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Before the
FEDERAL COMMUNICATIONS COMMISSION
Washington, D.C. 20554

In the Matter of	)	
Federal-State Joint Board on Universal Service	)	CC Docket No. 96-45
Forward-Looking Mechanism for High Cost Support for Non-Rural LECs	)	CC Docket No. 97-160

REPLY COMMENTS OF AT&T CORP. AND MCI TELECOMMUNICATIONS CORPORATION ON DESIGNATED INPUT AND PLATFORM ISSUES

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SUMMARY

Throughout this proceeding, AT&T and MCI have provided detailed information regarding the data and algorithms underlying the Hatfield Model. As a result, the Commission and industry participants have had the opportunity to evaluate the Model and make suggestions that, where appropriate, will be incorporated in future releases. By contrast, the parties to this proceeding have been forced to evaluate as best they can superficial descriptions of hoped for BCPM capabilities. That trend continues in the input comments. AT&T and MCI have responded with specific recommendations on each of the input value issues raised in the Notice, while the BCPM sponsors have refused to discuss any of the inputs on which the Commission has sought comment or to provide any data in support of any specific input values.

In Section I, AT&T and MCI demonstrate that the comments generally support the Hatfield Model's input values and expense algorithms. For example, the Hatfield Model's reliance on investment ratios calculated using ARMIS accounts met with wide approval. And as AT&T and MCI show, the few specific criticisms of Hatfield default values are wholly inaccurate and based on false premises. Indeed, most of these claims could not have been made if the relevant commenter had simply read the Hatfield Model Description and the Hatfield Inputs Portfolio.

As AT&T and MCI discuss in Section II, the General Service Administration provides overwhelming support for the Hatfield Model's reliance on the Commission's existing prescribed asset lives. These prescribed lives are realistic, unbiased, forward-looking, and allow forward-looking capital recovery. Further, GSA agrees with AT&T and MCI that asset lives used in

universal service cost calculations should not reflect premature retirements stemming from the provision of broadband services.

In Section III, AT&T and MCI show that universal service costs should be evaluated periodically with no changes made in the interim for inflation or productivity. The few commenters supporting an inflationary adjustment fail to offer any evidence that the nominal cost of capital and the productivity gains that characterize telecommunications will not adequately offset any inflationary cost increases.

The comments generally endorse using the wire center as the baseline for universal service cost estimation. But as AT&T and MCI discuss in Section IV, the most important issue in calculating universal service support is proper forward-looking cost estimation. The Commission must ensure that states have properly determined these costs or instead rely on the Commission's selected cost mechanism. Where costs have been accurately assessed, it would be useful to define unbundled network element pricing areas as coincident with the universal service support area. This additional measure -- one that the Hatfield Model already takes -- will reduce the degree of uneconomic arbitrage.

Finally, in Section V, AT&T and MCI show that it is appropriate to include a local usage component when calculating universal service costs, but that provision of a minimum level of local usage should not be an eligibility requirement for participation in the universal service program. The amount of local usage included in cost estimation should be set to meet educational and safety needs as well as discourage an inefficient level of local telephone usage. At the same time, the comments demonstrate that including local usage as an eligibility criteria will violate competitive neutrality, restrict customer choice, and force many customers to pay for usage they do not want or use.

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REPLY COMMENTS OF AT&T CORP. AND MCI TELECOMMUNICATIONS CORPORATION ON DESIGNATED INPUT AND PLATFORM ISSUES

Pursuant to the Commission's Further Notice of Proposed Rulemaking,[1] AT&T Corp. ("AT&T") and MCI Telecommunications Corporation ("MCI") hereby submit their joint reply comments with respect to the designated issues concerning various input values and the remaining aspects of platform design. These reply comments address Sections III.B.3, III.C, III.D, IV and V as directed by the Commission in its Notice.

