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USWEST

Glenn Brown
Executive Director-
Public Policy

April 22, 1998

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FEDERAL COMMUNICATIONS COMMISSION
OFFICE OF THE SECRETARY

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

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RE: CC Docket 96-45, 97-160

Dear Ms. Roman Salas:

Today the attached letter was sent Jim Casserly, Senior Legal Advisor to Commissioner Susan Ness. In accordance with Commission Rule 1.1206(a)(1), the original and one copy of this summary of the presentation is being filed with your office. Acknowledgment and date of receipt are requested. A copy of this submission is provided for this purpose. Please contact me if you have questions.

Sincerely,

cc: Jim Casserly

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Glenn Brown
Executive Director-
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April 22, 1998

Mr. Jim Casserly, Senior Legal Advisor
Federal Communications Commission
1919 M Street NW Suite 832
Washington, DC 20554

Dear Jim:

Following our meeting with you and Commissioner Ness yesterday, you and I had additional dialogue regarding how the IHCAP plan proposed by U S WEST would work. Specifically, you asked for an illustration of how the interstate fund would be sized, and how reductions in interstate rates would be implemented. Attached to this letter are two white papers which U S WEST has recently revised to be consistent with the non-rural-LEC-only nature of the new explicit fund which will go into effect January 1, 1997. The exact size of the fund will not be known until the proxy models are finalized and the model inputs are determined. The papers and the following example use the BCPM3 model and the "common inputs" which have been given to us by the FCC Staff.

Presently 25% of non-rural LEC's booked non-traffic-sensitive loop costs are assigned to the interstate jurisdiction and recovered through our interstate access rates. Under our plan, costs (as determined by the forward-looking proxy model) below $30/month would remain in access rates. Between $30 and $50, 25% of the forward-looking costs would be removed from interstate access rates and placed in the new explicit interstate mechanism. Above $50, 100% of the forward-looking cost would be recovered from the new interstate mechanism. Presently 25% of these costs are recovered in interstate rates, and corresponding reductions would be made for these costs in interstate access charges. The remaining 75% of these costs are currently recovered in intrastate rates. Thus, reductions of this amount would be made in intrastate revenue requirements, and corresponding adjustments would be made in intrastate rates. This is similar to the manner in which the present USF works, where study area costs above 115% of the national average are removed from intrastate revenue requirements and assigned to the interstate USF fund.

For the parameters describe above, the resulting fund would be approximately $4.5B total. Of this, 25%, or $1.1B would be the "baseline" interstate amount which would

represent an approximately 1.5% surcharge on interstate retail revenues. To cover all forward-looking costs over $50 the total interstate fund (including the baseline amount) would be $2.8 requiring a total interstate surcharge of 3.9%. Of course, the final numbers will depend on the final model and inputs, and could be higher or lower.

Please let me know if I can be of further assistance.

Sincerely,

FUNDING UNIVERSAL SERVICE
NATIONAL FUND vs. SEPARATE FUNDS
(Issue No. 2)

NOTE: In October of 1997 U S WEST presented the first issue of this paper. The numbers used in that issue consisted of a $13.7B fund for both "Rural" and "Non-Rural" LECs. This second issue reflects Non-Rural LECs only, and involves a $4.5B fund.

The Communications Act of 1996 requires that implicit support for universal service be removed from LEC rate structures and replaced with "specific, predictable and sufficient" explicit support mechanisms. The size of the high-cost fund which will be necessary to support affordable service in rural America has been the subject of considerable debate. The size of the necessary fund has been estimated to range from as low as $6B to as high as $20B for the entire telecommunications industry. The FCC currently has an inquiry underway to develop a cost proxy model which will be used to size the fund and target support to high cost areas. In the illustration which follows, a fund size of $4.5B for the Non-Rural LECs only is used.

