incentive for carriers to offer low-income consumers toll-limitation services to manage their toll expenditures.

388. We further recommend, however, that the Commission provide state utilities regulators with the authority to grant carriers a limited waiver of this requirement if the carrier can establish that: (1) it would incur substantial costs in complying with such a requirement; (2) it offers toll-limitation services to its Lifeline subscribers at no charge; and (3) telephone subscribership among low-income consumers in the carrier's service area is at least as high as the national subscribership level for low-income consumers. We recommend that this waiver be extremely limited and that a carrier should be required to meet a very heavy burden to obtain a waiver. Furthermore, we recommend that the waiver would terminate after two years, at which time carriers could reapply for the waiver.

389. The Joint Board also recommends, in its discussion of Link Up in section VIII. C., *infra*, that the Commission implement a national policy prohibiting telecommunications carriers from requiring Lifeline-participating subscribers to pay service deposits in order to initiate service if the subscriber voluntarily elects to receive toll blocking.[1289]

390. Some commenters suggest that free access to information about telephone service for low-income consumers should receive universal service support.[1290] These commenters appear to be concerned that low-income consumers will be unable to place calls to gain telephone service information if the calls would otherwise be an in-region toll call, or if the state's Lifeline program allows only a limited number of free calls. Similarly, NAD suggests that universal service support mechanisms should provide support so that TTY users can make free relay calls to numbers providing LEC service information.[1291] We conclude that the states are best suited to determine, pursuant to section 254(f), whether to require carriers to provide free access to information about telephone service for low-income consumers, because they are most familiar with the number of consumers in their state affected by charges for these calls and may do so pursuant to 254(f) through their own universal service support mechanism. We also find that the record in this proceeding is inadequate to permit a recommendation on this subject that would comport with competitive neutrality by assuring consumers' access to such information for all service providers. We find that the same concerns militate against providing support for low-income consumers with disabilities making relay calls to gain access to LEC service information.

[1289] Our recommendation does not address the issue of whether states may allow a LEC to request a service deposit from a customer with an outstanding balance owed to another LEC.

[1290] *See, e.g.*, CNMI comments at 19-20; Edgemont comments at 12; Michigan Consumer Federation comments at 20.

[1291] NAD reply comments at 22.

391. Some commenters favor universal service support for usage of interexchange and advanced services for low-income consumers.[1292] We find, however, that it is unclear whether providing support for such services is necessary at this time. We believe the steps we suggest today for ensuring universal service for low-income consumers are likely to increase their access to interexchange and advanced services. In the event that low-income consumers lack access to such services in the future, impeding the achievement of universal service goals, we recommend that the Commission revisit this issue.

392. Other commenters propose support for special-needs equipment for low-income subscribers with disabilities.[1293] We note, however, that the 1996 Act specifically addresses access to telecommunications services and equipment by individuals with disabilities outside the context of section 254.[1294] We therefore conclude that these matters need not be addressed by this Joint Board because they will be addressed in a separate proceeding to implement section 255.

393. Commenters propose other services and functionalities for low-income consumers that they assert should be supported through universal service support mechanisms, such as caller ID at a reduced rate,[1295] "soft dial tone" or "warm line,"[1296] support for optional services at regular rates,[1297] and multi-lingual information regarding billing and rates.[1298] Although these proposed services may benefit low-income customers, we find that the states are best positioned to ascertain, pursuant to section 254(f), whether these types of proposed support should be provided to low-income customers, due to the states' greater familiarity with regional and local demographic, socio-economic, and rate-making factors and may do so pursuant to 254(f) through their own universal service support mechanism.

394. Moreover, the inclusion of additional services and functionalities beyond those necessary to effectuate a comprehensive federal universal service policy would be

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[1292] *See, e.g.*, Brite comments at 1-2; Governor of Guam comments at 12-14; New Mexico AG comments at 4.

[1293] *See, e.g.*, Council of Organizational Representatives reply comments at 3; Michigan PSC comments at 2; NAD reply comments at 8; New York DPS comments at 15; United Cerebral Palsy Ass'n reply comments at 2.

[1294] *See* 47 U.S.C. § 255.

[1295] NTIA reply comments at 7.

[1296] *See, e.g.*, Edgemont comments at 16; PacTel comments at 22.

[1297] Texas OPUC comments at 17.

[1298] *See, e.g*, La Raza comments at 6-7; Virginia CC comments at 4; Ohio Consumers' Council reply comments at 16; .

inappropriate and may have the effect of unreasonably and unnecessarily expanding all carriers' universal service obligations, with inevitable effects on rates.[1299] Therefore, we limit our recommendation to the services and rules described *supra* and the modifications to Lifeline and Link Up described *infra*.

C. Reevaluation of Existing Low-Income Support Programs

1. Background

395. Section 254(b)(3) states that consumers in all regions of the Nation, including low-income consumers, "should have access to telecommunications and information services, including interexchange services and advanced telecommunications and information services, that are reasonably comparable to those services provided in urban areas and that are available at rates that are reasonably comparable to rates charged for similar services in urban areas."[1300] Section 254(b)(1) provides that telecommunications services should be "affordable," and section 254(d) requires all providers of interstate telecommunications service to contribute to universal service support on an equitable and nondiscriminatory basis. Section 254(j), however, provides that "[n]othing in [section 254] shall affect the collection, distribution, or administration of the Lifeline Assistance Program provided for by the Commission under regulations set forth in section 69.117 of title 47, CFR, and other related sections of such title."[1301]

396. As noted in the NPRM, the Commission's Lifeline program currently provides support that reduces the charges low-income consumers in participating jurisdictions incur for some state-specified level of local service that includes access to the public switched telephone network (PSTN) and some local calling.[1302] States may choose to participate in either of two Lifeline Assistance plans. Under Plan 1, an eligible subscriber's monthly telephone bill is reduced by an amount equal to the $3.50 federal subscriber line charge imposed on such subscribers.[1303] Half of the reduction comes from a 50 percent waiver of the charge; the other half comes from the participating state, which matches the federal

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[1299] Increases in the size of the fund, regardless of the magnitude, will in most cases be reflected through increased rates. This result, of course, negatively affects the overall affordability of rates.

[1300] 47 U.S.C. § 254(b)(3).

[1301] 47 U.S.C. § 254(j). Section 69.117 of the Commission's rules addresses the conditions and mechanisms for waiver of the subscriber line charge for Lifeline participants. 47 C.F.R. § 69.117.

[1302] 47 C.F.R. § 69.104(j)-(l). Currently, 41 states plus the U.S. Virgin Islands and the District of Columbia participate.

