

SIERRA SANDS UNIFIED SCHOOL DISTRICT



SUPERINTENDENT and HUMAN RESOURCES

Bruce Auld
(760) 375-3363
(760) 375-4852
FAX 375-3338

INSTRUCTIONAL SERVICES

Perry Hayes
(760) 375-3923
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BUSINESS SERVICES

Michael H. McGrath
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SPECIAL PROJECTS

Howard N. Smith
(760) 375-3923
FAX 375-1959

District Office: 113 Felspar Avenue, Ridgecrest, CA 93555-3589

April 21, 1997

The Honorable Reed Hundt, Chairman
Federal Communications Commission
1919 M Street, NW, Room 814
Washington, D.C. 20554

Dear Commissioner Hundt:

RE: CC Docket No. 96-45

I am writing to you in regard to the federal "E-Rate" Telecommunications Discount Program. I am superintendent of Sierra Sands Unified School District, and I would like to express my strong support for this program and the proposed regulations governing its implementation.

The Telecommunications Act of 1996 and the Federal-State Joint Board discount plan will guarantee that even the poorest schools will have access to the Internet and the ability to provide distance-learning opportunities. The \$2.25 billion a year will address the needs of schools across the country, and more importantly, the plan will bring telecommunications services directly to the classrooms where they can have the greatest impact on students. It is important to remember that each element of this plan is vital to the overall success of the discount program. Therefore, the inclusion of discounts for internal classroom connections should not be eliminated, nor should the size of the Universal Service Fund be reduced. As I am sure you are aware, this program is essential for preparing our students to enter the work force of tomorrow.

The E-Rate Telecommunications Discount Program is desperately overdue, and our students need these discounts for telecommunications services this year. I urge you and the other FCC commissioners to fully support the recommendations of the Joint Board and approve the proposed final regulations regarding the discount plan for universal service for schools and libraries.

Thank you for your consideration of this matter.

Sincerely,

Bruce Auld
Superintendent

BA:pl

EX PARTE OR LATE FILED

RECEIVED

APR 30 1997

Federal Communications Commission
Office of Secretary

INYO COUNTY OFFICE OF EDUCATION

COUNTY BOARD
OF EDUCATION

Ken Baker
County Superintendent of Schools

PATRICIA CALLOWAY
SCOTT DUDLEY
EMILIE MARTIN
ROBERT VILARDI
ERMA WRIGHT

April 21, 1997
The Honorable Reed Hunt, Chairman
Federal Communications Commission
1919 M Street, NW, Room
Washington, D.C. 20554

EX PARTE OR LATE FILED

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APR 30 1997

Federal Communications Commission
Office of Enforcement

RE: CC Docket No. 96-45

Dear Commissioner Hunt:

I am writing to you in regards to the federal "E-Rate" Telecommunications Discount Program. I am the technology coordinator for the Inyo County Office of Education, and I would like to express my strong support for this program and the proposed regulations governing its implementation.

The Telecommunications Act of 1996 and the Federal-State Joint Board discount plan will guarantee that even small, rural schools like those in our county will have access to the Internet and the ability to provide the kinds of distance-learning opportunities that could make all the difference to students in remote areas of the country like ours. The plan will bring telecommunications services directly to the classrooms where they can have the greatest impact on students. It is important to remember that each element of this plan is vital to the overall success of the discount program. Therefore, the inclusion of discounts for internal classroom connections should not be eliminated, nor should the size of the Universal service Fund be reduced. As I am sure you are aware, this program is essential for preparing our students to enter the work force of tomorrow.

The E-Rate Telecommunications Discount Program is desperately overdue and our students need these discounts for telecommunications services this year. I urge you and the other FCC commissioners to fully support the recommendations of the Joint board and approve the proposed final regulations regarding the discount plan for universal service for schools and libraries.

Thank you for your consideration of this matter.

Sincerely,


Lo Lyness, Coordinator

135 South Jackson Street P.O. Drawer G, Independence, CA 93526-0607

Administrative/Instructional Services (619) 878-2426 800-421-6779

Business Services (619) 878-2428 800-222-0062

FAX NUMBER (619) 878-2279

San Diego County Office



Santee School District

“WHERE YOUNG MINDS MEET OPEN DOORS”

April 22, 1997

EX PARTE OR LATE FILED
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APR 30 1997

Federal Communications Commission
Office of Secretary

The Honorable Reed Hundt
Chairman
Federal Communications Commission
1919 M Street, NW, Room 814
Washington, D.C. 20554

RE: CC Docket No. 96-45

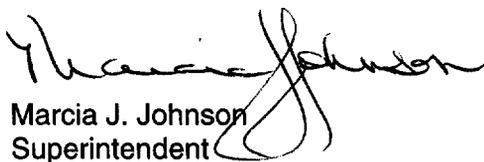
Dear Chairman Hundt:

I am writing to thank you for your dedication in ensuring that all students will have affordable access to the internet and distance-learning opportunities. As Superintendent of Santee School District, a suburban district in San Diego county, I personally lend my strong support for the “E-Rate” Telecommunications Discount Program and the proposed regulations governing its implementation.