Once the size of the explicit support requirements for each state is determined, a mechanism must be developed to collect the necessary funds from all telecommunications providers on a competitively neutral basis. Two scenarios have been discussed for raising the necessary funds:

- A National fund, where the total funding requirements across all states are divided by the sum of all state and interstate revenues to compute a common surcharge for intrastate and interstate revenues.
- Separate State and Interstate funds, where 75% of the funding requirements are divided by each state's intrastate revenues to determine a state-specific intrastate surcharge, and the remaining 25% of the funding requirements are divided by total interstate revenues to develop an interstate surcharge.

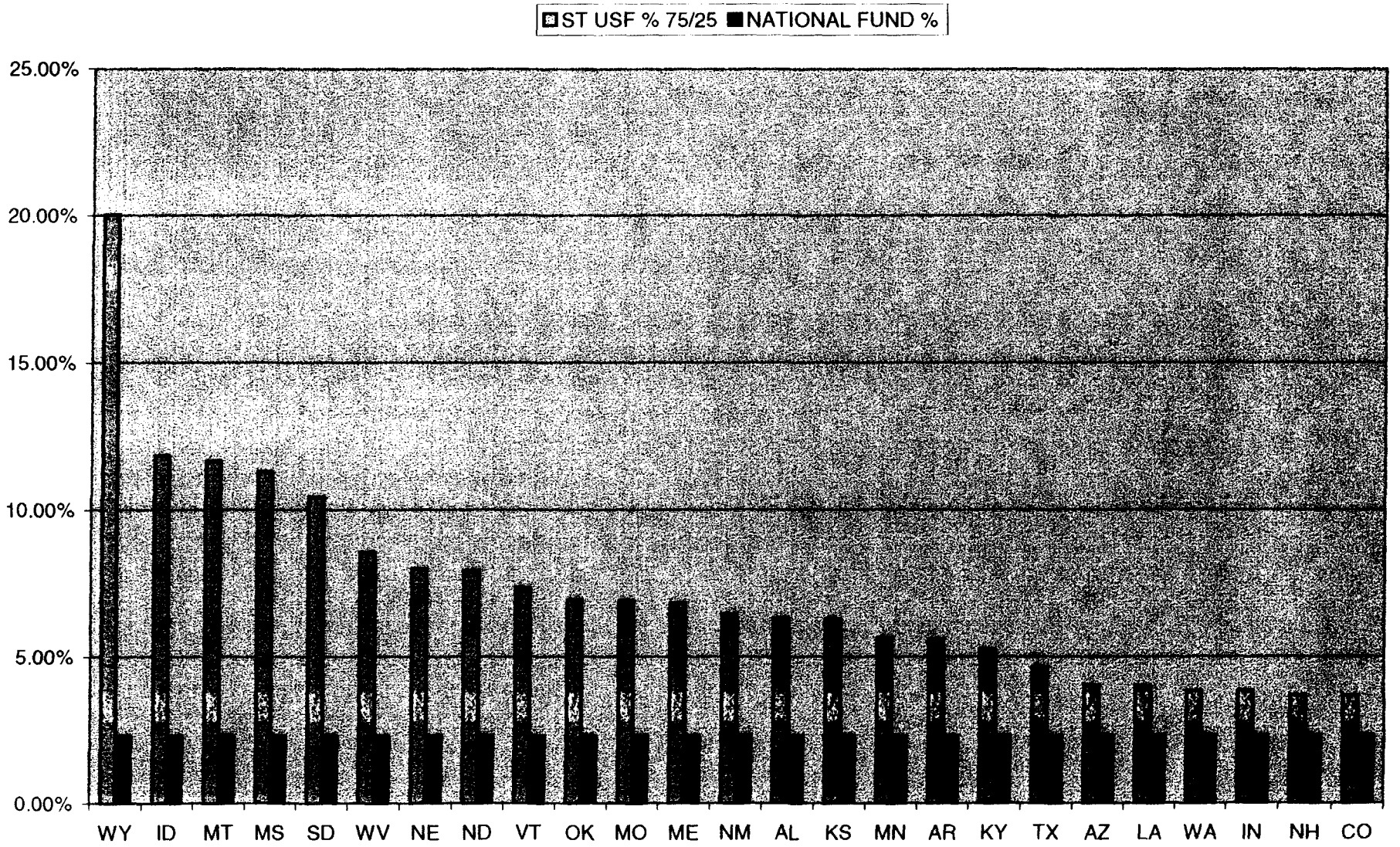
The attached charts show the results of these two scenarios. This analysis shows that while a National fund would require a uniform 2.3% surcharge on all interstate and intrastate telecommunications services, separate State funds to recover 75% of each state's universal service costs would range from a 20% surcharge in Wyoming, to zero in the District of Columbia.[1] For the most part, it is the western and southern states which would have the highest state-specific intrastate surcharges. Two factors interact to determine where a state falls on this continuum. The first is the number of high cost customers within a state. The second and more important factor, however, is the number of low cost customers within the state over whom the cost of supporting the high cost customers can be spread.