[1303] 47 C.F.R. § 69.104(j).

contribution by an equal reduction in the local rate. Under this plan, subscribers who satisfy a state-determined means test may receive assistance for a single telephone line in their principal residence. Under Plan 2, which expands Plan 1 to provide for waiver of the entire residential SLC (up to the amount matched by the state), a subscriber's bill may be reduced by twice the SLC (or more, if the state more than matches the value of the federal waiver).[1304] The state contribution may come from any intrastate source, including state assistance for basic local telephone service, connection charges, customer deposit requirements, or state taxes. Under both plans, the interstate portion of Lifeline is billed to IXCs by NECA.[1305] While Plan 2 requires the verification of participating subscribers' eligibility, Plan 1 requires only that subscribers' eligibility be "subject to verification."[1306] Of the 43 states or other jurisdictions participating in Lifeline, only California offers a Lifeline program under Plan 1.[1307]

397. Link Up helps low-income subscribers initiate telephone service by paying half of the first $60.00 of installation charges.[1308] Where a LEC has a deferred payment plan, Link Up will also pay the interest on any balance up to $200.00, for up to one year.[1309] To be eligible for this program, subscribers must meet a state-established means test, and may not, unless over 60 years old, be another's dependent for federal income tax purposes.[1310]

398. The NPRM sought comment generally on whether "changes to our Lifeline and Link Up programs should be made as part of an overall mechanism to ensure that quality services are available at just, reasonable, and affordable rates for low-income subscribers."[1311] The NPRM proposed to amend the Link Up program by removing it from the jurisdictional separations rules through which it is now funded for low-income subscribers of incumbent LECs and funding the program through a new universal service mechanism consistent with sections 254(d) and (e). In the NPRM, the Commission also sought "comment and a Joint

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[1304] 47 C.F.R. § 69.104(k).

[1305] 47 C.F.R. § 69.117.

[1306] 47 C.F.R. § 69.104(j).

[1307] Indus. Analysis Div., FCC, *Monitoring Report May 1995 CC Docket No. 87-339*, at tbl. 2.1 (1995) (*Monitoring Report*). California allows subscribers to self-certify their eligibility to participate in the Lifeline program.

[1308] 47 C.F.R. § 36.711.

[1309] 47 C.F.R. § 36.711(a)(2).

[1310] 47 C.F.R. § 36.711(b).

[1311] NPRM at para. 65.

Board recommendation on how to define eligible low-income customers."[1312] The NPRM observed that the states currently determine Lifeline eligibility based on means-tested criteria they select.[1313]

399. In its Public Notice, the Commission's Common Carrier Bureau asked: (1) whether the new universal service fund should provide support for Lifeline and Link Up in order to make the subsidies technologically and competitively neutral, and (2) if so, whether the amount of the Lifeline subsidy still should be tied to the amount of the SLC.[1314]

2. Comments

400. Retain Lifeline and Link Up in their Current Form. A majority of commenters support the Lifeline and Link Up programs, with most asking only that support for these programs be maintained or increased.[1315] Missouri PSC, Washington UTC, and Ohio PUC support Lifeline and Link Up in their current form.[1316]

401. Effect of Section 254(j). A few commenters appear to read section 254(j) as precluding the Commission from making any changes to the Lifeline program.[1317] Bell Atlantic, however, interprets section 254(j) to permit the Commission to leave the Lifeline program in place if it wishes to do so, even though the program may currently conflict with other goals in the statute.[1318]

402. Change Lifeline and Link Up. NTIA and Citizens Utilities propose changes to the Lifeline program. Some commenters suggest mandating that all states participate in the

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[1312] NPRM at para. 59.

[1313] NPRM at para. 61.

[1314] Public Notice at Question 71.

[1315] *See, e.g.*, Farmers Tel. comments at 4-5; Michigan PSC comments at 2; Mon-Cre comments at 5; Ohio PUC comments at 7 (advocating expanding Lifeline to waive the entire subscriber line charge); South Dakota comments at 1-7; Sprint comments at 21 (suggesting that more effort be made to educate low-income consumers about the existence of Lifeline and Link Up); TCA comments at 5; Telec Consulting comments at 15; Winnebago Tel. comments at 1; U S West further comments at 31 (supporting the programs but believing the Commission should re-examine the caps placed on these programs as rates are rebalanced).

[1316] Missouri PSC comments at 12; Ohio PUC comments at 7; Washington UTC comments at 12.

[1317] *See, e.g.*, Ad Hoc Telecom. Users comments at 2 n.1; Associated Communications comments at 3; PacTel comments at 22; Washington UTC comments at 14; Puerto Rico Tel. Co. further comments at 22.

[1318] *See, e.g*, Bell Atlantic further comments at 15.

Lifeline program.[1319] NTIA, for example, maintains that the 1996 Act appears to require federal support for low-income consumers regardless of whether the state in which they live matches federal low-income support.[1320] NTIA observes, however, that removing the matching requirement might reduce the incentive for currently-participating states to continue providing support, and therefore advocates reducing the matching requirement to 25 percent of the federal support level.[1321] North Dakota PSC would make participation in Lifeline and Link Up a condition for carriers to receive any type of universal service support.[1322] Michigan PSC proposes that the Commission modify the programs so that federal and the state funds would each contribute 50 percent of customers' costs associated with Link Up, Lifeline, and special needs equipment; federal support mechanisms and the provider would each contribute 50 percent of customers' costs associated with a special low-income local service package including, among other options, toll restriction.[1323] Western Alliance notes that while rural subscribers may pay only $10.00 per month for local, flat-rate calling, they may pay at least twice that much for short-haul toll calls to the nearest schools, hospitals, local government offices, and other destinations.[1324] Western Alliance therefore suggests that Lifeline support be provided for such toll calls.[1325]

403. Change Lifeline and Link Up to Support Competitive Neutrality. A large number of commenters argue for changing the way Lifeline and Link Up are funded in order to achieve competitive neutrality.[1326] Specifically, many commenters contend that the new universal service support mechanism should provide support for Lifeline and Link Up because having all telecommunications providers -- not just IXCs -- contribute will make the subsidies competitively neutral.[1327] Additionally, several commenters suggest basing contributions on a

[1319] Citizens Utilities comments at 17; NTIA reply comments at 14-15.

[1320] NTIA reply comments at 14-15.

[1321] NTIA reply comments at 14-15.

[1322] North Dakota PSC comments at 2-3.

[1323] Michigan PSC comments at 2.

[1324] Western Alliance further comments at 16.

[1325] Western Alliance further comments at 16.

[1326] *See, e.g.,* CompTel comments at 19-20; GTE comments at 22; MCI comments at 5-6; RTC further comments at 34-35; USTA further comments at 31-32; Vitelco further comments at 15.

