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March 26, 1998

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FEDERAL COMMUNICATIONS COMMISSION
OFFICE OF THE SECRETARY

Ex Parte

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

Re: CC Docket No 96-45 (Report to Congress)

Dear Ms. Salas:

At the *En Banc* hearing held March 6, 1998, regarding the item captioned above, Mr. Thomas Tauke presented Bell Atlantic's views on the appropriate apportionment of responsibility between the Federal and State jurisdictions for Universal Service funding. Due to the brief amount of time available at the hearing for each presentation, Bell Atlantic would like to provide a more detailed description of the approach it outlined at the hearing. We request that you make this filing a part of the record in the associated proceeding.

Bell Atlantic reads the Telecommunications Act of 1996 (The Act) to require a partnership between the FCC and the States in regard to establishing explicit support mechanisms for Universal Service. Section 254(f) of the Act allows states to "adopt regulations to provide for additional definitions and standards to preserve and advance universal service within that state ... that do not rely on or burden Federal universal service support mechanisms." The partnership we envision has the FCC adopting a national benchmark for statewide average costs for basic service that can be augmented, if a state deems it appropriate, by a state mechanism that goes beyond the national standard.

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This approach allows states to retain the pricing policies for Intrastate services established over time by each state that reflect local market conditions and the particular needs of consumers in that state. At the same time, the national benchmark assures that no state is unduly burdened. Put briefly, Bell Atlantic feels that the role of the FCC is to control and hold to a minimum the flow of subsidies *among* states, whereas the role of state commissions is to deal with the flow of subsidies *within* each state.

The FCC's responsibility, i.e., the national universal service fund (NUSF) for high cost support, should be determined by first establishing a benchmark for a cost-based rate for basic service. In the chart attached as Exhibit A to this filing a benchmark of $25/ month is used for illustrative purposes only.[1] The benchmark should be based on statewide average *costs* for basic service, not revenues. Revenues vary depending upon state pricing policies, while costs remain relatively stable. Thus, this plan would not undermine the pricing policies in those states where basic service prices have been allowed to rise closer to cost The actual forward looking costs of the ILECs should be used, since those are the costs that, until facilities-based competition is widespread, will actually be incurred to provide the bulk of basic service. The benchmark should be revisited periodically, of course, to reflect changes in average costs including the presumed lower costs of facilities-based competitors.

Once the national benchmark is set, any state with an average cost of providing basic service that exceeds the benchmark would receive support from the NUSF that would permit average basic rates to be maintained at the national benchmark level. The benchmark would thus provide sufficient support to allow states to set rates at levels that would assure minimum affordability. Of course, as was true prior to the Act, states would remain free to set their residential and business basic rates at levels that are based upon a combination of cost and policy considerations. States could use the traditional pricing mechanisms for intrastate rates to maintain basic rate levels for some services, e.g., basic residential service, below the national benchmark. States could also maintain lower rates by creating a State Universal Service Fund (SUSF) to provide the desired amount of additional support. Viewed in this way, the debate over what percentage of the costs of basic service should be borne by a federal fund resolves itself. The answer is that 100% of all the costs above the national benchmark should be supported by the NUSF, whereas it is only in those instances in which a state – which knows best the particular needs of its residents – decides that more support is needed that the question of a SUSF should arise.[2]