[1] In addition to the state-specific surcharge, a 1.5% surcharge on all interstate revenues would be required under the 75/25 scenario.

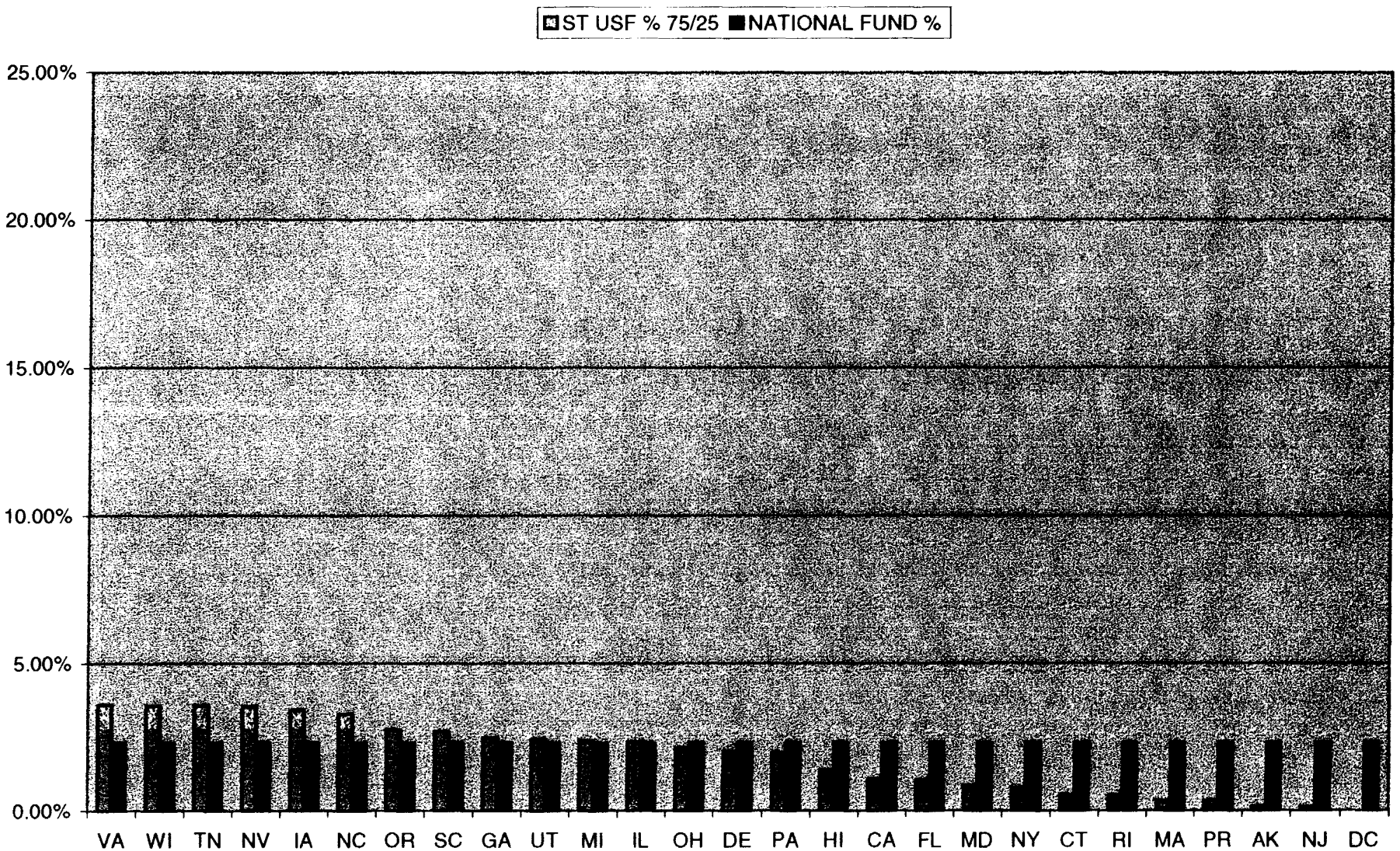
This data clearly shows why a National universal service fund will be required in order to fulfill the universal service goals of the 1996 Act. The disparity of funding assessment between states would require customers in the most costly states to pay total rates (basic rates plus surcharge) which may not meet the "affordability" standards of the Act. Furthermore, the wide disparity in assessment between the states could have unintended consequences on economic development. This is so since telecommunications is a vital element of commerce, and the disparate universal service surcharges on communications services between states could divert industries and job growth away from the rural areas which need it the most.