[1327] *See, e.g.,* AT&T reply comments at 21 (adding that states can establish separate state-specific funds if they deem it necessary); Ameritech further comments at 47; BellSouth further comments at 56; CompTel further comments at 14; CFA further comments at 27; GSA further comments at 16; GTE further comments at 60; MCI

contributor's revenue rather than on the carrier's number of presubscribed lines, as the current Lifeline and Link Up programs do. They assert that this change would make the assessment more competitively neutral.[1328] But other parties, such as NCTA, PacTel, and SNET, propose that Lifeline and Link Up should not receive support through universal service support mechanisms.[1329] PacTel and SNET oppose changing the current contribution mechanism because the current programs are explicit support mechanisms specifically targeted to individual subscribers.[1330]

404. Commenters suggest that in addition to changing the way in which Lifeline and Link Up funds are collected, the Commission should alter the basis on which Lifeline benefits are determined for low-income consumers in order to further competitive neutrality.[1331] Specifically, some commenters suggest not basing the amount of support on the SLC.[1332] These commenters propose several alternatives for determining support for low-income individuals. For example, some commenters suggest that Lifeline support should be based on a rate determined to be affordable by low-income consumers.[1333] Professor Patricia Worthy proposes a federal low-income rate set at one percent of the federal minimum wage, based on research showing that low-income consumers spend approximately one percent of their incomes on telephone service.[1334] Universal service support mechanisms would provide support for the difference between one percent of the minimum wage and a low-income

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further comments at 32-33; MFS further comments at 53; NYNEX further comments at 48; Sprint further comments at 19.

[1328] CompTel comments at 19-20; NECA further comments at 39; USTA further comments at 31-32; Vitelco further comments at 15.

[1329] *See, e.g.*, NCTA further comments at 25; PacTel further comments at 59; SNET further comments at 7; SWBT further comments at 46.

[1330] PacTel further comments at 59 (also stating that all Lifeline and Link Up providers should be potential recipients of funds); SNET further comments at 7.

[1331] *See, e.g.*, Ameritech further comments at 47; CompTel further comments at 14; MCI further comments at 32; Time Warner further comments at 56; U S West further comments at 31; Professor Patricia Worthy further comments 8-11.

[1332] *See, e.g.*, Ameritech further comments at 47; CompTel further comments at 14; MCI further comments at 32.

[1333] *See, e.g.*, Puerto Rico Tel. Co. reply comments at 7-11; Professor Patricia Worthy further comments at 8-11.

[1334] Professor Patricia Worthy further comments at 8-11. *See also* USTA comments at 16 n.21 (concluding that Americans spend an average of one percent of their income on universal services).

subscriber's monthly bill.[1335] This would mean low-income consumers should pay a maximum rate of $8.93 per month for telephone service (which would include a flat rate with a 120-free call allowance, DTMF, access to emergency services, access to operator services and 12 free calls per month, access to long distance carriers, a white pages listing, free toll blocking, and blocking for 900, 976, and 976-like services).[1336]

405. Puerto Rico Tel. Co. recommends giving a LEC an $8.00 per month universal service support payment for each customer living below the poverty line.[1337] The LEC would credit the customer's account $6.00 per month and keep $2.00 to cover costs. Based on the average residential service rate of $15.00 per month (excluding the SLC, taxes, and DTMF service), low-income consumers' monthly rates would be approximately $9.00.[1338]

406. LCI recommends providing low-income consumers a subsidy that is the difference between prevailing rates for the package of designated services and the rate level at which these services become affordable.[1339] It states that under the 1996 Act, explicit and predictable support mechanisms must be developed to ensure that low-income individuals can afford the designated services.[1340] It argues that the best way to determine who is eligible for low-income support is through the existing Lifeline and Link Up programs.[1341]

407. MCI maintains that Lifeline and Link Up should be tied to the total costs of the loop, rather than the SLC.[1342] Under MCI's proposal, support would be determined by the difference between the nationwide average local rate and the economic cost of the service.[1343] Citizens suggests expanding support beyond the SLC to cover an eligible consumer's total

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[1335] Professor Patricia Worthy further comments at 8-11. Alternatively, Professor Worthy would set the federal low-income rate at the average of current state Lifeline rates.

[1336] Professor Patricia Worthy further comments at 10.

[1337] Puerto Rico Tel. Co. reply comments at 7-10.

[1338] *Id.* (also suggests stimulating network expansion of services to low-income people by providing incentive payments to eligible carriers that extend service to previously unserved residential subscribers).

[1339] LCI comments at 7.

[1340] LCI comments at 7.

[1341] LCI comments at 7.

[1342] MCI further comments at 32-33.

[1343] MCI further comments at 32-33. *See also* Sprint further comments at 19 (advocating de-linking the amount of support from the SLC and tying it to a specified percentage of local rates).

monthly cost of universal service.[1344] MFS proposes that Lifeline support be fixed at current levels and adjusted as the Commission believes necessary to address the needs of low-income individuals.[1345]

408. Some commenters advocate keeping the amount of support for low-income consumers tied to the SLC.[1346] GSA takes this position because the SLC is the portion of the subscriber's local service bill that is subject to federal regulation.[1347] BellSouth and TCI argue that keeping support linked to the SLC will prevent increases to low-income consumers' bills if the SLC is otherwise increased.[1348] If the SLC increases, BellSouth, Ohio Consumers' Counsel, Wisconsin PSC, Maine PUC and USTA maintain that Lifeline support should increase accordingly.[1349]

409. Some commenters advocate making Lifeline benefits "portable," i.e., assignable to the provider of the subscriber's choice.[1350] Because the federal component of Lifeline currently is a waiver of the SLC, Lifeline benefits cannot be applied to services without a SLC (such as wireless services or voice mail). GTE suggests that Lifeline customers receive a credit that can be applied to any telecommunications service they select, whether wireline or wireless.[1351] GTE further contends that the amount of the credit should equal at least the subscriber line charge and be linked to an inflation index so that the passage of time does not

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[1344] Citizens Utilities comments at 17.

[1345] MFS further comments at 53.

[1346] *See, e.g.,* Bell South further comments at 56; Florida PSC further comments at 17 (at least at the outset tied to the subscriber line charge); NCTA further comments at 25; SWBT further comments at 46; TCI further comments at 40.

[1347] GSA further comments at 16.

[1348] BellSouth further comments at 56; TCI further comments at 40.

[1349] BellSouth comments at 13; Maine PUC comments at 21; Wisconsin PSC comments at 11-12; Ohio Consumers' Council reply comments at 16; USTA reply comments at 9.

[1350] *See, e.g.,* California PUC comments at 16-17; CompTel comments at 19-20; MCI comments at 19 (allowing consumers to select the services they want); New Jersey BPU comments at 5; PCIA comments at 15; PacTel further comments at 60 (suggesting that a flexible credit applicable to a call control/spending feature may be of more value to consumers); Time Warner further comments at 56.