INTRODUCTORY STATEMENT

In the first round of comments in this proceeding, AT&T and MCI stated that they would "attempt to provide the Commission with as much detail as possible on the specific inputs and

[1] Federal-State Joint Board on Universal Service, Forward-Looking Mechanism for High Cost Support for Non-Rural LECs, CC Docket Nos. 96-45, 97-160, Further Notice of Proposed Rulemaking (released July 18, 1997) ("FNPRM").

logic of the competing modeling approaches and proposals."[2] Thus, with respect to each of the modeling issues on which the Commission has sought comment, AT&T and MCI have provided detailed descriptions regarding the data and algorithms that underlie the Hatfield Model in order to afford the Commission and other industry participants the opportunity to evaluate the merits of the Model and to recommend any adjustments they believe are appropriate. The dialogue generated by this open airing of the Hatfield Model's logic and data -- and by the open, modular nature of the model itself -- has been extremely useful, allowing the model's designers to make an already superior model even better. In this regard, the Hatfield Model's designers have already made significant progress in responding to suggestions by the Commission and its Staff, and certain modifications proposed by industry participants will also be reflected in the next version of the Hatfield Model as AT&T and MCI have discussed elsewhere in this proceeding.

The BCPM sponsors have taken a different approach, resorting to attacks on the Hatfield Model by comparing superficial descriptions of hoped for BCPM capabilities that do not currently (but, the BCPM sponsors claim, will some day) exist with fully operational capabilities within the Hatfield Model 4.0. As a result, no meaningful analysis or evaluation of the complete BCPM -- which presumably will continue to rely on proprietary, unverifiable data and assumptions -- as a universal service cost model is yet possible, and the Hatfield Model 4.0 remains the only viable and proven method for accurately estimating universal service costs.

This round of comments demonstrates that the same chasm exists with respect to input validation. Following the Commission's direction in the Notice, AT&T and MCI provided

[2] AT&T and MCI August 8, 1997 Comments at 2.

detailed support and analysis with respect to each of the many input issues the Commission identified.[3] Incredibly, the BCPM sponsors submitted no discussion of input values whatsoever, using their comments instead simply to restate their immodest predictions of future BCPM capabilities and to make a few final gratuitous attacks on the Hatfield Model. Indeed, despite the Commission's request for discussion on over 20 input categories, the comments submitted in support of the BCPM fail to discuss a single input value.

Unfortunately, other incumbent local exchange carriers have also chosen to ignore the Notice. They attack some inputs used by Hatfield, as well as some of its outputs, based on unsubstantiated claims that these values are too high or too low. Almost without exception, however, they fail to provide any contrary data and, indeed, frequently admit that they do not know what the correct value should be.[4] Indeed, no commenter other than AT&T and MCI proposed any specific input values. What is perhaps most telling about the incumbents' studied

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[3] AT&T and MCI October 17, 1997 Comments; Hatfield Model Release 4.0 Inputs Portfolio ("HIP"), filed as ex parte documentation with the original Hatfield Model Release 4.0 on August 5, 1997 and as an Appendix to AT&T and MCI's October 17, 1997 Comments.

[4] For example, Aliant (at 5) asserts without suggesting a value of its own that the Hatfield Model and the BCPM manhole inputs are too low and that Hatfield's pole costs are too low. And GTE, which clearly has never intended to play a constructive role in this proceeding, criticizes the Hatfield drop lengths for being 6 feet below the Bellcore national average, even though AT&T and MCI (October 3, 1997 Reply Comments at 6) have stated it is just 3 feet below that level, and GTE has not provided any data regarding its own drop lengths. GTE at 14. Hatfield is also slighted for not including the additional costs GTE alleges (at 19) -- without any supporting evidence -- would be incurred if loops served on IDLC are unbundled. Even if there were such additional costs not included in the Hatfield Model, they would not be associated with universal service and therefore should not be loaded onto carriers and customers through the universal service cost mechanism. Similarly GTE simply announces that Hatfield's labor rate are "clearly inaccurate" without the slightest substantiation. Id. at 23-24. Indeed, virtually the only "support" to be found in GTE's comments is frequent cites to testimony provided by various GTE witnesses that has not been made a part of the record in this proceeding.

