Before the
FEDERAL COMMUNICATIONS COMMISSION
Washington, D.C.

In the Matter of	)	
	)	
Proposed Revision of Maximum Collection Amounts For Schools and Libraries and Rural Health Care Providers, Public Notice	)	CC Docket No. 96-45 DA 98-872
	)	

COMMENTS OF BELL ATLANTIC

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Table of Contents

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COMMENTS OF BELL ATLANTIC[1]

Bell Atlantic supports the Commission's proposed 1998 funding level for schools and libraries universal service support. The Commission is wrong to assume, however, that by setting 1998 schools and libraries funding at the same level as expected access reductions, long distance carriers will hold prices constant. Moreover, it would be a violation of the Act for the Commission to link future access rate changes to the need for future universal service fund growth.

I. The Commission's Proposed 1998 Funding Level Is Reasonable

The Commission's proposal to provide up to $1.67 billion to fund schools and libraries during calendar year 1998 is reasonable, and should be adopted. This is so for three reasons.

First, the funding proposed by the Commission is consistent with the expectation of the parties (including representatives of the educational community) at the time the schools

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[1] The Bell Atlantic telephone companies ("Bell Atlantic") are Bell Atlantic-Delaware, Inc.; Bell Atlantic-Maryland, Inc.; Bell Atlantic-New Jersey, Inc.; Bell Atlantic-Pennsylvania, Inc.; Bell Atlantic-Virginia, Inc.; Bell Atlantic-Washington, D.C., Inc.; Bell Atlantic-West Virginia, Inc.; New York Telephone Company; and New England Telephone and Telegraph Company.

and libraries fund was established. In fact, an agreement between a "broad-based education coalition" and key members of the industry who supported schools and libraries (including both Bell Atlantic and the former NYNEX) expressly contemplated that funding during calendar year 1998 would go up to approximately $1.7 billion.[2] It also is consistent with the expectations of the key sponsors of the schools and libraries provisions of the 1996 Act, who supported the agreement on the grounds that funding at this level during calendar 1998 would "ensure an effective implementation" of these provisions.[3] As a result, the Commission's proposal here is fully consistent with the views expressed by the proponents of the schools and libraries fund.

Second, many of the current applications request support not for ongoing expenses to purchase services, but for infrastructure investments that will provide benefits for years to come. It is eminently reasonable to fund theses types of long term investments over some reasonable period of time rather than all during the first year.

According to the Commission, more than 60% of the estimated $2 billion in current applications for support (or approximately $1.3 billion) are for "internal connections." *Report in Response to Senate Bill 1768 and Conference Report on H.R. 3579*, Report to Congress, Attachment D – Funding Request Analysis (rel. May 8, 1998) ("Report to Congress"). Unlike the requests for support to pay for discounts on eligible services, these

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2 *See* Letter from Senators Snow and Rockefeller to Reed Hundt (May 2, 1997) citing agreement of a "broad based education coalition" to a funding arrangement that would fund the schools and libraries program for the first year at a level of approximately $1.7 billion for the year.

3 *See Id.*

requests to support investments in school wiring are one time investment costs (rather than expenses that will continue to be incurred year after year), and likely represent an initial bubble of demand that may drop in future years. Under these circumstances, it makes good policy sense for the Commission to avoid translating that bubble in demand into consumer's rates by trying to fund the investment all in one year, and instead to respond to the demand over time. Indeed, to the extent that some schools do not receive funding for the full amount of the investment dollars they have applied for during the 1998 calendar year, they will be able to apply as early as July of 1998 for funding during the second half of the upcoming school year (that is, for the spring semester in 1999).[4]

Third, the level of funding proposed by the Commission is consistent with its commitment to provide "the greatest level of support to the most economically disadvantaged schools and libraries." Notice at 4. Funding at the $1.67 billion level for the first year will provide full funding for all schools and libraries that qualify for discounts of 60% or more, with additional amounts to begin funding those schools and libraries that are relatively less disadvantaged. There is no compelling need to burden consumers with funding beyond that level at this time.

II. Access Rates Cannot Be Tied To Universal Service Funding Needs

Whatever level the Commission decides for current and future universal service funding for schools and libraries, any link between access price changes and universal service funding levels cannot dictate or even influence the level of future access price

[4] Given that it will take a period of time between grant approval and actual installation, this delay may be inevitable regardless of funding availability.

changes. Future access price changes will be based on the workings of the price cap formula (inflation less a productivity offset) as well as competitive pressure on prices for individual access services. The Commission's market-based approach to regulation, including price caps, will put downward pressure on access rates. The Commission could not, however, lawfully impose *additional* cuts on access as a device to fund universal service. Among other things, any attempt to do so would be inconsistent with the Act's mandate that specific support mechanisms for universal service be funded through "equitable" and "nondiscriminatory" contributions from *all* providers of telecommunications services. 47 U.S.C. § 254(b)(4). Any additional reduction in access would serve as a hidden universal service tax that would fall exclusively on local carriers. That is not what the Act allows, and is inconsistent with the Commission's own objective of competitive neutrality.

III. Long Distance Carriers Will Use The Upcoming Access Rate Reduction To Line Their Pockets, Just As They Have Done In The Past

In calculating the proposed $1.67 billion 1998 funding level, the Commission determined the amount that universal service costs could increase "without increasing total access and universal service payment by long distance carriers." Report to Congress at ¶ 26. The notice suggests that linking the universal service funding level with the amount of access charge reductions will "minimize disruption to consumers." Implicit in this suggestion is the assumption that if long distance carriers face new federal charges and offsetting access reductions, they will not increase their prices. Past experience has shown such an assumption to be wrong.

Most recently, in January, the large long distance carriers faced almost the identical situation and they responded uniformly with price increases. The January changes included adjustments in how universal service support was assessed, as well as a restructure of access rates. "Increases in contributions for universal service support were offset by reductions in interstate access charges." Letter from Chairman William E. Kennard to The Honorable Thomas J. Bliley, Jr. (May 7, 1998)(attached to Report to Congress as Attachment E). Despite the clear conclusion that there was "no regulatory justification for any rate increases" as a result of those changes, long distance carriers have instituted multiple new charges which they attributed to universal service and access reform. *Id.* Moreover -- despite a direct request from the Chairman -- AT&T, MCI and Sprint were unable to document offsetting price reductions in their per-minute rates.[5]

Thus, while the Commission's proposal to fund schools and libraries universal service at $1.67 billion is reasonable, it offers no guarantee as to how that cost will be reflected in long distance carriers' prices.

[5] The long distance carriers instead pointed to reductions in their undisclosed calculation of average revenue per-minute. But given the migration of some customers from basic service rates to discount plans, it is entirely possible that a long distance carrier could have *raised* the price of every service while its average revenue per minute could still have fallen. *See* Affidavit of William E. Taylor at ¶ 5 (attached as Exhibit 2 to Opposition of Bell Atlantic, *MCI Telecommunications Corp. Petition for Prescription of Tariffs Implementing Access Reform*, CCB/CPD 98-12 (filed Mar. 18, 1998)).

Conclusion

The Commission proposes funding at an appropriate level for 1998, but the Commission should not link future demand for schools and libraries funding with access rate levels.

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CERTIFICATE OF SERVICE

I hereby certify that on this 22nd day of May, 1998 a copy of the foregoing "Comments of Bell Atlantic" was served on the parties on the attached list and that an exact copy of this Comment was filed electronically via the Internet.

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