[1351] GTE further comments at 22.

dilute the effectiveness of the program.[1352] 360 recommends giving the subsidy directly to consumers through vouchers consumers could use with the telecommunications provider of their choice.[1353] TIA and Michigan Consumer Federation also suggest vouchers, with the latter emphasizing that vouchers should be convenient and non-stigmatizing.[1354] AT&T maintains that small, rural carriers should be exempted from a portability requirement because the administrative costs of portability could outweigh the benefits.[1355]

410. Modify Link Up. Some commenters also propose modifications to the Link Up program. MCI, NCTA, and LDDS, for example, suggest modifying the Link Up program so that it is no longer based on jurisdictional separations rules, and therefore all telecommunications carriers can be required to participate.[1356] PULP argues that support should be increased so that qualifying customers pay no more than $10.00 in installation charges.[1357] Texas OPUC suggests that the Link Up program be supported by new universal service support mechanisms, rather than by IXCs.[1358] Catholic Conference would amend Link Up to provide assistance for more than one initiation of service per year.[1359]

411. Who Should Determine Eligibility. Most states and state public utility commissions argue that the states should determine eligibility criteria for universal service low-income support.[1360] Michigan Consumer Federation argues that states should possess wide

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[1352] GTE further comments at 22 n.47. *See also* Time Warner further comments at 56 (supporting "portable" subsidies expressed as specific dollar amounts, rather than as percentage "discounts" off the regular price of the service).

[1353] 360 comments at 8.

[1354] Michigan Consumer Federation comments at 23; TIA comments at 2 n.2.

[1355] AT&T comments at 9 n.12 (once a state commission determines that it is in the public interest for a rural carrier to interconnect with new entrants in their territory pursuant to § 251(f)(1)(B), however, the subsidy should become portable).

[1356] LDDS comments at 19; MCI comments at 5-6; NCTA comments at 15.

[1357] PULP comments at 20.

[1358] Texas OPUC comments at 17.

[1359] Catholic Conference comments at 22. *See also* NTIA reply comments at 18-19 (suggesting allowing subscribers to receive more frequent assistance with installation charges if they accept toll blocking).

[1360] *See, e.g.*, Alaska comments at 14; Ohio PUC comments at 11 (but recommending that no household earning more than 150 percent of the poverty level be eligible for support); Virginia CC comments at 4.

latitude to tailor eligibility criteria to reflect local needs and circumstances.[1361] It maintains that use of national standards could result in support that
is too generous for some states and insufficient for others.[1362] Other commenters note that the states should base eligibility on enrollment in a federal program.[1363] AT&T maintains that states initially should set the maximum income threshold to establish eligibility and then identify one or more assistance programs in which a consumer must participate in order to qualify.[1364] NCTA, however, maintains that low-income customers eligible for support should be defined consistently across the country, rather than on a state-by-state basis.[1365]

412. Bases on Which to Determine Eligibility. Commenters suggest a variety of methods to determine eligibility for support. Florida PSC recommends providing support to individuals who receive state assistance.[1366] NCTA[1367] suggests basing eligibility on whether the consumer receives federal assistance from one of the four major assistance programs: Aid to Families with Dependent Children (AFDC);[1368] Supplemental Security Income (SSI);[1369] Food Stamps;[1370] and Medicaid.[1371] PULP proposes to include customers receiving either federal or state-funded assistance, while providing the states with the ability to include consumers who have incomes slightly above the levels required to receive federal government

[1361] Michigan Consumer Federation comments at 19.

[1362] Michigan Consumer Federation comments at 19.

[1363] *See, e.g.*, AT&T comments 17-18 n.22; Virginia CC comments at 4 (advocating reliance on existing identifiers, e.g., Medicaid and Food Stamps, rather than inventing new definitions).

[1364] AT&T comments at 17-18 n.22.

[1365] NCTA comments at 14.

[1366] Florida PSC comments at 17.

[1367] NCTA comments at 14-16.

[1368] AFDC provides transitional financial assistance to needy families. Federal and state governments share the cost. The federal government provides broad guidelines and program requirements, and states are responsible for program formulation, benefit determinations, and administration.

[1369] SSI provides financial assistance to people who are 65 or older, blind, or have a disability and who meet certain income guidelines.

[1370] The Food Stamp Program is designed to increase the food purchasing power of eligible low-income households. Benefits are available to nearly all households that meet federal eligibility tests. Recipients of AFDC and SSI generally are automatically eligible for food stamps.

[1371] States are required to provide Medicaid coverage for most individuals who receive federally assisted income maintenance payments, such as AFDC and SSI. In addition, states have the option of providing Medicaid coverage to other groups.

assistance.[1372] MPSC, among others, emphasizes that enrollment should be automatic, so that recipients of AFDC, for example, are automatically enrolled in Lifeline.[1373] New York DPS supports automatic enrollment and re-evaluating eligibility using merged telephone company and social service agency databases.[1374] New York DPS claims that the merged databases reduce costs by terminating support to ineligible households, while also increasing subscribership among qualifying households.[1375] Other commenters suggest providing support to people who receive an Earned Income Credit on their tax returns.[1376] Community Colleges maintains that community colleges should be considered low-income consumers.[1377] Catholic Conference recommends extending subsidies to schools and shelters that supply telephone service free of charge to the indigent, homeless, migrant workers, and victims of domestic violence.[1378] La Raza advocates providing support to non-profit charitable organizations that offer advanced telecommunications services to low-income consumers.[1379]

413. Several commenters suggest that households living below a certain percentage of the poverty line should be eligible for support.[1380] Puerto Rico Tel. Co. uses the poverty line as the demarcation of eligibility for support.[1381] AARP, for example, suggests that households with income below 125 percent of the poverty line are eligible for support, while Edgemont advocates a 150 percent demarcation level.[1382] Several parties explicitly oppose using poverty levels as the determining factor.[1383] NCTA believes that poverty levels do not

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[1372] PULP comments at 19.

[1373] Montana PSC comments at 5.

[1374] New York DPS comments at 14.

[1375] New York DPS comments at 14.

[1376] Florida PSC comments at 17.

[1377] Community Colleges comments at 5.

[1378] Catholic Conference comments at 21-22.

[1379] La Raza comments at 17-18.

[1380] *See, e.g.*, AARP comments at 20-21 (advocating self-certification, with verification, for qualifying households); Puerto Rico Tel. Co. comments at 10; Edgemont reply comments at 4. *See also* NASUCA comments at 7 (advocating self-certification).

[1381] Puerto Rico Tel. Co. comments at 10.

[1382] AARP comments at 20-21; Edgemont reply comments at 4.

[1383] *See, e.g.*, Virginia CC comments at 3-4; NCTA reply comments at 17.

define with sufficient certainty who is covered and, ultimately, the size of the subsidy.[1384]

414. Ameritech, NYNEX, MFS, and NCTA emphasize that universal service support should be specifically targeted to only those customers who in fact need assistance to obtain the designated services.[1385] In this way, Ameritech contends, assistance for low-income consumers can work in tandem with the affordability benchmark rate for high cost areas.[1386]

415. La Raza recommends that the Commission set a universal service goal with regard to low-income consumers to give effect to section 254(b).[1387] The goal La Raza advocates would be that carriers in each state should work to achieve the statewide average rate of subscribership among low-income, minority, and limited-English-speaking communities in that state.[1388] Similarly, NTIA recommends that the Commission adopt a "National Subscribership Goal" to ensure that the number of households with telephones among low-income households is at least equal to the national average.[1389]

3. Discussion

a. Lifeline

416. We continue to be concerned about the low subscribership levels among low-income consumers. Current penetration rates are only 87.1 percent among households with annual incomes less than $10,000.00 and 75 percent among households with annual incomes less than $5,000.00.[1390] Affordable access is also an issue in insular jurisdictions, where the cost of providing service is high and incomes are often low. In Puerto Rico, which has a higher than average percentage of low-income consumers, telephone subscribership is 72 percent, compared to almost 94 percent in the rest of the United States.[1391] Additionally, the

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[1384] NCTA comments at 17.