silence with respect to appropriate input values and their unfounded attacks on the Hatfield Model defaults, however, is that by and large none of these parties have attempted a comprehensive analysis of the figures they submitted in response to the Commission's data request that support the Hatfield Model defaults.[5]

I. THE HATFIELD MODEL DEFAULT INPUTS AND EXPENSE ALGORITHMS ARE APPROPRIATE AND, INDEED, ARE THE ONLY VALUES SUPPORTED IN THE RECORD.

The few comments that actually address expense algorithms and input values overwhelmingly support the Hatfield Model defaults. For example, the Florida PSC (at 3) advocates disaggregating expenses at the USOA account level and allowing plant specific expenses to reflect varying labor costs, a capability already included in Release 4.0. The PRTC (at 4-5) believes that Hatfield's ARMIS-based expense approach is superior to the BCPM per line method that primarily relies on incumbent LEC surveys. And the Florida PSC has endorsed the use of investment ratios to determine plant specific operating expenses -- the approach taken by the Hatfield Model -- instead of a line ratio technique like that employed by the BCPM 1.1. In the case of per line customer service expenses, Hatfield's designers currently exclude costs related to operator services and directory assistance, an approach recommended by the Federal-State Joint

[5] For example, some incumbent LECs are critical of Hatfield's pole investment figures. Nevertheless, the figures submitted pursuant to the Commission's data request in CC Docket No. 96-45, DA 97-1433, support the Hatfield value of $417. GTE submitted a material plus installation cost of $385.21 for Alabama and similar values in other states (Sep. 12, 1997 Response of GTE at Main5, p. 4) and SBC and PacBell submitted an installed pole cost of $244.82 in Kansas. (Sep. 12, 1997 Response of Nevada Bell, et. al. at 3). Elsewhere, U S WEST has quoted an average installed cost per pole of $266 (1996 Consolidated Cost Docket Nos. U-2428-96-417 (AT&T), U-3175-96-479 (MCI), et. al. at 9 (Supplemental Rebuttal Testimony of Ms. Geraldine G. Santos-Rach, Exhibit 1, Nov. 15, 1996).

Board and now also endorsed by the Florida PSC. Florida PSC at 6-7. Moreover, in response to further requests like those from the Commission and the Florida PSC (at 3), the next Hatfield release will permit the user to vary expenses by dollar of direct cost or by line.

The comments also reveal nearly unanimous agreement that the Hatfield method for calculating GSF expenses is vastly superior to the BCPM approach.[6] More specifically and contrary to GTE's (at 38) wholly inaccurate criticisms on this point, the Hatfield Model reflects state to state variations in GSF costs. The Hatfield approach to calculating GSF costs also comports with Aliant's suggestion (at 7) that the selected cost mechanism should allow for different expense estimates for small, medium, and large companies by relying on ratios derived from historic expenses either of the particular LEC or other similar LECs.

Support for the Hatfield Model comes from unlikely sources as well. For example, Bell Atlantic argues that pole installation costs should vary by terrain characteristics and that pole spacing should be a user adjustable input. The latter feature is already included in Hatfield Model 4.0 and the next release will incorporate terrain factors in calculating pole installation costs as part of the new dynamic structure allocation process. See AT&T and MCI at 11-12.[7]

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[6] See, e.g., PRTC at 3; Florida PSC at 2.