U S WEST
April, 1998

Non-Rural LECs "Common Inputs" (4.5B Fund)



Non-Rural LECs FCC "Common Inputs ($4.5B Fund)



What if Federal Fund Covered All Costs Over $50?
(Issue No. 2)

NOTE: In November of 1997 U S WEST presented the first issue of this paper. The numbers used in that issue consisted of a $13.7B fund for both "Rural" and "Non-Rural" LECs. This second issue reflects Non-Rural LECs only, and involves a $4.5B fund.

Previous Analysis of the surcharges which would be necessary to fund universal service if states are required to fund 75% of the high-cost need, has indicated that some states would experience a significant burden which, itself, could threaten affordable service. This analysis attempts to modify the funding scenario by making the following modifications:

- Each state would fund 75% of the requirement between a $30 benchmark and a $50 benchmark.
- Funding amounts beyond a $50 benchmark would be assigned 100% to the interstate fund.

In the attached charts the following legend is used.

Series 1 States fund 75% of all costs over the $30 benchmark
Series 2 Federal surcharge required to fund the remaining 25%
(NOTE: Series 1 & 2 are the same as on our earlier Charts)
Series 3 States fund 75% of the need between the $30 and $50 benchmarks
Series 4 Federal surcharge funds 25% of the need between $30 and $50 plus 100% of the need over $50.