[1385] NCTA comments at 17; NYNEX comments at 13; Ameritech reply comments at 17; MFS reply comments at 3.

[1386] Ameritech reply comments at 17.

[1387] La Raza reply comments at 4.

[1388] La Raza reply comments at 4.

[1389] NTIA reply comments at 12.

[1390] Indus. Analysis Div., FCC, *Monitoring Report May 1995 CC Docket No. 87-339* (1996) (*Monitoring Report*).

[1391] Puerto Rico Tel. Co. comments at 8.

Governor of Guam maintains that low-income consumers in Guam may not have access to interexchange and advanced services at affordable rates.[1392] Subscribership levels among low-income consumers indicate that changes in the current Lifeline program are warranted.

417. Currently, only 41 states, the District of Columbia and the U.S. Virgin Islands participate in Lifeline.[1393] Therefore, the Joint Board recommends modifying the federal Lifeline program to reach low-income consumers in every state.[1394] We further recommend that, in order to be eligible for support from the new national universal service support mechanism pursuant to section 214(e)(1), carriers must offer Lifeline assistance to eligible low-income customers. We find that these modifications will serve as a means of fulfilling the statutory principle that telecommunications services should be available to low-income consumers "in all regions of the Nation."[1395] Moreover, we conclude that these proposed changes are consistent with section 254 and the pro-competitive goals of the 1996 Act. The Commission's current Lifeline program requires states to provide support from intrastate sources to reduce Lifeline subscribers' bills by an amount at least equal to the amount of federal support. As a result, low-income consumers in states choosing not to provide such matching support lack the opportunity to benefit from the Lifeline program. We recommend that the Commission modify the Lifeline program to ensure that low-income consumers may receive Lifeline support without regard to the state in which they reside.[1396] We are reluctant, however, to recommend mandatory participation by states or carriers in a program that requires states to generate support from the intrastate jurisdiction.

418. One possible solution to this problem would be to eliminate the requirement of intrastate matching support as a condition of receiving federal support for Lifeline. We are concerned, however, that eliminating the matching requirement might reduce a state's incentive to provide intrastate support to reduce Lifeline rates further. Although the current Lifeline program, which provides for total reductions of at least $7.00 in Lifeline subscribers'

[1392] Governor of Guam comments at 12-13.

[1393] Indus. Analysis Div., FCC, *Monitoring Report May 1995 CC Docket No. 87-339*, at tbl. 2.1 (1996) (*Monitoring Report*). The states without Lifeline programs are: Delaware; Indiana; Iowa; Kansas; Kentucky; Louisiana; Nebraska; New Hampshire; New Jersey; and Puerto Rico.

[1394] Hereinafter, "states" will refer to all states, territories, and commonwealths within the jurisdiction of the United States.

[1395] 47 U.S.C. § 254(b)(3).

[1396] *See* 47 U.S.C. § 254(c)(3) (establishing a policy of universal service support for "[c]onsumers in all regions of the Nation, including low-income consumers").

bills (including state matching support)[1397] has been successful,[1398] we are uncertain whether $3.50 in federal support, absent state matching, would reduce low-income consumers' monthly bills sufficiently to achieve our goals here. Moreover, we find that it would be desirable to maintain a state role in the Lifeline program, to the extent possible, because of the states' greater familiarity with income levels, demographic patterns, and other factors affecting low-income subscribership.

419. In order to reconcile our finding that Lifeline support should be extended to all states with our desire to maximize states' incentives to generate matching intrastate support for the program, we recommend that the Commission eliminate the state matching requirement and provide for a baseline level of federal support that would be available to low-income consumers in all states. In order to ensure adequate Lifeline support in states that choose not to generate intrastate matching funds, we believe this baseline federal support level should exceed the current $3.50. To maximize matching incentives, however, we believe the baseline support level should be less than $7.00. We therefore propose a baseline federal level halfway between the two figures at $5.25, and recommend that the Commission seek additional information on this issue before establishing a precise baseline level. To create further incentives for matching, we recommend that the Commission provide for additional federal support equal to one half of any support generated from the intrastate jurisdiction, up to a maximum of $7.00 in federal support.

420. Although we believe this recommendation will best reconcile our competing objectives of providing adequate nationwide support and maximizing state matching incentives, we are concerned that the implementation of this recommendation could have no direct effect on Lifeline subscribers' rates in many populous states with existing Lifeline programs, and could instead result only in a larger percentage of the total support being generated from federal sources. Therefore we recommend that the Commission seek additional information on ways to avoid this unintended consequence before implementing this recommendation.

421. We also find it essential that the state members of the Joint Board maintain a continuing role in refining specific aspects of the Lifeline program. The state members of the Joint Board will submit a report to the Commission on Lifeline issues. The report of the state members will be filed prior to the Commission's decision on the Lifeline program in this

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[1397] All states that currently participate in Lifeline participate in Plan 2, which provides for a full waiver of the $3.50 SLC and requires state matching (for a total of $7.00 in support), with the exception of California. *See FCC Monitoring Report*, CC Docket No. 80-286, Table 2.1 (rel. May 1996). Although California participates in Plan 1, and therefore receives only $1.75 in federal support per subscriber, California generates intrastate support to allow Lifeline rate reductions of at least $7.00 in total.

[1398] Its success is demonstrated by commenters' widespread support of the program, as well as Congress's endorsement of it in section 254(j).

proceeding. Thereafter, the Commission and the state members should continue to work cooperatively and remain integrally involved in refining the Lifeline program.

422. We observe that many states currently generate their matching funds through the rate-regulation process. These states allow incumbent LECs to recover the revenue the carrier loses from charging Lifeline customers less by charging other subscribers more. This creates two potential problems. First, this mechanism represents an implicit subsidy, with non-Lifeline subscribers paying more to support Lifeline subscribers. Second, it raises the question of how states would meet their matching requirement for carriers whose rates they do not regulate. Thus, we recommend that matching funds from the intrastate jurisdiction must be generated in a manner that is not inconsistent with the Commission's rules to preserve and advance universal service.[1399]

423. To make the Commission's Lifeline program competitively neutral, the Joint Board recommends that support for eligible low-income consumers no longer be achieved through charges levied on only IXCs. We recommend that the programs be supported by a fund to which all telecommunications carriers that provide interstate service contribute on an equitable and nondiscriminatory basis as a function of their revenues, consistent with sections 254(d) and (e). Thus, for example, LECs, wireless carriers, and other interstate telecommunications service providers would contribute. De-linking Lifeline from the Commission's Part 69 rules would promote competitive neutrality by allowing the participation of carriers who do not charge SLCs, such as CLECs and wireless providers. Some commenters oppose changing the current contribution mechanism because the current programs are specifically targeted to individual subscribers.[1400] Nevertheless, we conclude, as do many commenters,[1401] that the new funding mechanism we recommend will be more competitively neutral than the current system, which passes the entire federal burden of low-income support to IXCs, without sacrificing the targeting that has characterized the current program. We also conclude that low-income consumers will continue to benefit directly under our recommendation.