[7] As AT&T and MCI (at 8) have repeatedly demonstrated, a forward-looking efficient local service provider will not bear 100% of structure costs. Compare Aliant at 3. Municipal regulations often require structure sharing, structure sharing is a common industry practice, and the Telecommunications Act of 1996 assumes that at least three parties will share the costs of poles, conduits, and rights-of-way. AT&T and MCI at 8. GTE (at 6) faults the Hatfield Model for relying on some pole sharing agreements that do not comply with the Model's 40 foot pole assumption when, in fact, these agreements were simply used to demonstrate that sharing is feasible and that a forward-looking service provider would engage in this efficient, cost saving practice.

The comments include a handful of more specific criticisms of Hatfield Model default values. None has merit. For example, Bell Atlantic (at 2) claims that NID cost should include all installation costs (including running a ground wire) and should reflect variations among different types of business and residential NIDs, and Aliant (at 5-6) maintains that a NID should have one protector for each line.[8] In fact, the Hatfield Model allows the number of protectors to vary based on the type of NID employed (AT&T and MCI at 12-13) and the Model's designers have included all expenses for NID installation. Bell Atlantic (at 2) also criticizes Hatfield's SAI assumptions, claiming that the model should reflect varying costs of inside and outside SAIs. Bell Atlantic at 2. Aliant (at 6) claims that indoor SAIs should include the cost of protecting all incoming pairs. But the Hatfield Model does reflect both indoor and outdoor SAIs, and the Model includes more than enough protector investment because a protector is provided for each wire pair at the customer premise.

GTE's suggestion (at 19) that DLC costs should include expenses for pre-cast concrete huts or controlled environment vaults ("CEVs") along with right-of-way costs that are between $40,000 and $150,000 is absurd. Possibly these cost represent yet another attempt by GTE to inflate universal service costs, or to recover historic investments, but they are inappropriate in a forward-looking model.[9] Modern DLC equipment has a very small "footprint," occupying far less

[8] The Hatfield Model does include investment costs for one protector per line, but these costs are allocated to the SAI investment category.

[9] GTE's attempts to base universal service costs on embedded investment are legion. Its latest suggestion is to use a time series model to project "forward looking" expenses. GTE at 41-46. Even if such an approach made economic sense, it would at best project embedded costs, not forward-looking economic costs. As such, the projections would always reflect the inefficiencies associated with GTE's embedded, inefficient network and practices. GTE also violates elemental (continued...)

space and is more weatherproof and environmentally robust than older equipment, and does not require CEV-type protection. Accordingly, the $3,000 value for right-of-way used by Hatfield is more than adequate for forward-looking universal service calculations. Indeed, if GTE's figures were accurate it would be impossible to explain the widespread deployment of DLC technology that is occurring today.

GTE (at 8) also criticizes the Hatfield Model for "consistently us[ing] the lowest cost estimates received as support for the Model's default inputs rather than an average of all the bids received." As an initial matter, Hatfield typically employs values that lie within the range of estimates received, not the lowest estimate. In fact, when the Hatfield designers believed that an estimate provided by a vendor would not permit cost recovery for the appropriate standards of workmanship and materials, those estimates were excluded altogether and they do not appear in the Hatfield Input Portfolio. Amazingly, GTE takes its argument even further. It asserts that "[u]se of only the lowest bids leads to an understatement of actual costs since the lowest bidder may have misjudged actual costs[.]" GTE at 8-9. At the same time, GTE is advocating an auction as the best method for allocating universal service support. Is GTE suggesting that low bidders in its proposed universal service auctions should be disqualified from winning USF bids? Unlike GTE, AT&T and MCI (and most other companies in competitive environments) do not believe that taking the lowest bid is inappropriate. In any event, the Hatfield Model typically uses

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(...continued)
forward-looking pricing principles by suggesting that drop installation costs should ignore the obvious economies of installing loops and drops en masse. See GTE at 15-16.

a somewhat higher estimate in order to guarantee that universal service costs calculations are sufficient.

