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BEFORE THE
FEDERAL COMMUNICATIONS COMMISSION
WASHINGTON, D.C. 20554

In the Matter of Proposals to Revise the Methodology for Determining Universal Service Support	CC Docket Nos. 96-45, 97-160 DA 98-715

COMMENTS ON ADDITIONAL PROPOSALS of the GENERAL SERVICES ADMINISTRATION

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Summary

GSA comments on proposals submitted by three parties concerning the procedures required to obtain and distribute universal service support.

First, GSA concurs with a recommendation by Time Warner Communications to consider average income in addition to access cost in determining the eligibility of a Census Block Group for high–cost support programs. A plan based partly on average income will focus support on households actually requiring financial assistance to obtain basic telecommunications services. Furthermore, a plan considering income will reduce requirements for users — including businesses, government agencies, and households — to subsidize services provided to individuals who can afford to pay on their own.

Second, GSA concurs in part with a proposal by US West Communications to provide full support from a single fund for the areas with the greatest costs of service. GSA agrees with this proposal because it acknowledges — at least for the most costly areas — that universal service funding should not depend on the jurisdictional separations process. US West's plan shares a common focus with a plan proposed in Docket No. 80–286 by GSA, because both proposals recognize the need for a national approach to universal service requirements.

Third, GSA agrees with recommendations by John Staurulakis, Inc. to include all retail telecommunications revenues in the funding base for high–cost support and to collect and distribute universal service funds based on a formula reflecting the costs of supported services without regard to interstate/intrastate jurisdiction. These principals will help ensure that the high–cost program meets the goals of universal service, at affordable costs.

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COMMENTS ON ADDITIONAL PROPOSALS of the GENERAL SERVICES ADMINISTRATION

The General Services Administration ("GSA") submits these Comments on behalf of the customer interests of all Federal Executive Agencies ("FEAs") in response to the Commission's Request for Proposals and Comments ("Request") released on April 27, 1998.[1] The Request invites additional proposals, comments on proposals, and reply comments concerning the procedures that should be used for determining universal service support for rural and non–rural telecommunications carriers.

I. INTRODUCTION

Pursuant to Section 201(a)(4) of the Federal Property and Administrative Services Act of 1949, as amended, 40 U.S.C. 481(a)(4), GSA is vested with the responsibility to represent the customer interests of the Federal Executive Agencies ("FEAs") before Federal and state regulatory agencies. The FEAs require a diverse array of interexchange and local telecommunications services throughout the nation. From their perspective as large end users, the FEAs have consistently supported the

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1 CC Docket Nos. 96–45, 97–160, DA 98–715, Request for Proposals and Comments, released April 27, 1998.

Commission's efforts to bring the benefits of competitive markets to consumers of all telecommunications services.

As end users, the FEAs are vitally concerned with proceedings to modify the interstate access charge system and to implement the universal service initiatives required by the Telecommunications Act of 1996.[2] Therefore, GSA has submitted comments in several proceedings during the past year to present the FEAs' positions and recommendations concerning procedures for covering the costs of universal service programs.[3]

Several months ago, GSA and the U.S Department of Defense ("GSA/DOD") submitted comments and reply comments in CC Docket No. 80–286 concerning Jurisdictional Separations Reform.[4] In those comments, GSA/DOD provided a recommendation to extend and consolidate universal service funding by assigning the access costs that are currently split between interstate and intrastate jurisdictions to a single National Universal Service category with joint surveillance by Federal and state regulatory authorities.

On April 27, 1998, organizations and individuals submitted proposals in the instant proceeding to address funding of universal programs. GSA has reviewed proposals submitted by the Ad Hoc Working Group; BellSouth Corporation; the Colorado Public Utilities Commission Staff; GTE Service Corporation; John Staurulakis, Inc.; Nevada Bell, Pacific Bell and Southwestern Bell Telephone Co.

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2 Telecommunications Act of 1996, Pub. L. No. 104–104, 110 Stat. 56, amending the Communications Act of 1934, 47 U.S.C. § 151 *et seq.* ("the Telecommunications Act").

3 For example, CC Docket Nos. 96–45 and 97–160, Reply Comments of the GSA, October 3, 1997; CC Docket No. 97–212, Comments of the GSA and the U.S. Department of Defense, December 10, 1997; and CC Docket No. 976–250, Rebuttal Comments of the GSA, March 23, 1998.

4 CC Docket No. 80–286, Comments of the GSA and the United Sates Department of Defense, December 10, 1997 and Reply Comments of the GSA and the United States Department of Defense, January 26, 1998.

collectively; the Puerto Rico Telephone Co.; James Ramsey; the South Dakota Public Utilities Commission; Time Warner Communications Holdings, Inc.; and US West Communications, Inc.

In these Comments, GSA addresses three proposals submitted by these parties.