424. In addition to changing the contribution method for the Lifeline program, we recommend amending the program to enable all eligible telecommunications carriers, not just LECs, to be eligible to receive support for serving qualified low-income consumers. Currently, only ILECs serving eligible low-income consumers can receive support. With the

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[1399] *See* 47 U.S.C. § 254(f).

[1400] PacTel further comments at 59; SNET further comments at 7.

[1401] *See, e.g.*, AT&T reply comments at 21; Ameritech further comments at 47; BellSouth further comments at 56; CFA further comments at 27; CompTel further comments at 14; GSA further comments at 16; GTE further comments at 60; MCI further comments at 32-33; MFS further comments at 53; NYNEX further comments at 48; Sprint further comments at 19.

approval of state utility commissions, ILECs offer eligible low-income individuals reduced local rates, with reductions equal to at least the full amount of the SLC ($3.50), or more, depending on the level of state support.[1402] The Commission currently certifies state programs based on a demonstration that they offer eligible subscribers a Lifeline rate that is discounted by at least twice the level of SLC waiver that is requested (to account for state matching).[1403] Currently, NECA bills IXCs and disburses funds to the ILECs to compensate them for SLCs not recovered from end users.[1404] We find, however, that eligible telecommunications carriers other than ILECs should have the ability to compete to serve low-income consumers and in turn receive Lifeline support in a manner similar to the current program. We recommend that in order to participate, a carrier must demonstrate to the public utility commission of the state in which it operates that it offers a Lifeline rate to qualified individuals. We recommend that the Lifeline rate be the carrier's lowest comparable non-Lifeline rate reduced by at least the $5.25 amount of federal support. We further recommend that support be provided directly to carriers based on the number of eligible consumers they serve under administrative procedures determined by the fund administrator.[1405] In the interest of administrative ease, we recommend against the use of vouchers, as proposed by some commenters.[1406]

425. Currently, state agencies or telephone companies administer customer eligibility determinations pursuant to narrowly-targeted programs approved by the Commission.[1407] We recommend that the Commission maintain this basic framework for administering Lifeline eligibility in states that provide matching support for the Lifeline program. We believe such criteria provide states with sufficient flexibility to target support based on each state's particular needs and circumstances. We also recommend that the Commission require states that provide matching funds to base eligibility criteria solely on income or factors directly related to income (such as participation in a low-income assistance program). Currently, some states only make Lifeline assistance available to low-income individuals who, for example, are elderly or have disabilities. We find that Congress's intent would best be served if all low-income consumers had access to Lifeline assistance. We further recommend that the Commission adopt specific means-tested eligibility standards to apply in states that choose not to provide matching support from the intrastate jurisdiction. Specifically, we recommend that low-income consumers participating in a state-administered, low-income welfare program (and

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[1402] *See supra.*

[1403] *See* 47 C.F.R. § 69.203(g).

[1404] 69 C.F.R. § 69.117.

[1405] *See infra* section XIII (Administration).

[1406] *See, e.g.,* 360 comments at 8; Michigan Consumer Federation comments at 23; TIA comments at 2 n.2.

[1407] *See* 47 C.F.R. § 69.104(j)-(k).

who are not considered dependents for federal income tax purposes, with the exception of dependents over the age of 60) would be eligible for Lifeline assistance.

b. Link Up

426. The Joint Board recommends that the Commission adopt the changes to the Link Up program's funding mechanism proposed in the NPRM.[1408] We recommend that the Link Up funding mechanism be removed from the jurisdictional separations rules, and that the program be funded through equitable and non-discriminatory contributions from all interstate telecommunications carriers. Funding the program through contributions from all interstate carriers will allow for an explicit and competitively neutral funding mechanism consistent with sections 254(d) and (e).

427. We recommend that the Commission amend its Link Up rules to make the present level of Link Up support available to qualifying low-income consumers requesting service from any telecommunications carrier providing local exchange service. Support would be available only for the primary residential connection. As amended, the Link Up rules should thus provide that any eligible telecommunications carrier may draw support from the new Link Up funding mechanism described above if that carrier offers to eligible customers a reduction of its service connection charges equal to one half of the carrier's customary connection charge or $30.00, whichever is less. Where the carrier offers eligible customers a deferred payment plan for connection charges, we recommend that the Commission provide support to reimburse carriers for waiving interest on the deferred charges for eligible subscribers as Link Up currently provides for incumbent LECs' charges. To ensure that the opportunity for carrier participation is competitively neutral, we recommend that the Commission's rules be amended to eliminate the requirement that the commencement-of-service charges eligible for support be filed in a state tariff.[1409] In the absence of evidence that increasing the level of Link Up support for connecting each eligible customer would significantly further universal service goals, however, we recommend that the level of support for Link Up not be increased.[1410]

428. With respect to subscribers' eligibility to participate in the Link Up program, the Joint Board recommends that the same modifications be made to the Link Up program that we have recommended for the Lifeline program. That is, we encourage states to set means-tested eligibility criteria, and we recommend that a federal eligibility "floor" be established that would serve as eligibility criteria in states that choose not to define means-

[1408] NPRM at para. 64.

[1409] *See* 47 C.F.R. § 36.711(d).

[1410] *See, e.g.*, PULP comments at 20.

tested eligibility criteria of their own. Consistent with some commenters' proposals,[1411] we also recommend that the Commission prohibit states from restricting the number of service connections per year for which low-income consumers who relocate can receive Link Up support.

429. We find that carriers' high service deposits deter subscribership among low-income consumers.[1412] Research suggests that carriers often require customers to pay high service deposits in order to initiate service, particularly when customers have had their service disconnected previously.[1413] We recommend that the Commission address this barrier to low-income consumers' gaining or regaining access to the network for primary residential channels. We recommend that the Commission implement a national rule prohibiting telecommunications carriers from requiring Lifeline-participating subscribers to pay service deposits in order to initiate service if the subscriber voluntarily elects to receive toll blocking. We recommend in section VIII. B., *supra*, that universal service support be provided so that toll blocking is made available to all Lifeline participants at no additional charge. Although this rule regarding service deposits would not be a part of the Link Up program itself, it would serve the goal of assisting low-income consumers to gain access to the network. GTE maintains that if service deposits are reduced or eliminated, LECs should be reimbursed for such reduction because universal service support should be explicit.[1414] We find, however, that our recommendation will not place an undue burden on carriers because service deposits currently serve primarily to guard against the risk of non-payment of toll charges, which many ILECs bill to customers on behalf of IXCs. This same protection will be created by the customer's election to receive toll blocking, a precondition to the restriction against requiring service deposits.