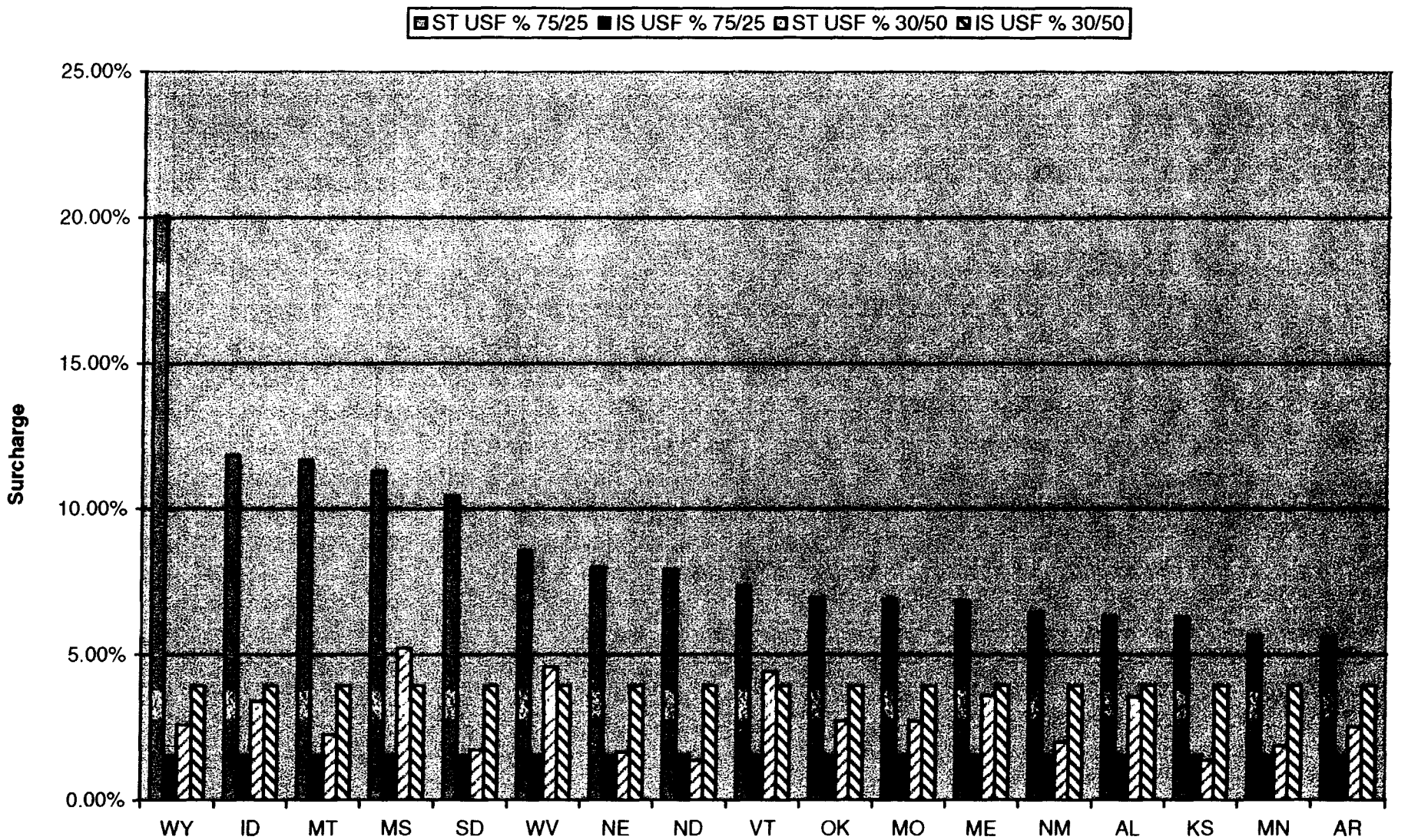
In reviewing the data on the charts, the following observations can be made:

- For all states, the surcharge under the second scenario is less than or equal to the funding assuming full 75% recovery.
- By removing the high end of the cost average, the burden on the highest surcharge states is substantially reduced, and is in the range of the required federal surcharge.
- While the federal surcharge more than doubles, it is still within a "reasonable" range and it will assure that all Americans, particularly those in the most costly regions, will have access to affordable basic service.