The Telecommunications Act of 1996 and the Federal-State Joint Board discount plan will bring telecommunications services directly to the classrooms. This program is essential for preparing our students to enter the workforce of tomorrow. Santee School District is a small district with approximately 8,400 students and our Board of Education is dedicated to a plan for wiring classrooms and purchasing computer workstations. We are committed to providing our students with the best learning environment and tools available. The “E-Rate” Telecommunications Discount Program is desperately overdue and our students need these discounts for telecommunications services this year. I urge you and the other FCC commissioners to fully support the recommendations of the Joint Board and approve the proposed final regulations regarding the discount plan for universal service for schools and libraries.

Thank you for your consideration.

Sincerely,



Marcia J. Johnson
Superintendent

MJJ:as

BOARD OF EDUCATION: Cathy Abel, Dianne El-Hajj, Julie McIntosh, Sandy Pugliese, Barbara Ryan
DISTRICT SUPERINTENDENT: Marcia J. Johnson

SANTEE SCHOOL DISTRICT: 9625 Cuyamaca Street, Santee, California 92071-2674 • (619) 258-2300



Winnfield Senior High School

BOX 968 PHONE 318-628-3506 WINNFIELD, LOUISIANA 71483

EX PARTE OR LATE FILED

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APR 30 1997

Federal Communications Commission
Office of the Secretary

April 21, 1997

The Honorable Read Hundt
Federal Communications Commission
1919 M Street, NW, Room 844
Washington, DC 20554

Dear Mr. Hundt:

I am principal of Winnfield Senior High School in Winn Parish, Louisiana. I would like to thank you for your dedication in ensuring that all schools and libraries will have affordable access to the information Superhighway.

The Telecommunications Act and the Federal-State Joint Board discount plan will allow even the poorest schools to connect to the Internet and provide distance-learning opportunities. This proposed budget will address the needs of all schools and provide funding directly to classrooms.

Winnfield Senior High School will use the discounts to access the Internet through our local area network. The Winnfield Senior High School Technology plan and the Winn Parish Technology Plan provide for computers with Internet access in every classroom within the next three years. All of our schools have at least two dial-up accounts.

We need discounts for telecommunications in order to better prepare our students for the workplace of the next century. I would like to encourage the FCC to fully support the Joint Board's discount plan for universal service to schools and libraries.

Sincerely,

Dr. Jane Griffin
Principal

CC96-45

RECEIVED

OAKWOOD SCHOOL

James Alan Astman, Ph.D.
Headmaster

EX PARTE OR LATE FILED

April 22, 1997

RECEIVED

APR 30 1997

Federal Communications Commission
Office of Secretary

The Honorable Reed Hundt
Chairman
Federal Communications Commission
1919 M Street, NW
Room 814
Washington, D.C. 20554

Dear Chairman Hundt,

I am James Astman, Headmaster of Oakwood School in North Hollywood, California, and I would like to thank you for your dedication in ensuring that all schools and libraries have affordable access to the Information Superhighway.

The Telecommunications Act and the Federal-State Joint Board discount plan will guarantee that even the poorest schools will have the opportunity to connect to the Internet and provide distance learning opportunities. The \$2.25 billion a year will address the needs of all our schools and the plan will bring services directly to the classroom where students learn. Your inclusion of internal classroom connections for discounts is vital, as is your inclusion of Internet Service Provider costs. This plan is essential for preparing the workforce of tomorrow.

Oakwood is committed to technology both in its program and in its operation. Our goal is to provide access for every single student in our school, throughout the grades. Substantial discounts for telecommunication services this year will help ensure that access here and elsewhere. I urge the FCC to fully support the Joint Board's discount plan for universal service for schools and libraries.

Thank you.

Sincerely,



James Alan Astman
Headmaster

JAA:lh



Arcadia Unified School District

234 Campus Drive • Arcadia, California 91007 • (818) 447-9223 • Fax (818) 821-8647

Governing Board
Mary E. Dougherty
Maryann Gibson
Michael D. Lamb
John R. McClain
Joann E. Steinmeier

Superintendent
Terrence M. Towner, Ed.D.