IX. ISSUES UNIQUE TO INSULAR AREAS

A. Background

430. The 1996 Act states that consumers in insular areas should have access to telecommunications and information services, including interexchange services, advanced telecommunications services, and information services, (1) that are reasonably comparable to those services provided in urban areas and (2) that are available at rates that are reasonably

[1411] *See, e.g.*, Catholic Conference comments at 22.

[1412] NPRM at para. 56.

[1413] NPRM at para. 56 (*citing Subscribership Notice* at 13005-06).

[1414] GTE comments at 23.

comparable to rates charges for similar services in urban areas.[1415] Congress stated that the Joint Board and the Commission were to consider consumers of insular areas, such as the Pacific Island territories, when developing support mechanisms for consumer access to telecommunications and information services.[1416] In the NPRM, the Commission requested comment on all issues affecting rural, insular and high cost areas.[1417] The Common Carrier Bureau's Public Notice asked three questions concerning consumers in insular areas: what, if any, programs (in addition to those aimed at high cost areas) are needed to ensure that insular areas have affordable telecommunications service; if a proxy model is used to determine the amount of universal service support, what, if any, measures are necessary to ensure that urban rates and rates in rural, insular, and high cost areas are reasonably comparable, as required in section 254(b)(3); and how should support be calculated for those areas (e.g., insular areas and Alaska) that are not included under the proxy models.[1418]

B. Comments

431. In General. Several commenters present special circumstances or issues pertaining to insular areas. Guam Tel. Authority states that insular areas are particularly affected by distance-sensitive costs and suggests that the Joint Board and Commission create support for services that are most likely to be affected by distance. For example, it suggests including Guam in flat, non-distance-sensitive calling plans, and supporting services that may be prohibitively expensive due to distance, such as toll-free calling, calling card, directory assistance, credit card verification, and number portability.[1419] The Governor of Guam notes that distance-sensitive rates are high in Guam, because it is over 6,000 miles from San Francisco and 3,700 miles from Honolulu. The Governor of Guam advocates that differences in the cost of providing service due to remoteness or distance be offset by universal service support mechanisms.[1420] The Governor supports total and seamless rate and service integration, domestic rate averaging and universal support between Guam, other insular areas, and all U.S. locations.[1421] Since Guam does not contain any urban areas, the Governor

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[1415] 47 U.S.C. § 254(b)(3).

[1416] Joint Explanatory Statement at 131.

[1417] *See, e.g.*, NPRM at paras. 15-17, 23-27.

[1418] Public Notice at question 6.

[1419] Guam Tel. Authority comments at 6-7. *See also* Governor of Guam comments at 6-7; Vitelco reply comments at 6-7.

[1420] Governor of Guam comments at 4, 6-7, 18.

[1421] Governor of Guam comments at 2.

suggests that rates within Guam be compared to rates in urban areas located on the U.S. west coast.[1422]

432. Toll-Free Access. CNMI suggests universal service support should be provided for access to toll-free services in insular areas. Currently, the Pacific Island territories are not part of the North American Numbering Plan (NANP). Consequently, in order for residents of the Northern Mariana Islands to place toll-free calls to the U.S., they must pay 99 cents per minute to the Micronesia Telephone Company, which places international (011+1880) calls to Hawaii, where the link to the U.S. domestic 800 network occurs. Thus, toll-free calls in the islands are not currently toll-free.[1423] CNMI expresses concern that once the Northern Mariana Islands are part of the NANP, businesses that use toll-free numbers (800, 888) will not want to incur the expense of serving the islands. CNMI suggests, that if that happens, its residents will be cut-off from toll-free services because, under the Commission's pay-per-call rules Micronesia Telephone Company will not be able to charge for transporting a call to Hawaii where the call could be linked to the business's toll-free number, as currently occurs. CNMI asserts that Section 254(b)(3), which mandates that all consumers should have access to interexchange services, authorizes the Joint Board and the Commission to ensure that genuine toll-free service without paid access charges is available in insular areas, like CNMI.[1424]

433. Similarly, CNMI notes that calls to information service providers located in the U.S. are subject to the same charges as "toll-free calls" and therefore are considerably more expensive than rates for information services in the continental U.S.[1425] CNMI asserts that Section 254(b)(3), which requires that all consumers have access to information services at comparable rates, also authorizes the Joint Board and Commission to support access to information services in the Northern Mariana Islands.[1426] Furthermore, CNMI states that telecommunications service costs are extraordinarily high in the Northern Mariana Islands because international ratemaking practices apply to long distance calls between the Northern Mariana Islands and off-island points, including the U.S.; IXCs are subject to high carrier

[1422] Governor of Guam reply comments at 5.

[1423] Letter from Thomas K. Crowe, Counsel for the Commonwealth of the Northern Mariana Islands, to William F. Caton, Secretary, FCC, September 24, 1996 (Commonwealth of Northern Mariana Islands *Ex Parte*).

[1424] CNMI *ex Parte* at 2, 5.

[1425] CNMI comments at 14.

[1426] CNMI *Ex Parte* at 5.

access charges,[1427] and, although consumers must place international calls to reach the U.S., Northern Mariana Islands' consumers are assessed domestic subscriber line charges.[1428]

C. Discussion

434. We recognize the special circumstances faced by carriers and consumers in the insular areas of the United States, particularly the Pacific Island territories. We note at the outset that carriers in these areas, like all other carriers, will be eligible for universal service support if they serve high cost areas. In their comments, Vitelco and Puerto Rico Tel. Co. set out some of the problems that carriers in insular areas face in providing telephone service, such as increased costs of shipping equipment and damage caused by hurricanes and tropical storms.[1429] The Hawaii Division of Consumer Advocacy also notes because of Hawaii's remoteness from the mainland carriers faces high costs and technical obstacles in providing service.[1430] For those reasons, we recommend that rural carriers serving high cost insular areas, as well as rural carriers serving high cost areas in Alaska,[1431] should continue to receive universal service support based on their embedded costs. We also note that low-income residents living in these areas would benefit from the modifications that we have recommended to the Lifeline and Link-up programs. Likewise, schools, libraries, and rural health care providers in insular areas will benefit from the programs we recommend for providing telecommunications services to those institutions.

435. We recommend that the Commission take no specific action regarding cost support for toll service to the Northern Mariana Islands at this time, but revisit this issue at a later date. Guam and the Northern Mariana Islands will be included in the North American Numbering Plan by July 1, 1997. To implement section 254(g),[1432] the Commission will require interstate carriers serving the Pacific Island territories to integrate their rates with the

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[1427] GTE's terminating premium carrier common line charge in CNMI is $0.0835754 per minute. This rate is 7.66 times higher than GTE's rate in Alaska. *See* CNMI comments at 10.

