$0.0299	$0.0179	-$0.0120
USF	$1,715,817	$6,493,206	$4,777,389
Total	$13,899,728	$13,779,556	-$120,172

GTE urges the Commission to adopt a competitively neutral universal service plan that provides for explicit and sufficient universal service support, even if limited to interstate costs, as is the Interim Funding Proposal contained in this letter. Any universal service funding mechanism that continues to rely on implicit support and/or increases reliance upon implicit support cannot foster the genuinely competitive environment intended by Congress.

Sincerely,

Geoffrey C. Gould

GEOFFREY C. GOULD
Vice President - Government and
Federal Regulatory Affairs

c: Commissioner Rachelle B. Chong
Commissioner Susan Ness
Commissioner James H. Quello
Mr. James Colthap
Mr. Daniel Gonzalez
Mr. James Casserly
Mr. Thomas Boasberg
Ms. Regina Keeney
Mr. A Richard Metzger, Jr.
Ms. Kathleen B. Levitz
Mr. John Nakahata
Mr. Joseph Farrell
Mr. James D. Schlicting
Mr. Richard K. Welch

GTE Interim Fund Proposal

Line	Item	Amount	Note
1			
2			
3	**Current Per MOU Access Revenues**		Tier 1 and NECA
4	LS	$4,548,355	
5	CCL	$3,533,054	
6	TIC	$2,738,567	
7	IS	$119,838	
8	SW Trans	$1,244,097	
9	**Total**	$12,183,911	
10			
11	**SLC Revenues**	$7,174,513	
12			
13	**Interim Fund**		
14	USF	$775,000	
15	LTS	$410,000	
16	DEM	$375,000	
17	Lifeline	$137,295	
18	Linkup	$18,522	
19	CCL	$3,533,054	
20	LinePort	$1,364,507	line 4 * .3
21	**Subtotal**	$6,613,378	
22	ILEC Funding	$891,483	@13.48%
23	**Total Fund**	$7,504,861	
24			
25	**USF Funding Obligations**		
26	ILEC Funding	$1,011,655	line 23 * .1348
27	Other Funding	$6,493,206	ine 23 * (1-.1348)
28			
29	**Future Per MOU Access Revenues**		
30	LS	$3,183,849	line 4*.7
31	CCL	$0	
32	TIC	$1,916,997	line 6 * .7
33	IS	$119,838	
34	SW Trans	$2,065,667	line 8+line 6*.3
35	**Total**	$7,286,351	

($000s)	Current	GTE Proposal	Difference
ILEC Revenues			
Per MOU Rates	$12,183,911	$7,286,351	-$4,897,561
USF	$1,715,817	$6,493,206	$4,777,389
SLC	$7,174,513	$7,174,513	$0
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Per MOU Rates	$12,183,911	$7,286,351	-$4,897,561
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