And then there are the numerous claims GTE raises which simply reflect false premises. GTE (at 4) faults Hatfield's designers for "decreas[ing] the installed cost of copper for cables over 400 pairs by roughly 50 percent with no explanation or supporting evidence" and cites to HIP 2.3.2. To the contrary, HIP 2.3.2 explains quite clearly that the Hatfield Model 4.0 uses a 26 gauge cable instead of the 24 gauge cable employed in older versions, and the costing algorithm was revised as well.[10] As a result of these changes, Hatfield's large capacity cable costs are now more consistent with those supported by the BCPM.

GTE also claims (at 25-26) that the Hatfield Model does not allow an incumbent LEC to offer reliable service to its customers because it assumes "100 percent" fill of its fiber feeder cables. Again, if GTE had read the HIP (at 3.3.2, 3.4.2) or the Hatfield Model Description (at 42, 44, and n.33), it would have discovered that: (i) Hatfield allots four strands for the fiber feeder serving each CBG (one receive strand, one transmit strand, and a backup for each); (ii) the smallest size fiber cable has 12 strands. Thus, at a minimum, there is 100% fiber redundancy for fiber feeder routes serving three or more CBGs and up to 500% redundancy for fiber feeder routes serving one CBG; and, (iii) the modularity of larger fiber cables installed by the Hatfield Model (e.g., 18, 24, 36, and up to 216 strands) almost certainly ensures that there will be even

[10] In the current version of the Model, Hatfield's designers have added significant investment costs for T-1 technologies and greater fiber penetration ensuring that 24 gauge cable is sufficient for network reliability and universal service capabilities.

additional spare fibers on larger routes.[11] GTE's failure to read important documentation apparently extends even to its own materials. For example, GTE (at 20-21) criticizes Hatfield (and the BCPM) for not differentiating manhole costs by density zone, but then admits in a paragraph beginning on the same page that Hatfield does incorporate manhole density pricing. See HIP 3.6.

GTE's attempts to distinguish the Hatfield Model from the BCPM also go awry. Thus, for example, GTE claims that a proxy model must permit study area-specific plant mixes. GTE at 9-11. Both Hatfield and the BCPM permit this adjustment. With respect to labor costs, GTE (at 11) argues that the BCPM is superior because of its ability to accommodate local differences in labor costs when Hatfield does the same and even goes a step further by allowing labor costs to vary independently of material costs. On switch size, GTE (at 27-28) falsely characterizes Hatfield as limited to state-wide average traffic requirements. In fact, the Hatfield Model engineers each switch to meet the specific mix of business and residence traffic that is estimated to arise at each switch location. GTE (at 36) also suggests that Hatfield uses a lower standard for interoffice trunks than it does for access trunks. Again, GTE is mistaken. The Hatfield Model uses the same engineering criteria regardless of trunk type. It employs a 10,044 minute per trunk per month factor (based on reasonable traffic peakedness assumptions) because trunks can safely

[11] By contrast, the new BCPM now uses an 85% copper feeder cable fill, a higher utilization level than any Hatfield feeder fill. HIP at 3.3.1. GTE (at 36-37) also takes the position that the Hatfield Model's national default level for feeder/interoffice sharing of 75% is "unrealistic," because, "in the state of Hawaii, 50.5 percent of IOF cable is underwater and cannot share the same structure with feeder cable." It seems almost too obvious to point out, however, that it would be inappropriate to set the national default value for this sharing factor according to the unusual circumstances GTE encounters in Hawaii.

accommodate this traffic level while maintaining an appropriate grade of service. GTE (at 4-6) even has the audacity to accuse Hatfield's designers of data shopping when GTE fails to present any data supporting its own baseless claims.[12]

II. THE COMMENTS DEMONSTRATE THE APPROPRIATENESS OF THE HATFIELD MODEL'S DEFAULT ASSET LIVES.

The General Services Administration ("GSA") provides overwhelming support for Hatfield's reliance on the Commission's existing prescribed asset lives. In particular, the GSA (at i) notes that "[t]he Commission's prescribed lives are realistic, unbiased and forward-looking" in large part because its staff members "are the most knowledgeable individuals on this subject in the nation." Id. at 3. These lives also "allow forward-looking capital recovery" (id. at 4) as confirmed by comparing 1996 accrual and retirement rates. Id. at 5. Further, GSA (at 7) also agrees with AT&T and MCI (at 23) that asset lives used in universal service cost calculations should not be adjusted to reflect any premature retirements stemming from the provision of broadband services.