EX-127-108 LATE FILED

April 22, 1997

Reed Hundt, Chairman
Federal Communications Commission
1919 M. Street, NW, Room 814
Washington, D.C. 20544

RECEIVED

APR 30 1997

FEDERAL COMMUNICATIONS COMMISSION
WASHINGTON, D.C. 20544

Re: CC Docket No. 96-45

Dear Commissioner Hundt:

I am writing to you in regards to the federal "E-Rate" Telecommunications Discount Program. I am a locally elected school board member from Arcadia Unified School District and I would like to express my strong support for this program and the proposed regulations governing its implementation.

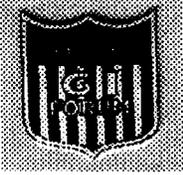
The Telecommunications Act of 1996 and the Federal-State Joint Board discount plan will guarantee that even the poorest schools will have access to the Internet and the ability to provide distance-learning opportunities. The \$2.25 billion a year will address the needs of schools across the country, and more importantly, the plan will bring telecommunications services directly to the classrooms, where they can have the greatest impact on students. It is important to remember that each element of this plan is vital to the overall success of the discount program. Therefore, the inclusion of discounts for internal classroom connections should not be eliminated, nor should the side of the Universal Services Fund be reduced. As I am sure you are aware, this program is essential for preparing our students to enter the workforce of tomorrow.

The E-rate Telecommunications Discount Program is desperately overdue and our students need these discounts for telecommunications this year. I urge you and the other FCC commissioners to fully support the recommendations of the Joint Board and approve the proposed final regulations regarding the discount plan for universal service for schools and libraries.

Thank you for your consideration of this matter.

Sincerely,

Joann E. Steinmeier
President of the Governing Board



CC96-48

OKC CHAPTER * AMERICAN GI FORUM
A Veterans Family Organization Since 1948

Pfc. Manuel Perez Jr. Center
Commander, Jose 'Marty' Martinez

Telephone (405) 522-1272
2501 South Western, Oklahoma City, OK73101

Federal Communications Commission
Chairman, Reed Hundt
1919 M Street NW
Washington, D.C. 20554

RECEIVED
EX PARTE OR LATE FILED
APR 30 1997

Federal Communications Commission
Office of Secretary

April 14, 1997

Dear Chairman Hundt:

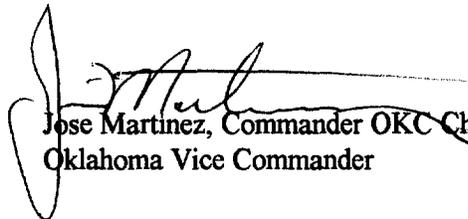
We have recently become aware that Southwestern Bell Telephone Company has applied for a Long Distance Carrier's license from the Federal Communications Commission and we would like to inform you of our support on behalf of Southwestern Bell.

All of our members are Southwestern Bell Telephone subscribers and the majority of them have had bad experiences with many of the current long-distance carriers now soliciting business in Oklahoma. With Southwestern Bell we have a proven and trusted company with a history of reliable, affordable telephone and customer service. It would be very convenient for all of us if we only had to deal with one proven company for all of our telephone services. Many of our members are elderly and when problems with long-distance calls occur, they sometimes pay rather than go through all the hassle of dealing with their current long-distance carriers. These same members are on fixed incomes and can hardly afford that loss.

The partnership that Southwestern Bell has with the people of Oklahoma goes beyond the normal partnerships between businesses and the public. For years, Southwestern Bell Telephone has been the leader in forging partnerships with our public schools by providing communications access to much of the high technologies they now enjoy. This includes video computer conferencing, inter-net access and the fiber-optic lines that carry that technology.

The job growth, competitive posture, more choices, and of course, one carrier who will provide all services, will be great for Oklahoma, in particular, our rural areas. On behalf of our Oklahoma membership, I respectfully ask that you accept this letter in support of Southwestern Bell's request.

Sincerely,


Jose Martinez, Commander OKC Chapter &
Oklahoma Vice Commander

- c. El Nacional Hispanic Newspaper
- Mexican American Political Association of Oklahoma
- American GI Forum National

EX PARTE OR LATE FILED

RECEIVED

APR 30 1997

Federal Communications Commission
Office of Secretary

April 14, 1997

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

Re: CC Docket Number 96-45

Dear Chairman Hundt:

I am a classroom teacher from Lee's Summit, MO, R-7 School District, and I would like to thank you for your dedication in ensuring that all schools and libraries will have affordable access to the Information Superhighway.