II. GSA CONCURS WITH TIME WARNER'S RECOMMENDATION TO CONSIDER AVERAGE INCOME IN ADDITION TO ACCESS COST IN DETERMINING ELIGIBILITY FOR HIGH-COST SUPPORT.

Time Warner Communications recommends that the Commission expand the procedure for determining eligibility for high–cost support by considering average income in addition to average access cost. Time Warner's recommendation would recognize the greater ability of households located in high–income Census Block Groups ("CBG") to pay for basic telephone services.

GSA endorses Time Warner's proposal because it will focus support on households actually requiring financial assistance to obtain basic telecommunications services. The proposal will reduce the requirements for users — including businesses, government agencies, and households — to subsidize services provided to individuals who can afford to pay on their own.

In discussing its plan, Time Warner notes that the cost–proxy models for estimating the requirements for high–cost support employ "cost per access line" as the only measure of the need for assistance.[5] The models do not consider "income,"

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5 Attachment to Time Warner Proposal, "Defining the Universal Service 'Affordability' Requirement" ("Time Warner Study"), p. 2.

which is equally important in determining a consumer's ability to pay a charge set to recover that cost.[6]

The cost–proxy models employ data at a fine granular level, usually the CBG, which includes between 250 and 550 housing units.[7] The U.S. Census Bureau now collects and publishes income data to the CBG level.[8] Furthermore, the boundaries of a CBG are generally defined to encompass an area with a relatively homogeneous population.[9] Thus, the median household income for the CBG is representative of the incomes for the individual households in the area.[10]

In a Recommended Decision, the Commission noted that the Federal–State Joint Board on Universal Service specifically recognized that "[c]ustomer income level is a factor that should be examined when addressing affordability."[11] Thus, an income test is clearly within the scope of the Joint Board's concept of "affordability." Furthermore, as Time Warner explains, failure to include income considerations is not efficient as a matter of economic policy.[12]

With its proposal, Time Warner provided a state–by–state study showing that 20 to 30 percent of aggregate universal service funding for high cost areas could be eliminated if support were limited to households below the 70th income percentile.[13] Potentially, this limitation could permit an aggregate reduction of $4.5 billion in support

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6 *Id.*

7 "1990 Census of Population and Housing, Summary Population and Housing Characteristics," A–3 to A–5.

8 Time Warner Study, p. 2.

9 *Id.*

10 *Id.*

11 CC Docket No. 96–45, Recommended Decision released November 8, 1996, para. 129.

12 Time Warner Proposal, pp. 2–3.

13 *Id.*, and Time Warner Proposal Appendices A and B.

requirements that otherwise will rest ultimately on residence, business and government users of telecommunications services.[14]

The anomalies of ignoring income are dramatized by Time Warner's analysis of data for seven high–income suburban communities located in California, Connecticut, Florida, Michigan, Missouri, New York, and Texas, respectively.[15] The median household incomes for these communities range from $120,000 to $150,000 a year.

Each of these seven communities has subscriber loop costs far in excess of the national average, presumably because of large lot sizes, low population density or difficult terrain. In fact, the average subscriber loop costs for each of these areas exceeds $40.00 a month — a figure about double the national average.[16] However, It is not economically efficient to provide support to carriers offering local exchange services to residents of these communities, because almost all households could well afford cost–based rates.

GSA concurs with Time Warner that high–cost support programs should consider cost and income variables. The isolated instances of low–income households in high income areas should be addressed through the Commission's low–income programs rather than by blanket aid based solely on the high access cost for a prescribed area.

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14 Time Warner Proposal, p. 3.

15 Time Warner Study, p. 4.

16 Calculations using Benchmark Cost Model BCM2, *Id.*, p. 4.

III. GSA SUPPORTS US WEST'S RECOMMENDATION TO BASE UNIVERSAL SERVICE SUPPORT ON A NATIONAL FUND.

US West submitted a proposal, called the Interstate High Cost Affordability Plan ("IHCAP"), to change the procedure for funding high-cost support in the most costly regions of the nation.[17] This proposal distinguishes three cases.

- Areas with access costs below a Primary Benchmark of $30 monthly would not receive Federal support.
- Areas with monthly access costs in the range between the Primary Benchmark and a Super Benchmark of $50 monthly would be supported 25 percent by Federal funding and 75 percent by a state plan.
- Areas with monthly access costs above the $50 Super Benchmark would be completely supported by Federal funding.[18]

GSA agrees with one aspect of this plan because it acknowledges — at least for the highest cost areas — that universal service funding should not depend on the jurisdictional separations process.

