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FEDERAL COMMUNICATIONS COMMISSION
OFFICE OF THE SECRETARY

March 18, 1998

Ms. Magalie R. Salas, Secretary
Federal Communications Commission
1919 M Street, N.W., Room 222
Washington, D.C. 20554

EX PARTE: **Universal Service - CC Docket No. 96-45**
Forward Looking Mechanism for High Cost Support - CC Docket No. 97-160

Dear Ms. Salas:

Yesterday Dennis Weller, Dennis Trimble, Scott Randolph and I met with Kyle Dixon of Commissioner Powell's office, Kevin Martin of Commissioner Furchtgott-Roth's office, Paul Gallant of Commissioner Tristani's office and with Jim Casserly of Commissioner Ness' office to discuss GTE's position in the above-captioned proceedings. The issues and positions discussed are captured in the attached presentation which was distributed at each meeting.

Please incorporate this information into the record of the above-captioned proceeding. In accordance with Section 1.1206(b)(1) of the Commission's Rules, two copies of this notice are being filed with the Secretary of the FCC.

Please call me if you have any questions.

Sincerely,

Whitney Hatch

Attachment

c: J. Casserly
K. Dixon
P. Gallant
K. Martin

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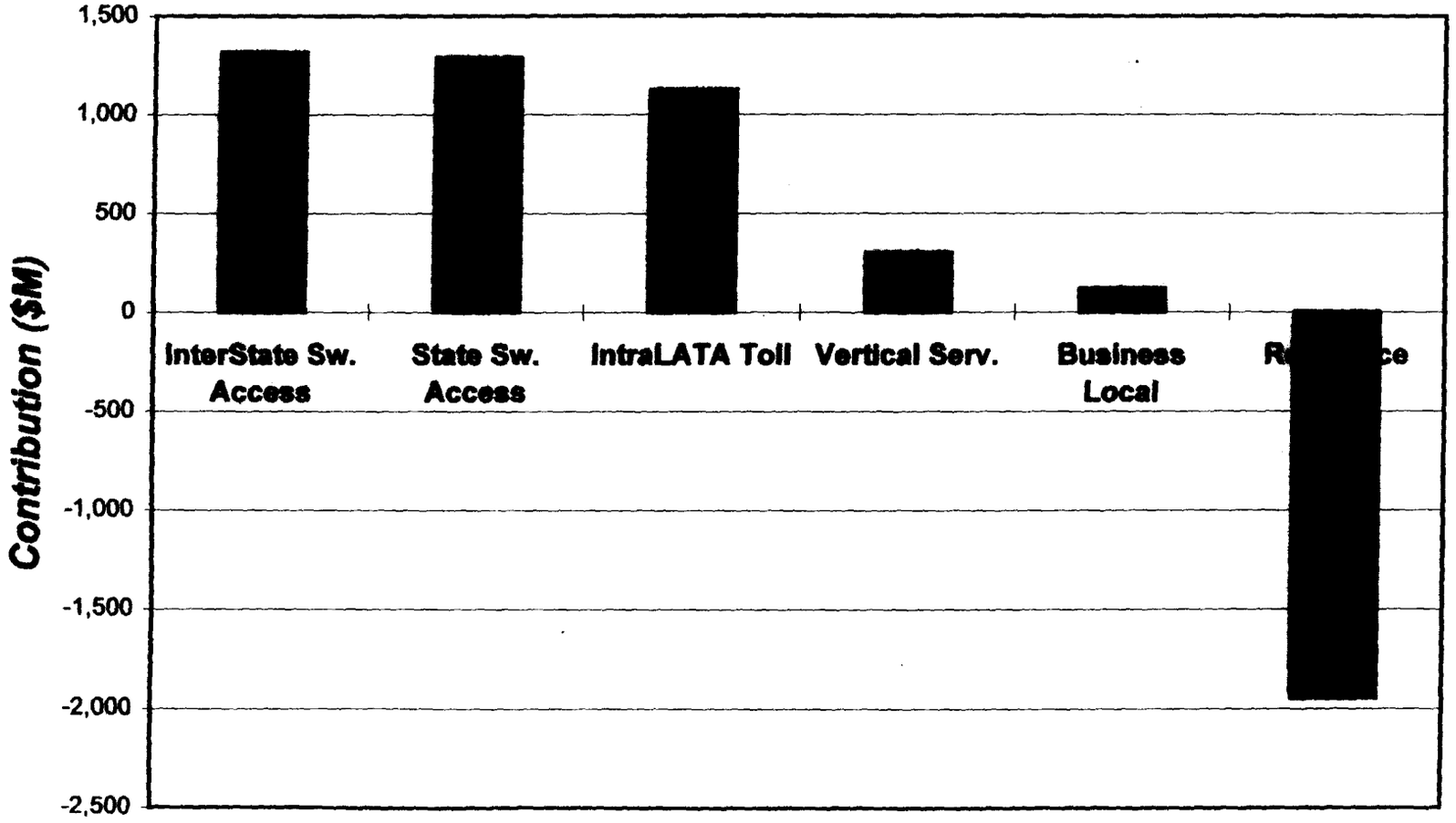
List ABCDE