The Telecommunications Act and the Federal-State Joint Board discount plan will guarantee that even the poorest schools will have the opportunity to connect to the Internet and provide distance-learning opportunities. The \$2.25 billion a year will address the needs of all our schools, and importantly, the plan will bring services directly to the classroom where students learn. Your inclusion of internal classroom connections for discounts is vital. This plan is essential for preparing the workforce of tomorrow.

Our students need deep discounts for telecommunications services this year. I urge the FCC to fully support the Joint Board's discount plan for universal service for schools and libraries. Thank you.

Sincerely,

Laura Maxwell



California Lottery
Headquarters
600 North Tenth Street
Sacramento, CA 95814
(916) 327-7818

CC 96-45

COMMUNICATIONS DIVISION

EX PARTE OR LATE FILED

RECEIVED

APR 30 1997

Federal Communications Commission
Office of Secretary

April 25, 1997

Chairman Reed E. Hundt
Federal Communications Commission
1919 M St. NW Room 814
Washington, DC 20554

Dear Chairman Hundt:

I understand that the FCC is considering a proposal to increase the business Subscriber Line Charge and to impose a new charge, reportedly called a FERC, of at least \$4.50 per line per month to support extending new telecommunications capabilities to schools, libraries, and rural health care facilities. At the same time that it is considering imposing these new costs on the California State Lottery (CSL) as well as other American businesses, I am told that the Commission will not take the long overdue step of bringing rates closer to the true economic cost of local access services.

I urge you NOT to adopt the foregoing proposals which would, in effect, impose a new tax of \$40,500 per month (\$486,000 per year) on the CSL, regardless of whether it is characterized as a "rate rebalancing" or "modification of rate structures". With all due respect, I believe that the imposition of such taxes is the business of the people's representatives, not appointed officials. It should be noted that this amount of rate change forced upon the CSL really equates to a \$486,000 revenue shortfall for California education; education is the single recipient of all unexpended CSL administrative funds.

The time has come for the Commission to reform its rules governing access charges, which are more than \$3 billion a year higher than they should be. All consumers, businesses as well as residential, deserve protection from excessive monopoly prices. The Administration's social policy agenda should be addressed in other ways and not get in the way of these reforms.

Sincerely,

William A. Brewer, Director
Information Management & Services Division
California State Lottery

RECEIVED

CC96-45

APR 30 1997

EX PARTE OR LATE FILED

Federal Communications Commission
Office of General Counsel

UNIVERSAL SERVICE ASSURANCE:

Act Three of a Four Act Play

April 1997

TCG

Teleport Communications Group

One Teleport Drive, Staten Island, New York 10311

INTRODUCTION

In the Telecommunications Act of 1996, the United States Congress wrote Act One of an evolving universal service drama: it required universal service funding by all telecommunications carriers and eliminated the incumbent local exchange company stranglehold on universal service subsidies. Calling for the establishment of an equitable universal service mechanism, the 1996 Act ended forever incumbent local exchange carrier ("ILEC") claims that local exchange competition would endanger universal service.

The Federal-State Joint Board on Universal Service wrote Act Two of the universal service drama when it submitted its recommendations to the Federal Communications Commission ("FCC") last November. The FCC will write Act Three by May 8 when it is required by the Act to issue an order implementing the federal universal service requirements of the Act. With this its third paper on universal service, TCG highlights some of the issues that will be most crucial to ensuring that the FCC's rule results in a fund that is fair, reasonable, and sufficient.¹

COST STUDIES AND BENCH MARKING

The major debate following the Joint Board's recommendations has been over the size of the universal service fund. This debate has focused almost exclusively on computer models aimed at estimating the cost of basic service. The two leading models under consideration have predicted funding levels of between \$5 billion and \$15 billion annually. However, many observers interested in advancing the reform of universal service agree that the results of the two models can be reconciled by adjusting a relatively small number of assumptions and inputs. The adjustment should be made on a common sense basis so as to eliminate patently unreasonable assumptions--for example, the assumption that telephone poles would be used only by providers of basic telephone service, rather than by cable and electric companies. This will narrow the gap between the two models that have

¹In 1993, TCG published *Universal Service Assurance: A Concept for Fair Contribution and Equal Access to Subsidies*. In 1994, TCG published *Universal Service Assurance II: A Blueprint for Action*.

been scrutinized and revised for several months and allow the FCC to select a model that is based on the proper inputs. Once this is done (and TCG is confident that the FCC is fully capable of doing so), the cost model will yield a reasonable output that can be reconciled with policy objectives. More important, attention shifts (finally!) to the other half of the funding requirement equation: the Affordability Benchmark.