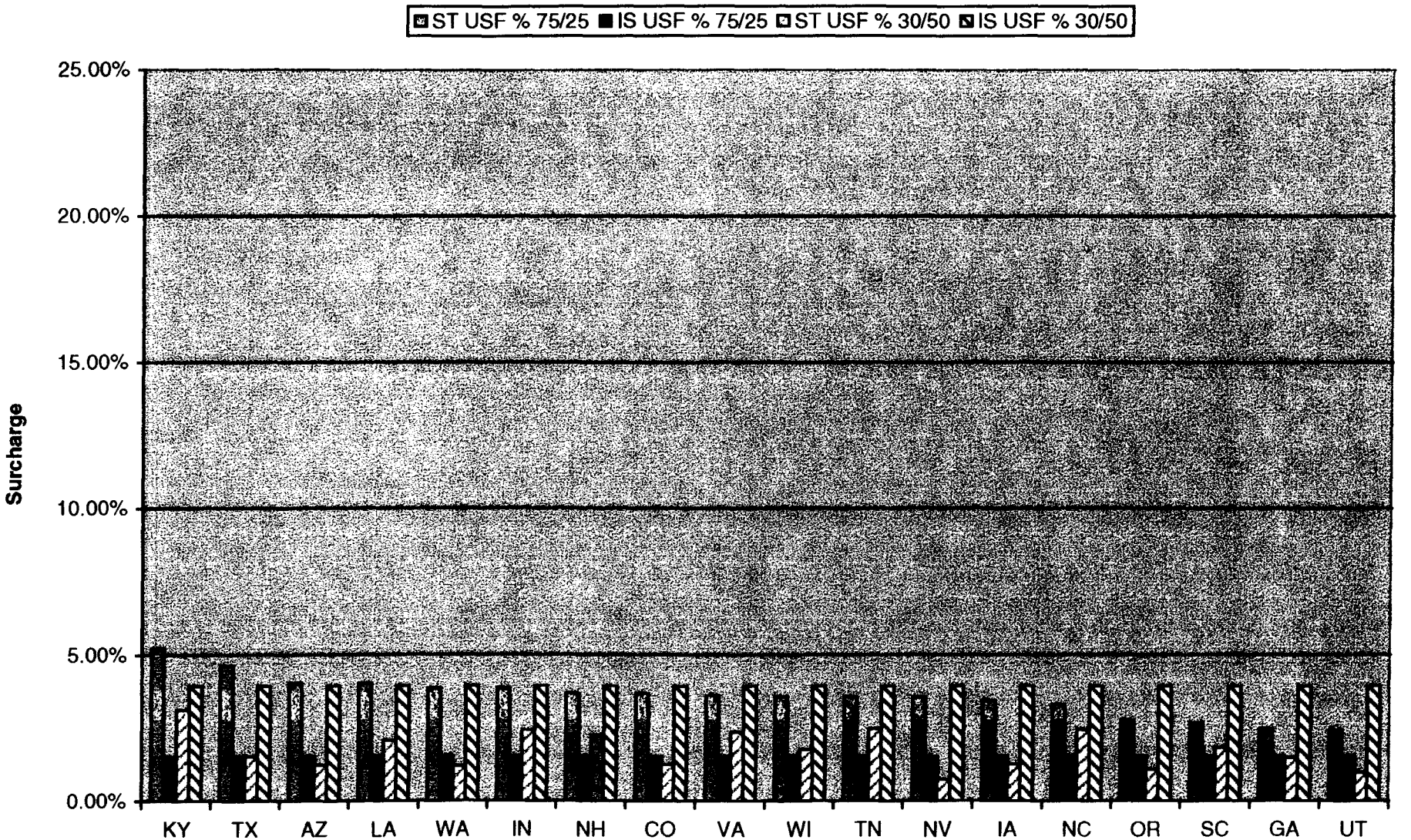
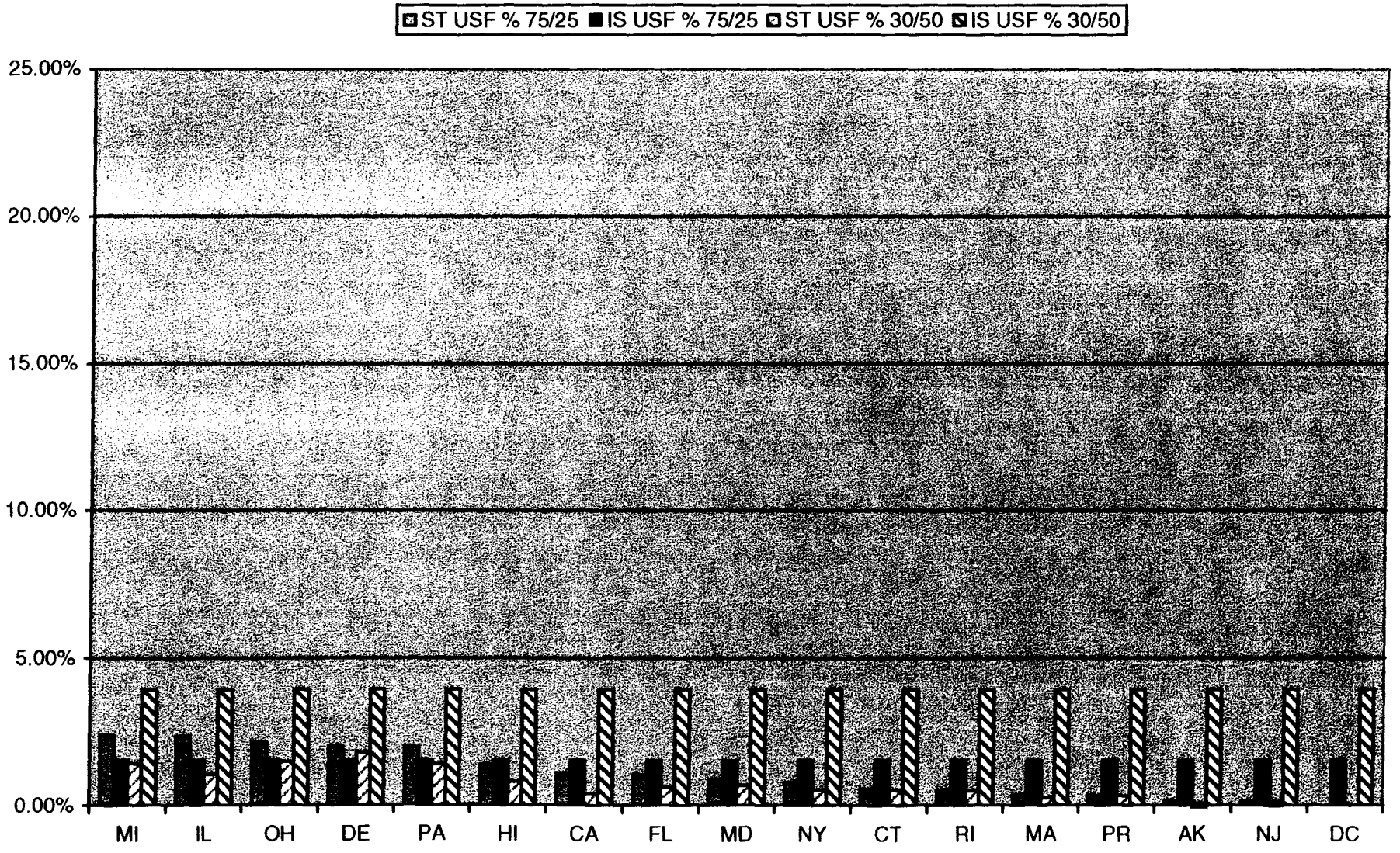
This analysis was performed at an assumed funding need of approximately $4.5B which is the result of running the BCPM3 model at the FCC "Common Input" values. No matter what the final funding requirements, however, the relative proportions shown on the attached charts are likely to remain constant.

U S WEST
April, 1998

Non-Rural LECs, Common Inputs (1 0f 3)



Non- Rural LECs, Common Inputs (2 of 3)



Non-Rural LECs, Common Inputs (3 of 3)