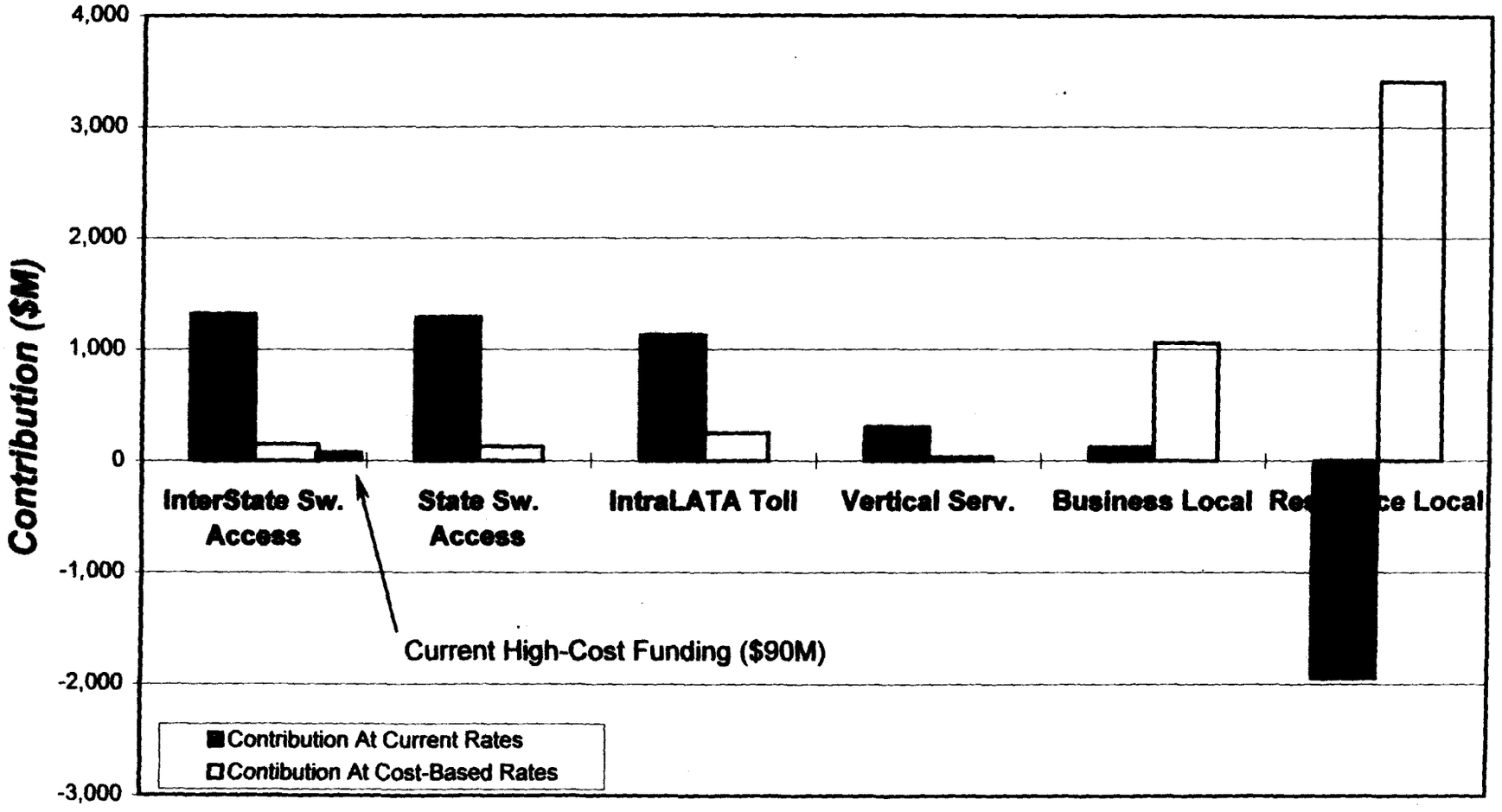
Federal Universal Service Funding

- What do we want the fund to do?
- What proportion of the need should the Federal fund supply?
  - Criteria
- Options for Federal fund
  - Ad Hoc proposal by NARUC work group
  - US West 30/50
  - Other options
  - How to choose?
- Costs for USF

GTE Contribution ($M) By Service At Current Rates



GTE Contribution ($M) By Service At Cost-Based Rates



Universal Service

- We have a large universal service fund today
  - Implicit support generated by rates for state and interstate access, toll, vertical services, etc
- This support must be replaced by explicit funding
  - To ensure that competition does not undermine universal service
  - To ensure that universal service policy does not undermine competition -- set prices to promote efficient entry
- Current support comes from a combination of state and interstate rates
  - USF funding must address both
  - Current explicit fund not adequate
- Universal service is a rate-setting exercise
  - Allows cost-based rates, while maintaining affordable local service
  - Insufficient funding means incorrect price signals
  - The money for USF is already in the system

Issues To Be Addressed By Federal Fund

- Replace implicit support from interstate access -- $ 6.3 B
- Provide support for states with high costs, limited revenue --- $? B
- Maintain current level of Federal high cost funding --- $212 M