AFFORDABILITY BENCHMARK

The affordability benchmark is the threshold above which support will be provided by the universal service fund. Most consumers are able “to afford” a certain level of expenditure on telephone service. (The exception is consumers with extremely low income, who qualify for “lifeline” subsidies.) If the cost (determined as discussed above by cost studies) of serving a customer exceeds the affordability benchmark, then that customer is eligible for universal service support

Nearly all of the funding requirement estimates that have appeared in the press (e.g., \$5 billion and \$15 billion) are based on a benchmark of \$20 per month per line, which is approximately the national average monthly charge for *basic service*. However, this defies common sense, because telephone customers generate far more revenue for their local exchange carrier than the monthly charge for basic service (including the Subscriber Line Charge). To the extent that rates for basic service do not cover the cost (forward-looking or embedded) of basic service, any shortfall may be more than overcome by profits from other services. Vertical services (e.g., call waiting, call forwarding, etc.) and long distance access charges produce substantial revenues for the local exchange carriers and therefore must be included in the calculation to establish the required subsidy.

Indeed, the Joint Board’s recommendation was to calculate the subsidy requirement as the difference between *total average nationwide revenue* per line and the TSLRIC of those services, rather than the difference between *basic service* rates and the TSLRIC of basic service.² This is proper, given the

² See Recommended Decision, paragraphs 310-311.

likelihood that local telephone service is an especially effective loss leader: once a customer selects a local service provider, that provider has captured the *exclusive* right to sell that customer additional services.³ It is thus unreasonable and counterproductive to use \$20 as the benchmark, because the effect would be to maximize the size of the universal service fund.

As compelling as the case is for basing the benchmark on total revenue per line, it suffers from one drawback. Rates for most incumbent local exchange carriers are - and probably will continue to be - regulated in some manner by state regulators, either through price caps or through rate of return rules. Revenue figures, therefore, vary considerably from state to state, more reflective of each state's regulatory policies than of the underlying cost of service. Basing the benchmark strictly on revenue per line would over-reward, with greater subsidies, those states that have unrealistically low local service rates for all customers. The antidote to this perverse reward scheme, of course, is to find some other benchmarking tool that is independent of regulatory rate making: proxy cost studies.

As was noted above, the FCC and the Joint Board have spent much of the last twelve months evaluating various cost models to estimate the cost of basic service. These models can produce an independent estimate of the cost of telephone service and therefore can be used to establish the benchmark, a proposal under consideration by the state staff of the Joint Board.⁴ **Support thresholds, therefore, should be based on relative costs and on revenue per line.** That is, the minimum benchmark should equal the average revenue per line. For example, if the national average cost for basic service were \$15/month, and the national average revenue per line were \$30/month, customers in high cost areas should be eligible for universal service support if the cost of serving them exceeded \$30/month. In effect, the present formula for calculating the threshold support would

³ Unlike loss leaders offered by, for example, grocery stores, telephone subscribers have no alternatives once they select their basic service provider. A grocery store customer at least has the option to go to another store for his other purchases once he has purchased the loss leader item.

⁴ Embedded costs of the ILECs are currently used to establish support eligibility under the existing Universal Service Fund. Like the revenue benchmark, however, embedded costs raise issues of perverse incentives and independence.

change from 115% of cost to 200% of cost. The FCC must avoid creating any incentive for carriers (or regulators) to reduce revenues in order to increase their draw from the universal service fund, which would be both uneconomic and anticompetitive.

CONNECTING SCHOOLS AND LIBRARIES

The 1996 Telecommunications Act added a new feature to universal telecommunications service: support for schools and libraries. Under the Act, schools and libraries are entitled to a discount on their telecommunications services. The carrier offering the discounted service will be reimbursed for the amount of the discount from the federal universal service fund. To implement this section of the Act, the Joint Board proposed allocating \$2.25 billion annually to fund discounts for schools and libraries upon a “bona fide request” from the school.

This feature of the 1996 Act has the potential to generate considerable competition for school and library contracts, but only if one condition is met: schools and libraries must solicit competitive bids from carriers as a fundamental prerequisite to a “bona fide request” for support. Schools and libraries have a tremendous opportunity to obtain better service at lower prices. If they have locked themselves into contracts with incumbent local exchange carriers, that opportunity will be lost. Although in some instances existing contracts have been awarded via competitive bidding, the nascent state of competition guarantees that most existing contracts were awarded to the incumbent local exchange carrier by default. If such contracts are permitted to remain in place, competitors will be effectively barred from potentially lucrative markets and the schools and libraries will remain captives of the incumbent monopolists. Schools and libraries that have contracted with the ILECs without entertaining bids from other providers, therefore, should be required to reopen those contracts to bidding if their carrier is to receive support.