[12] If anything, GTE is the one data shopping. For example, it chooses to cite Pacific Bell's statements about operations costs as evidence that Hatfield's values are too low, completely ignoring the still lower figure offered by the BCPM sponsors who purportedly surveyed multiple LECs to obtain their information. See GTE at (4-6). GTE data shops elsewhere as well. It uses pole costs in Washington state to argue that Hatfield's pole costs are too low (GTE at 22), totally ignoring the other responses to the Commission's recent data request which further validate that Hatfield default values for pole costs. See note 5 supra.

III. THE COMMENTS DEMONSTRATE THAT UNIVERSAL COSTS SHOULD BE ASSESSED PERIODICALLY, NOT ADJUSTED ANNUALLY FOR INFLATION OR PRODUCTIVITY.

The limited observations submitted on the issue of periodic readjustment support the general approach outlined by AT&T and MCI. More specifically, AT&T and MCI (at 31) believe that universal service costs should be assessed every few years and left unchanged in the interim period.[13] Aliant (at 9), however, advocates inflationary increases each year, but also fails to recognize that the forward-looking cost of capital already reflects expected inflation, and fails to offer any evidence that the nominal cost of capital and the productivity gains that characterize telecommunications will not adequately offset any inflationary cost increases.[14] This approach would clearly overstate costs in an industry in which productivity gains may easily reach 6.5%. See AT&T and MCI at 31-32.[15]

IV. THE WIRE CENTER SHOULD BE THE STARTING POINT FOR UNIVERSAL SERVICE COST SUPPORT CALCULATIONS AND THE COMMISSION MUST ENSURE THAT UNIVERSAL SERVICE COSTS ARE APPROPRIATELY CALCULATED FOR THESE AREAS.

The few commenters addressing the optimal universal service support area generally agree that the wire center should serve as the starting point for universal service cost estimation. See, e.g., PRTC at 6; Bell Atlantic at 7. Use of wire centers for universal service support calculations

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[13] See also Bell Atlantic at 2 ("Since the model would be based on forward-looking costs, it would already incorporate expected efficiency improvements and the latest cost inputs").

[14] GTE (at 46) takes a similar position. If GTE believes, however, that the universal service cost environment is so unstable that support estimates from proxy models must be reevaluated every year, it is odd that GTE's own auction proposal contemplates three year auction intervals.

[15] For the same reasons, there is no need to adjust annually universal service costs based on changes in ARMIS expenses as PRTC (at 6) proposes.

will generate few administrative difficulties -- a criteria advocated by Ameritech (at 4) -- and also prevent the creation of support areas so large that they constitute a barrier to local entry. See AT&T and MCI at 33.

In all events, however, the Commission must ensure that wire center costs are calculated appropriately.[16] The benefits of a well defined universal service area will be largely eviscerated if cost estimates are inaccurate, reflect embedded costs, or otherwise misrepresent the investment and expenses necessary to provide universal service. Consequently, if a state has not applied the forward-looking pricing principals enunciated by the Commission in its universal service proceedings, the Commission should substitute the cost universal service cost estimates generated by the selected cost mechanism for those promulgated by the state.

Of course, in a perfect world, the state would define unbundled network element pricing areas as coincident with universal service support areas. Indeed, the Hatfield Model can already provide cost estimates for universal service and unbundled network elements at the wire center level. In this way, the degree of uneconomic arbitrage can be reduced.[17]

V. THE COMMISSION SHOULD ADOPT A LOCAL USAGE COMPONENT FOR UNIVERSAL SERVICE COST CALCULATIONS, BUT NOT AS A PRECONDITION FOR UNIVERSAL SERVICE ELIGIBILITY.