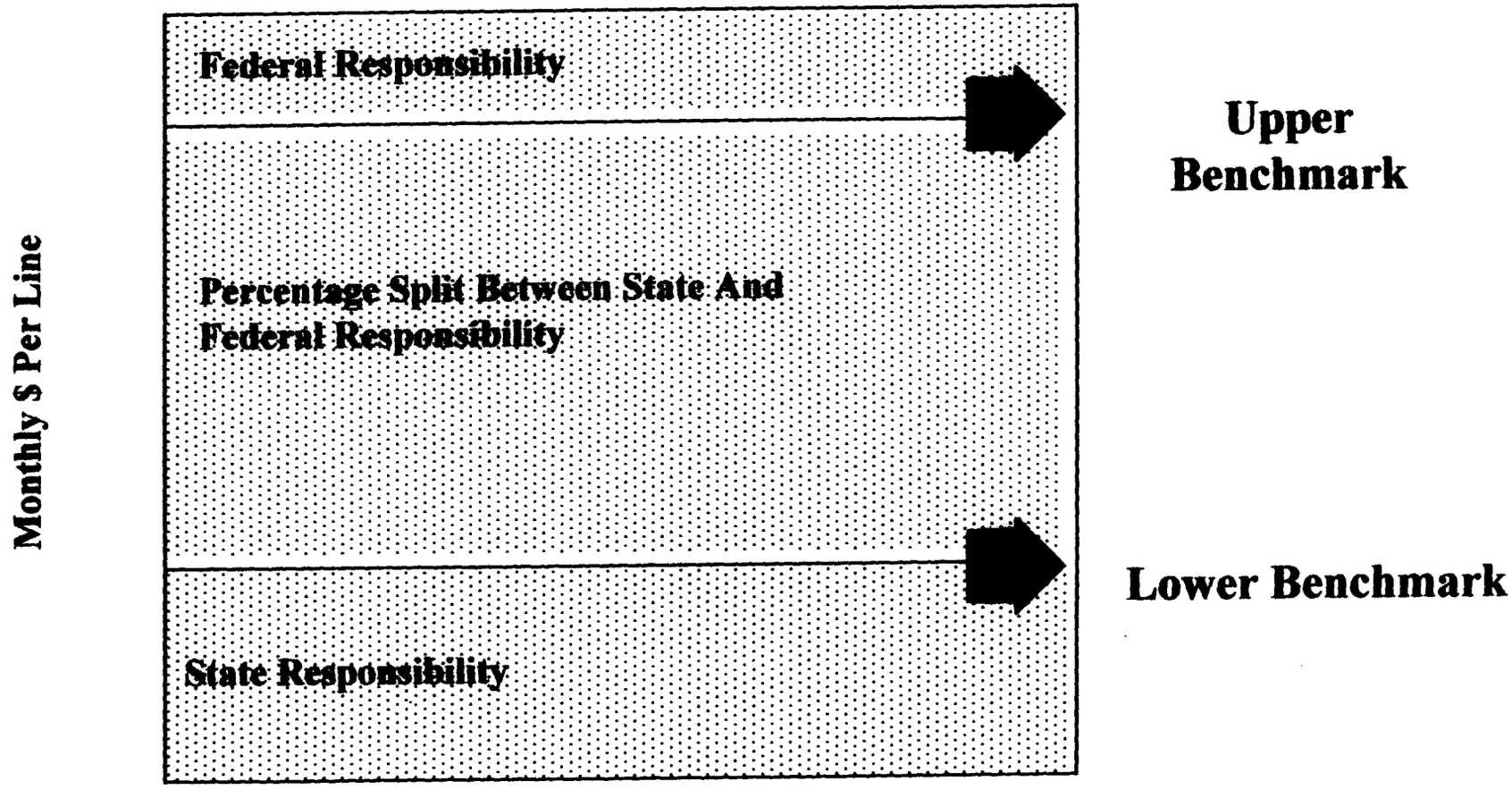
Ad Hoc Proposal From NARUC Work Group

- GTE shares concerns of NARUC work group
  - Federal fund insufficient
  - Need funding for states
  - Preserve current High Cost funding
  - Reconcile forward-looking, embedded cost
- New Concerns raised by Ad Hoc plan
  - Support based on state averages
    - Like existing High Cost fund
    - No clear measure of need
  - All funding provided to states
    - No reductions in interstate access

GTE's Proposed Framework

- Use two benchmarks (like US West plan)
- Choose benchmarks, percentage
  - To satisfy goals for Federal plan
  - Achieve reasonable balance between high, low cost states
  - Should be done <u>after</u> model platform, inputs are chosen
- Base surcharge on total state and interstate retail revenue
- Use funding to offset rates that provide implicit support today
  - Interstate access
  - State rates