The Joint Board’s innovative recommendation to initiate Requests for Proposals (“RFP”) via an Internet web page will minimize any burden the schools and libraries may shoulder as they take

advantage of their new freedoms. Their efforts will be well rewarded by the new competitive marketplace for local telecommunications services.⁵

As for the RFPs themselves, TCG recommends that bidding for support-eligible contracts be limited to one round of sealed bids. Such an approach will not only minimize the burdens on the schools and libraries, but it will also encourage “best behavior” on the part of carriers. The alternatives - multiple-round auctions - are complicated undertakings requiring substantial oversight to prevent “gaming” and to ensure fair treatment of all parties. The best way to minimize the problems associated with an RFP is to encourage the bidders to make their first offer their best offer. It has been TCG’s experience in arbitration proceedings, for example, that when carriers are forced to make a best and final offer, resolution is achieved quickly and more efficiently than more complicated procedures.

TCG strongly believes that it is well within the Commission’s authority to require a school or library to complete an RFP. Should a school or library wish to take advantage of the universal service funds for which it is eligible, therefore, the Commission is justified in requiring the institution to terminate its existing contract with the incumbent local exchange carrier, to issue an RFP, and to entertain competitive bids for contracts. Such a requirement would not apply to existing contracts that were awarded to competitive local exchange carriers who, by definition, must have underbid the incumbent local exchange carrier to win the contract.

ADMINISTRATIVE DETAILS

Single-Connection Support: In Paragraph 89 of its Recommended Decision, the Joint Board proposed that support to residential customers “... be limited to those services carried on a single

⁵ Given the limited state of competition today and in the near future, however, it is unlikely that every RFP will elicit a competitive response. In those instance where contracts are awarded to the incumbent local exchange carrier by default, those contracts must be for a term of no more than three years.

connection to a subscriber's principal residence." The Board further concluded "... that support for a single connection will permit a household complete access to telecommunications and information services." TCG agrees with both the Joint Board's reasoning and its conclusion. Those who oppose the proposed policy argue that it will require extraordinary enforcement efforts by the Commission or by the Fund administrator. Of course, the cost of implementing any audit and control system must be measured against the expected value of the fraud to be prevented. Under the proposal outlined below, however, the integrity of the universal service support system can be maintained simply and at relatively low cost.

TCG proposes that the fund administrator shoulder most of the work, with intervention by state commissions and the FCC only to settle disputes. State commissions would hear disputes first, and the FCC would hear only appeals of state commission decisions. Once properly established, the fund should be self-supporting and self-policing, and intervention by either a state commission or the FCC should be infrequent.

TCG's solution has three components: 1. Customer certification; 2. Database of support-eligible locations; 3. Periodic audits of statistically significant samples of support recipients.

Customer Self-Certification: TCG proposes to require customers to designate one carrier as their primary local exchange carrier to whom support will flow for the provision of the customer's first line. Additional lines, whether provided by the primary LEC or some other LEC, would not be eligible for support.

Database of Support-Eligible Locations: This presents the largest technical hurdle, but there are two options readily available.

1. *The First Option* would use existing Customer Account Record Exchange ("CARE") databases maintained by each local exchange and interexchange

carrier. Each record in a CARE database contains the service address for every customer in each local exchange carrier's service territory. The strength of the CARE approach is that it is already automated and available. In addition, LEC CARE records can be compared to IXC CARE records as a preliminary, but by no means foolproof, check on the accuracy of the records. The weakness of the CARE approach is that data entry is not necessarily uniform and 100% accurate. Also, the IXC-LEC check is not foolproof and can be circumvented (e.g., a customer could choose a different LEC and a different IXC for second-line service.)

2. *The Second Option* would rely upon county and municipal records and databases to identify the addresses of high cost consumers. The strength of this approach is that there is unlikely to be any duplication of records or incentive to misreport data. The weakness is that county and municipal records may not be automated or readily available.

One or the other of these databases (CARE or government) would be mapped into the database of high cost areas as established by the cost studies to create a new Universal Service database ("USDB") of those addresses in high cost areas. The criteria for extracting records from the CARE or government databases might be 5-or 9-digit zip codes, at least initially. Other extract criteria might be added or substituted to develop a more refined USDB.

The fund administrator would check each carrier's request for funding for a particular address against the records in the USDB to determine the validity of the request. Multiple support requests for one address, for example, or requests for addresses not in the USDB would be denied pending further investigation. This would be the primary check point of the system's integrity.