[1428] CNMI comments at 9-10.

[1429] *See* Puerto Rico Tel. Co. reply comments at 12; Vitelco further comments at 9-11.

[1430] State of Hawaii Division of Consumer Advocacy, *ex parte* (dated Oct. 9, 1996).

[1431] Carriers in Alaska also confront unique circumstances in providing service, such as limited construction periods and the extreme remoteness of the many rural communities. *See* Alaska Public Utilities Commission, Public Hearing, August 22, 1996.

[1432] 47 U.S.C. § 254(g).

rates for services that they provide to other states no later than August 1, 1997.[1433]

436. Once those carriers integrate their rates, the residents of Guam and the Northern Mariana Islands will be able to make 1+ calls to the mainland United States at domestic instead of international rates. Residents of Guam and the Northern Mariana Islands will also have direct access to toll-free (e.g., 800, 888) services. The decision whether to provide toll-free services to a specific area, such as the Pacific Island territories, is a business decision of the carrier's business customer, weighing the cost of toll charges to the islands against the economic benefit of providing toll free access. Businesses currently make that same determination in deciding in which areas to provide toll free access within the fifty states, and, for business reasons, some of them choose to limit access to certain areas.[1434] Similarly, information service providers make the same type of business decision as to whether to locate in a certain area or provide toll-free access to an area. Until the islands join the NANP and are included in carriers' rate averaging, it is difficult for businesses to make such judgments as to whether, and how, to serve the islands.

437. We are concerned that residents of Guam and the Northern Mariana Islands have access to toll free service and information services. We therefore recommend that the Commission revisit the question of comparable access and rates for toll-free and information services at some time after the Pacific Island territories have been included in the NANP and have integrated rates to determine whether there is any need to support these services. We also note that there will periodic review of the definition of universal service and that any change in that definition may justify providing support for these services.

X. SCHOOLS AND LIBRARIES

[1433] An interexchange carrier must establish rates for services provided to the Northern Mariana Islands and Guam consistent with the rate methodology that it employs for services it provides to other states. Carriers can choose among several ways to integrate the rates for services to these islands, including expanding mileage bands, adding mileage bands or offering postalized rates. A carrier must also offer optional calling plans, contract tariffs, discounts, promotions, and private line services using the same rate methodology and structure that it uses in offering those services to subscribers on the mainland. *Policy and Rules Concerning the Interstate, Interexchange Marketplace, Implementation of Section 254(g) of the Communications Act of 1934, as amended*, Report and Order, 11 FCC Rcd 9564, 9596-97 (1996).

[1434] AT&T sells printed yellow page directories of 800 numbers. For each 800 number, the directory indicates whether the number is accessible from the entire U.S. or from only selected geographic areas. Where the number is accessible only from certain states, the relevant states are listed. Geographic restrictions are more common for firms tending to serve specific geographic areas (for example, home improvement contractors) than for firms serving more widely distributed customers (for example, hotels). See AT&T Toll-Free 800 Directory: 1993 Business Edition.

A. Overview

438. The 1996 Act explicitly designates elementary and secondary schools and libraries among the entities eligible to receive the benefits of universal service support.[1435] Specifically, section 254(c)(3) defines universal service for schools and libraries as telecommunications services and any "additional services" designated by the Commission,[1436] and section 254(h)(2) defines universal service in terms of access to "advanced telecommunications and information services."[1437] Section 254(h)(2) requires the Commission to establish competitively neutral rules designed to enhance access, "to the extent technically feasible and economically reasonable," to advanced telecommunications and information services for elementary and secondary school classrooms and libraries.[1438] The joint conferees stated that they expected the Joint Board to consider the specific needs of schools and libraries in defining the services eligible for universal service support.[1439]

439. Section 254(h)(1)(B) provides that services within the definition of universal service shall be provided to schools and libraries at a discount. The discount shall result in "rates less than the amounts charged for similar services to other parties,"[1440] and be sufficient to ensure affordable access to and use of such services.[1441] Section 254 also places several restrictions on schools and libraries receiving services funded by universal service support mechanisms. Schools and libraries must meet statutory eligibility criteria, may not resell any services provided under section 254, must make a bona fide request for the services, and must use the services for educational purposes.[1442] Carriers providing services to eligible schools and libraries shall be compensated for any discount they are required to grant through either an offset to their universal service obligations or reimbursement from universal service support mechanisms.[1443]

[1435] *See generally* 47 U.S.C. § 254.

[1436] 47 U.S.C. § 254(c)(3).

[1437] 47 U.S.C. § 254(h)(2)(A).

[1438] 47 U.S.C. § 254(h)(2)(A).

[1439] Joint Explanatory Statement at 133.

[1440] 47 U.S.C. § 254(h)(1)(B).

[1441] 47 U.S.C. § 254(h)(1)(B).

[1442] 47 U.S.C. § 254(h)(1)(B).

[1443] 47 U.S.C. § 254(h)(1)(B).

440. In this section, we recommend that, consistent with section 254(h), all eligible schools and libraries may receive discounts of between 20 and 90 percent on all telecommunications services, Internet access, and internal connections, subject to a $2.25 billion annual cap. In addition, any funds that are not disbursed in a given year may be carried forward, and may be disbursed in subsequent years without regard to the cap. We find that this recommendation provides schools and libraries with the maximum flexibility to purchase the package of services they believe will be most effective to meet their respective communications needs. We also conclude that economically disadvantaged schools and libraries, as well as schools and libraries located in high cost areas, should receive greater discounts to ensure that they have affordable access to telecommunications and information services. Further, we recommend that schools and libraries be required to comply with several self-certification requirements, designed to ensure that only eligible entities receive universal support and that they have adopted plans for securing cost-effective access to and use of all of the services purchased under section 254(h).

B. Functionalities/Services Eligible for Support

1. Background

441. Section 254 defines the services that are to be supported for schools and libraries in terms of "telecommunications services,"[1444] "special" or "additional" services,[1445] and access to "advanced telecommunications and information services."[1446] Specifically, section 254(c)(3) states that "in addition to the services included in the definition of universal service under paragraph [c] (1), the Commission may designate additional services for such support mechanisms for schools, [and] libraries . . . for the purposes of subsection [254] (h)."[1447] Section 254(h)(2) states that "[t]he Commission shall establish competitively neutral rules to enhance, to the extent technically feasible and economically reasonable, access to advanced telecommunications and information services for all public and non-profit elementary and secondary school classrooms . . . and libraries."[1448]

442. Congress recognized the importance of telecommunications and related services to schools and libraries when it enacted the 1996 Act:

[1444] 47 U.S.C. § 254(c)(1).

[1445] 47 U.S.C. § 254(c)(3).

[1446] 47 U.S.C. § 254(h)(2)(A).

[1447] 47 U.S.C. § 254(c)(3).

[1448] 47 U.S.C. § 254(h)(2)(A).