Under the procedures established for non–rural local exchange carriers in the Universal Service Order released a year ago, Federal funding covers only 25 percent of the costs of universal service, and states are responsible for the remaining 75 percent.[19] US West demonstrates that this procedure places a heavy burden on the states with the greatest costs and relatively few subscribers to pay them.[20] US West computed the percentage surcharge on intrastate revenues that would be required to

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17 Proposal by US West Communications for Adoption of the Interstate High Cost Affordability Plan ("US West Proposal").

18 *Id.*, pp. 2–3.

19 CC Docket No. 96–45, Report and Order released May 8, 1997, appeal pending sub nom. *Texas Office of Public Utility Counsel v. FCC*, No. 97–60421 (5th Cir.).

20 US West Proposal, p. 2.

cover the residual 75 percent burden in each state. Of the five states with the greatest surcharges, four are served by US West.[21]

As noted above, GSA offered a plan for providing full universal service support in CC Docket No. 80–286. In that proceeding, GSA explained the value of a unified Federal and state approach to funding universal service.[22] GSA urged the Commission to transition to a procedure that avoids any allocation of non–traffic sensitive ("NTS") costs for access to the network between the Federal and state jurisdictions.[23] As GSA noted, NTS access costs should be assigned to a National Universal Service category with joint surveillance by Federal and state regulators.[24]

Plans recommended by GSA and US West have a common focus, because both recognize the need for a national approach to universal service requirements. However, the plans diverge in several important respects. US West would employ a single fund only for the areas with costs above a Super Benchmark. Also, funding for those areas would apparently come only from interstate and international revenues. GSA's proposal is broader, because a single fund supported by revenues from both interstate <u>and</u> intrastate services would be employed for <u>all</u> eligible areas.

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21 *Id.* In descending order of percentage surcharge, the five states are Wyoming, Idaho, Montana, Mississippi and South Dakota.

22 Reply Comments of the GSA and the United States Department of Defense, January 26, 1998, pp. 6–7.

23 *Id.*, pp. 6–9.

24 *Id.*

IV. GSA AGREES WITH RECOMMENDATIONS BY JOHN STAURULAKIS, INC. TO IGNORE JURISDICTIONAL BOUNDARIES IN OBTAINING AND DISTRIBUTING UNIVERSAL SERVICE FUNDS.

John Staurulakis, Inc. ("JSI"), a firm providing financial and regulatory services to local exchange carriers primarily serving rural areas, offered comments concerning high–cost support programs for universal service.[25] In its comments, JSI urged the FCC to recognize four principals in designing the high–cost support program:

- Include all retail telecommunications revenues — international, interstate, and intrastate — in the funding base;
- Collect and distribute funds based on a formula that reflects the cost of supported services less the nationwide benchmark revenue, without regard to jurisdiction;
- Allow most of the financial benefit of universal service support to be used by states to ensure that targeted intrastate services are priced at reasonably comparable levels; and
- Rely on state regulatory authorities to see that funds received from the Federal program are used to promote and advance universal service objectives.[26]

JSI states that adherence to these principals will ensure that the high–cost program conforms with the goals of affordable universal service expressed in the Telecommunications Act.[27]

Under the procedures adopted by the Commission a year ago, the level of Federal high–cost support for non–rural local exchange carriers reflects the forward–looking economic cost of the supported services, less a benchmark amount based on the nationwide average revenue per line, multiplied by 25 percent.[28] Also, in contrast

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25 Comments of John Staurulakis, Inc., April 27, 1998.

26 *Id.*, p. 3.

27 *Id.*

28 CC Docket No. 96–45, Report and Order released May 7, 1997.

to the broader base designated for funding access to telecommunications services for schools, libraries and rural health care agencies, the Commission's high–cost program is funded solely by interstate and international retail telecommunications revenues. This structure derives from the fact that the existing jurisdictional separations process allocates 25 percent of access costs to the interstate arena.

JSI observes that a universal service plan resting on this bifurcation of jurisdictional responsibility undermines any intent to create a "national" universal service program that affords reasonable comparable rates and services to all consumers, regardless of where they live.[29] As a result, a bifurcated program that places most of the burden on individual states effectively mandates 50 separate universal service programs. GSA concurs with JSI's observations concerning these limitations.

In addition, JSI explains that the 25–75 split fails to exploit a unique opportunity to create a Federal–State partnership in promoting universal service, and may actually create a point of contention between regulators for the respective jurisdictions.[30] GSA also agrees with this point. On the other hand, as GSA has explained, it is possible to solidify a Federal–State partnership through combined efforts in implementing procedures for assigning the costs associated with access to the local public switched network to a discrete category with joint regulatory surveillance.[31]

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29 *Id.*, p. 5.

30 *Id.*, p. 6.

31 CC Docket No. 80–286, Comments of GSA, pp. 2–3 and 11–12.

V. CONCLUSION

As a major user of telecommunications services, GSA urges the Commission to adopt the positions set forth in these comments.

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