Periodic Audits. Finally, to further ensure the integrity of this system, an independent auditor would periodically verify the accuracy of the database and the requests for support. The audits would comprise a statistically significant subset of database records and requests and need not encompass the entire database or every request. Deliberate attempts to defraud the universal service fund, by carriers or customers, should be punished with stiff fines.

Providing support to only the customer's primary residence adds an additional wrinkle to the audit and control of the fund. At this time, TCG can recommend only social security numbers as the means of identifying customers with telephone service to multiple dwellings. The CARE records have space for each customer's SSN, and county and municipal governments certainly have access to that information for their citizens (non-citizens pose a problem in this regard). In a manner similar to the screening for multiple requests for support for one address, the administrator would examine the USDB for identical social security numbers. If a social security number appears in the database more than once, the Administrator would request the respective state commissions to investigate to determine the customer's primary residence. This approach is not foolproof either, however, as a married couple may order telephone service in the husband's name (and SSN) at one residence and in the wife's name (and SSN) at the other residence. Nevertheless, it appears to be the best approach available.

THE GREAT INTERSTATE/INTRASTATE DEBATE

The Telecommunications Act of 1996 states that "[e]very telecommunications carrier that provides interstate telecommunications services shall contribute, on an equitable and nondiscriminatory basis, to ..." the universal service fund. Ask two people to explain what this means, and you are likely to get two vastly different interpretations. On the one hand, there are those who interpret this section to restrict the FCC to assessing only the interstate revenue of interstate carriers. On the other hand, there are those who interpret this section

to allow the FCC to assess both the inter-and intra-state revenue of interstate carriers. Of course, reasonable people can disagree on this issue and it is not our intention to adjudicate it here. Each interpretation, however, has very different implications for the nation's approach to universal service.

Although the jurisdictional separation between state and interstate telecommunications is blurring, federal efforts to assess intrastate revenue for universal service purposes will inevitably raise legal issues regarding states' rights. To avoid a constitutional confrontation with the states, the FCC may feel compelled to limit assessments to interstate revenue only. But if the assessments are limited, fairness and competitive neutrality mandate a smaller federal fund. Even so, CLECs, who derive a higher proportion of their total revenue from interstate services than incumbent local exchange carriers, could conceivably end up paying a greater share of their *total* revenue into the fund than the ILECs. The anticompetitiveness is only compounded by the fact that the ILECs will be the sole recipients of universal service funding, at least for the immediate future.

THE SIZE OF THE FUND

As indicated earlier, a benchmark that properly accounts for all of the revenue generated for a local exchange carrier by its captive customers will significantly reduce prospective universal service funding requirements. Indeed, when all such revenue is accounted for, current funding levels of approximately \$1.1 billion may be more than sufficient to meet the nation's universal service high cost needs.⁶ The FCC's primary objective, therefore, is to make current universal service support competitively-neutral in terms of contributions and distributions.

⁶ \$750 million of USF and \$300 million for long term support. The DEM weighting program, which amounts to another \$300 million, has accomplished its goals and the FCC should eliminate it.

Although the Joint Board recommended \$2.25 billion annually to support telecommunications services for schools and libraries, such funding may far exceed the amount necessary. TCG and other CLECs have successfully won contracts for schools and libraries, saving those customers hundreds of thousands of dollars.⁷ Competitive bidding in the future will bring additional cost savings to these customers. Furthermore, as more schools become wired, either on their own or via “Net Days” programs, additional support will be unnecessary. Perhaps as little as half of the Joint Board’s original recommendation, therefore, may be needed in the future. Since the actual needs for rural health care have not yet been determined, the Commission should adopt a method for determining the needs rather than an arbitrary figure. For the purpose of estimating the potential size of the universal service fund in total, a placemark figure of \$400-500,000 seems reasonable.⁸ Expanding the Lifeline and Linkup America programs may add another \$650 million. This would place the total Federal Universal Service Fund at between \$3 billion and \$4 billion annually.

TCG notes that many parties representing all sides of the issue have recommended low universal service funds. Low does not mean inadequate, and there is nothing in the Act that precludes the upward or downward adjustment of the initial universal service fund. To initiate the fund it is prudent to satisfy demonstrated need, not wish lists, and to take into account the compelling fact that once competition is robust, most customers will become attractive to most carriers, who will vie to provide better service at lower prices, thus minimizing the requirements for universal service subsidies.

⁷ For example, California’s Oakland Unified School District has selected TCG as its local telephone company.

⁸ Competition is driving down the costs to health care providers as well: in New York City, TCG now serves 28 major hospitals.