High Cost Support Under Dual Benchmarks

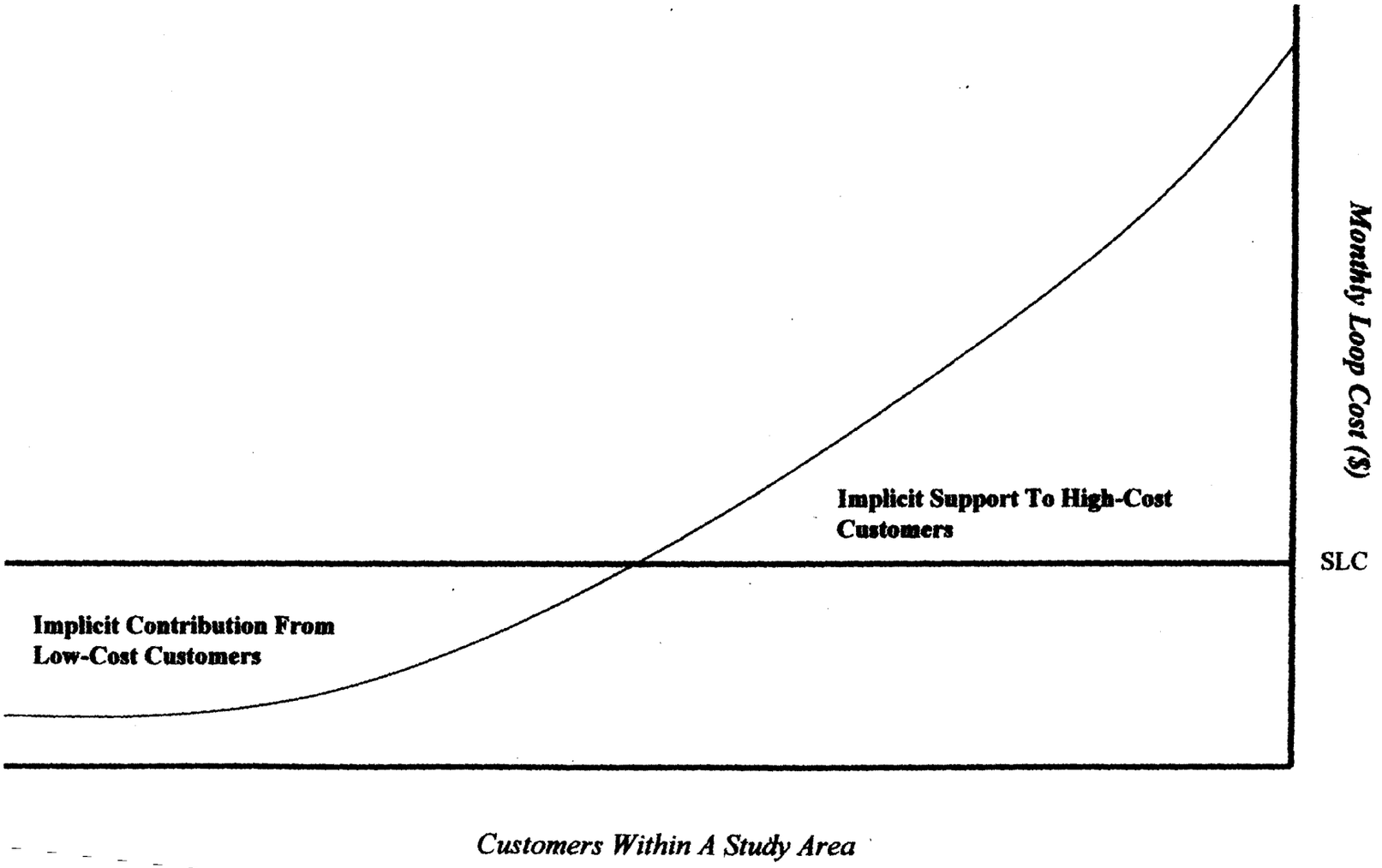


Options For Federal High Cost Funding

Benchmarks	Percentage	Fund Size ($B)	Surcharge*
30/50	25%	$2,837	1.50%
30/40	25%	$3,927	2.08%
25/40	25%	$4,612	2.44%
25/40	50%	$5,569	2.95%
FCC May 1997	25%	$1,096	0.58%

* Surcharge based on total state plus interstate retail revenue

Cost Models vs. Competitive Bidding

- Initial support level set by comparing rates to cost
  - Cost estimate should reasonably reflect cost companies actually incur
  - BCPM is the best platform choice among models before the FCC
- Once initial levels are set, competitive bidding provides a market mechanism for setting support
  - Ends arguments over cost models, revenue benchmarks
    - Bids reflect bidders' own expectations
    - Eliminates need to maintain, update cost models
  - Corrects initial support level where necessary

Implicit Universal Service Funding In Averaged Subscriber Line Charges