AT&T and MCI agree with other commenters such as AirTouch (at 2) that a local usage component is necessary to ensure that the model reflects the forward-looking costs an efficient

[16] Bell Atlantic (at 7) and PRTC (at 6) emphasis the importance of accurate cost calculations in their comments of the universal service support area.

[17] Aliant (at 10) and AT&T and MCI (at 32-33) both discuss the importance of minimizing the degree of uneconomic arbitrage.

provider would incur. Without taking usage into account in universal service cost calculations, the universal service mechanism may inadvertently encourage an inefficient level of local telephone usage. See AT&T and MCI at 33-34. Accordingly, AT&T and MCI believe that the selected cost mechanism should employ the average amount of local calling in the relevant study area to determine universal service costs (though not as an eligibility condition). This level should be sufficient to meet education and safety needs and could be provided by incumbent carriers at reasonable rates. And as AT&T and MCI (at 34) have previously shown, the average amount of local calling will almost certainly exceed the level that would arise if local customers paid usage sensitive rates.[18]

At the same time, the Commission should not make provision of a minimum level of local usage an eligibility criteria for participation in the universal service program. "To do so would be inefficient, violate competitive neutrality, and reduce the benefits of competition in the local exchange market." AirTouch at iii, 2.[19] Different customers will have different demands for local calling and the type of technology they wish to employ. Some customers, for example, will be willing to pay usage sensitive charges in return for the mobility wireless carriers can offer. Where

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[18] Bell Atlantic's proposed 500 minutes of local usage supports, in the aggregate, AT&T and MCI's proposal to use average local usage in a study area. However, because of different factors such as the size of the calling area and the rate structures applied to local calls, it would be inappropriate to apply the same local usage component in every universal service support area. In no event, however, should the Commission adopt an unlimited usage component because of the obvious inefficiencies that would result.

[19] AT&T and MCI agree with the CPUC "that there is no necessary connection between the amount of local usage that the cost models assume to determine specifications such as switch size or average cost per minute, and the amount of usage that is part of the definition of universal service[.]" CPUC at 6. Hence, there will be no tension between including local usage as a cost component of universal service without requiring eligible carriers to provide this level of usage.

states have adopted high local usage requirements, "competition from wireless carriers" has been "effectively foreclosed[.]" AirTouch at iii. Moreover, "a uniform usage allowance will preclude both wireline and wireless carriers from offering optional usage-sensitive pricing plans with a small (or no) usage allowance to budget-minded low-usage customers. These customers will be forced to pay for usage they do not want or need, so that their carrier can qualify for universal service subsidies." Sprint Spectrum at 7. There is no danger that the absence of an eligibility requirement would negatively impact any universal service goal -- in a competitive market, "[i]f consumers find a service too expensive, they will simply switch to a more affordable carrier." CTIA at 5.[20]

[20] Not surprisingly, GTE claims not to have "the information needed to include [a] local usage [component.]" GTE at 40. This assertion is incredible. GTE would have the Commission believe that they do not possess usage data on their core business activity. If they do not have such information, how can GTE ask anyone to believe that they have any accurate knowledge regarding any of the other input values that should be used in estimating universal service costs?

CONCLUSION

For the foregoing reasons, the Commission should adopt the evolving Hatfield Model approach to the designated issues raised in the Notice and for universal service cost estimation in general.

Respectfully submitted,

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October 27, 1997

CERTIFICATE OF SERVICE

I, Scott M. Bohannon, do hereby certify that on this 27th day of October, 1997, I caused a copy of the foregoing Comments of AT&T Corp. and MCI Telecommunications Corporation on Customer Location Issues to be served upon each of the parties listed on the attached Service List by U.S. First Class mail, postage prepaid.

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