CONCLUSION: ACT FOUR IS YET TO COME

A properly calculated, reasonably sized Federal Universal Service Fund will add needed certainty to the cost picture for new competitive local exchange carriers. However, the FCC's ruling on the benchmarks, the administration of the fund, and the collection methods for creating the fund will not constitute the final Act of the universal service drama. States still may write Act Four, for the Telecommunications law gives them the authority -- though not the obligation --to establish their own universal service funds, and many states have already begun to consider the option--or as in the case of California, have already established statewide universal service funds. ILECs can be expected to continue to try to use universal service as a shield to protect themselves from competition especially in the state jurisdictions. Thus it is all the more important for the FCC to establish reasonable limits on the national fund.

Other TCG Issue Papers:

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THOMAS L. WELCH
CHAIRMAN

WILLIAM M. NUGENT
HEATHER F. HUNT
COMMISSIONERS

April 22, 1997

RECEIVED

APR 30 1997

Federal Communications Commission
Office of Consumer Affairs

Honorable Reed Hundt
Chairman
Federal Communications Commission
1919 M Street, N.W.
Washington, D.C. 20554

Re: Universal Service, CC Docket No. 96-45

Dear Chairman Hundt:

We write to express our views concerning several of the issues facing the FCC as you approach May 8.

We appreciate your recognition of the challenges that we face as a rural state that receives a disproportionately small share of current Universal Service funds. We agree with your stated view that the FCC should use caution in adopting any single approach or model that might, because of its distorting effects on the market, render genuine progress difficult or impossible. We also support a measured and orderly approach to implementing the mandate given to the FCC, to avoid allowing the inherent tension in the Act between its goal of promoting competition and its goal of enhancing universal service to frustrate the achievement of both. Nevertheless, we believe that maintaining the current system of support for rural areas for an extended period would frustrate Maine's ability to fulfill the requirements of the Act, especially those contained in Section 254(b) relating to reasonably comparable rates.

Maine and other rural states, in separate ex parte submissions, detail the scope of our concerns and suggest an interim approach that could be implemented prior to the final



Ltr. Reed Hundt, Chairman

April 16, 1997

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resolution of the proxy model issues.¹ In particular, the 200,000 line threshold for the full measure of High Cost Fund support in the existing scheme is a barrier to reasonably comparable rates that could be removed, as a near-term interim measure, without disturbing the orderly transition to competition or access charge reform.

Beyond these particular concerns, we have articulated below certain broad principles for substance and process that, in our view, should guide the FCC's deliberations:

- To the extent possible, rates should be designed so that non-traffic sensitive costs are not recovered through usage-sensitive charges.
- The long-term resolution of Universal Service and High Cost Fund issues - including size, funding, and distribution - should be developed in close cooperation between the states and the FCC, with continuing use of the Universal Service Joint Board.
- As the Universal Service Joint Board recommended, federal funding should be sufficient to ensure that telecommunications services, including inside wire and access to the internet, are made available to schools and libraries at discounted rates.
- The transition to a competitive market should be accomplished, to the extent possible, without creating adverse rate impacts on residential consumers.

While we are writing as individual commissioners, and not on behalf of the Maine Public Utilities Commission per se², we

¹It seems clear to us that significant additional work needs to be done before any of the various proposed proxy models could be relied upon. Indeed, it may be the case that, while the same economic principles should guide all our collective efforts, the specific model ultimately chosen for High Cost Fund calculations (which, in essence, attempt to smooth differences among geographic regions) may not be identical to the model needed for other purposes (e.g. evaluating unbundled rate element prices). In any case, the Universal Service Joint Board is an appropriate forum for further work on these models.

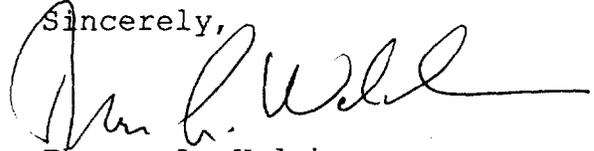
²Nor is Chairman Welch writing in his capacity as a member of the Separations Joint Board.

Ltr. Reed Hundt, Chairman
April 16, 1997
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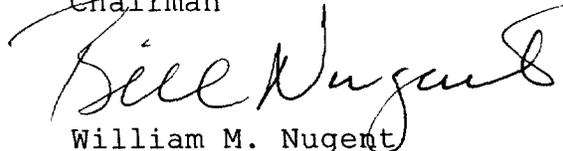
believe that the principles we have outlined above will, to the extent they guide the FCC's decision on May 8, help keep the move to effective competition required by the 1996 TelAct on track.

Thank you in advance for your consideration of our views.

Sincerely,



Thomas L. Welch
Chairman



William M. Nugent
Commissioner



Heather F. Hunt
Commissioner