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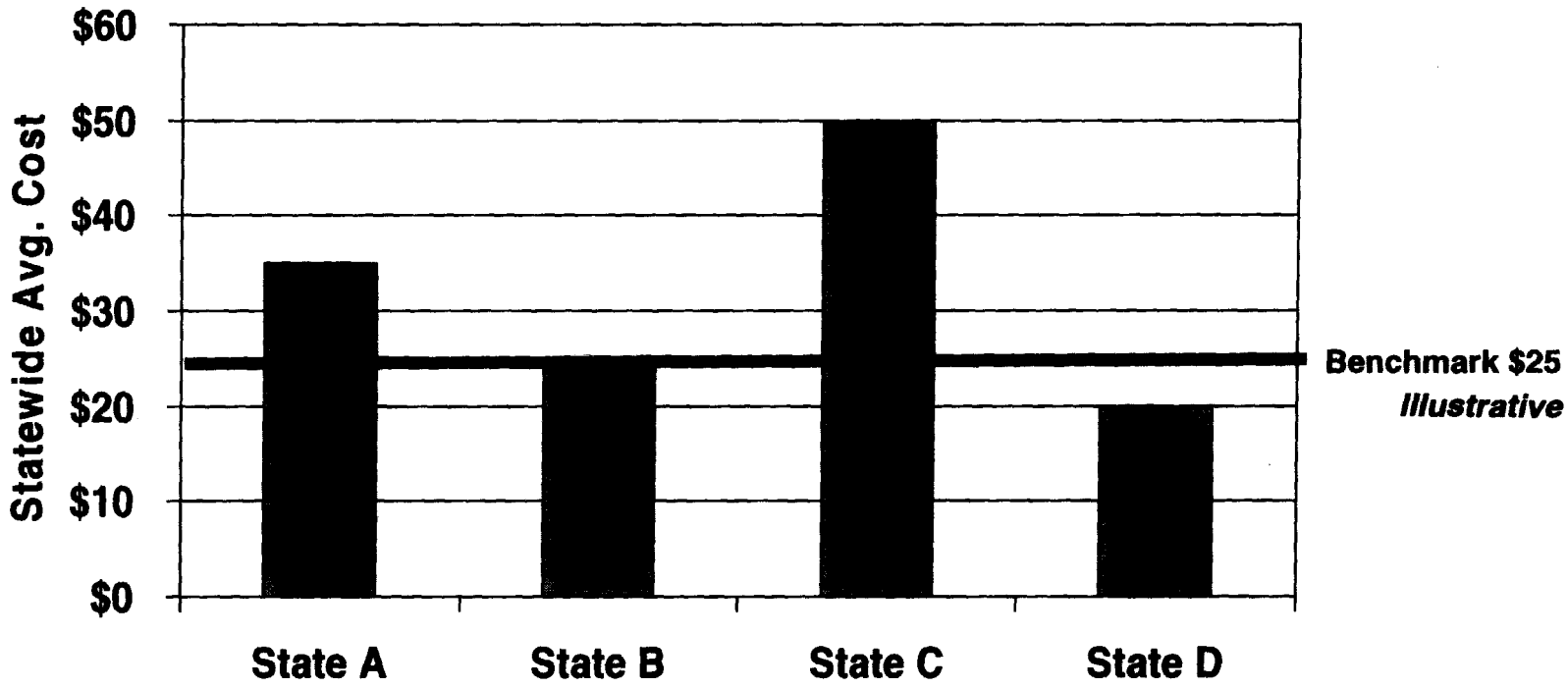
[1] Using statewide average costs as a start-point in determining a benchmark inserts an objective, easily quantified element into an equation that might otherwise prove to be unsolvable. The assumption in establishing the benchmark is that no one should have to pay more than a certain level for basic service nationally, and that, consequently, any state in which a cost-based rate for basic service would exceed the national standard needs federal support to achieve the national goal.

[2] It should be noted, for example, that the Florida legislature, in a move designed to spur local competition, is considering a bill that would allow rates for local service to rise to the cost of providing it. The ability of states to refine support levels to suit their individual needs should not be impinged upon by the FCC co-opting too much of the funding requirements.

States that need support to maintain or achieve the national affordability standard should be able to draw sufficient finds from the NUSF, and to distribute that support to eligible carriers within the state in a manner that best forwards the universal service goals of the state. The FCC should assure that the assessments upon interstate carriers to fund the NUSF can be recovered in a competitively neutral manner.

Sincerely,

Attachment

National Universal Service Fund