both interstate and intrastate revenues, but is in no way regulating the rates and conditions of intrastate service.

207. Further, section 254's express directive that universal service mechanisms be "sufficient" ameliorates any section 2(b) concerns. As a rule of statutory construction, section 2(b) only is implicated where the competing statutory provision is ambiguous.[481] As discussed above, section 254 unambiguously establishes that the services to be supported have intrastate as well as interstate characteristics and permits the Commission to establish regulations implementing federal support mechanisms for the supported intrastate services.

208. Moreover, various provisions of section 254, some of which are discussed above, have blurred the traditional distinction between the interstate and intrastate jurisdictional spheres. For example, although section 254 establishes a federal-state partnership, it grants the Commission primary responsibility for defining the parameters of universal service, and for ensuring that universal service mechanisms are "specific, predictable, and sufficient" to meet the statutory goal of "just, reasonable, and affordable rates." Indeed, section 254 envisions that the Commission would not be bound by the prior system of universal service mechanisms, which was based on the traditional jurisdictional spheres.[482]

209. For all of the foregoing reasons, we concur with the Commission's earlier conclusion that section 254 of the 1996 Act grants the Commission the authority to assess contributions to universal service support mechanisms from intrastate as well as interstate revenues and to refer carriers to seek state (and not federal) authorization to recover a portion of the contribution in intrastate rates, although the Commission has not exercised this authority. We note that this issue is the subject of pending petitions for reconsideration which we will address in a forthcoming order. Further, we have previously expressed willingness to work with states and we affirm that commitment.[483]

b. Revenue Base For, and Recovery of, Contributions to Support Mechanisms for Eligible Schools, Libraries and Rural Health Care Providers

210. Initially, we note that few parties commented on the issues of the assessment and recovery of contributions to the support mechanism for eligible schools, libraries and rural

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[481] *See Universal Service Order*, 12 FCC Rcd at 9196, para. 822 n.2094 *citing* 47 U.S.C. § 601.

[482] *See* Joint Explanatory Statement at 131 (indicating against reliance on current methodologies by stating that support mechanisms should be "explicit, rather than implicit as many support mechanisms are today."); Senate Report on S. 652 (stating that "the bill does not presume that any particular existing mechanism for universal service support must be maintained or discontinued").

[483] See, eg. *Universal Service Order*, 12 FCC Rcd at 9191, para. 809.

health care providers.[484] After consideration of these important issues, we conclude that the Commission's decisions are consistent with the letter and spirit of the 1996 Act.

211. Assessment. With respect to the assessment of contributions, we conclude it was reasonable for the Commission to adopt the Joint Board's recommendation that "universal support mechanisms for schools and libraries and rural health care providers be funded by contributions based on both the intrastate and interstate revenues of providers of interstate telecommunications services."[485] As the Commission concluded in the *Universal Service Order*, this approach is reasonable in light of the fact that the schools, libraries, and rural health care mechanisms are "new, unique support mechanisms that have not historically been supported through a universal service funding mechanism."[486]

212. Recovery. Similarly, we reaffirm the Commission's decision to permit carriers to recover contributions for the support mechanisms for eligible schools, libraries, and rural health care providers solely via rates for interstate services.[487] Limiting recovery to the interstate jurisdiction for the support mechanism for the schools, libraries and rural health care providers will ameliorate the concern that carriers would recover the portion of their intrastate contributions attributable to intrastate services through increases in rates for basic residential dialtone service. The Commission's approach is consistent with the affordability principle contained in section 254(b)(1).[488] Additionally, we are persuaded that the Commission's approach minimizes any perceived jurisdictional difficulties under section 2(b) because carriers are not required to seek state authorizations to recover contributions attributable to intrastate revenues.[489] Therefore, we find that permitting recovery of contributions for the support mechanisms for eligible schools, libraries, and rural health care providers solely via rates for interstate services is consistent with section 254.[490]

c. Revenue Base For, and Recovery of, Contributions to Support Mechanisms for High Cost Areas and Low Income Consumers

213. Assessment. As stated above, the Commission declined to exercise its authority to assess contributions to the high cost and low income support mechanisms on both intrastate

[484] TDS comments at 10 (supporting the decision to use total, unseparated interstate and intrastate end user revenues as the basis for support contributions designed to benefit schools, libraries and rural health care providers).

[485] *Universal Service Order*, 12 FCC Rcd at 9203, para. 837 *citing Recommended Decision*, 12 FCC Rcd at 499, para. 817.

[486] *Id.* at 9203, para. 837.

[487] *Id.* at 9203, para. 838.

[488] *Id.* at 9203, para. 838.

[489] *Id.* at 9204, para. 839.

[490] *Id.* at 9203-9204, paras. 838-840.

and interstate revenues. Instead, the Commission elected to base those contributions solely on interstate revenues.[491] We find that the Commission's decision was reasonable and appropriate in light of the statutory goals.

214. In its *Recommended Decision*, the Joint Board concluded that the "decision as to whether intrastate revenues should be used to support the high cost and low income assistance programs should be coordinated with the establishment of the scope and magnitude of the proxy-based fund, as well as with state universal service support mechanisms."[492] Thus, the Joint Board did not submit a recommendation as to whether intrastate revenues should be used to support the high cost and low income mechanisms.[493] Rather, as the Commission noted in the *Universal Service Order*, the Joint Board's analysis essentially concluded that the determination of whether contributions should be based on intrastate as well as interstate revenues should be coordinated with the implementation of an appropriate forward-looking economic cost mechanism and revenue benchmark.[494] Because the mechanism and benchmark were not established, and therefore, the total amount of support requirement was unknown, it would have been premature for the Commission to assess contributions on intrastate as well as interstate revenues.

215. In addition, shortly before the *Universal Service Order* was issued, the state members of the Joint Board filed a report in which the majority recommended that the Commission assess contributions for all support mechanisms on intrastate and interstate revenues.[495] The majority report also supported the Commission's approach to assessing only interstate revenues for the high cost and low income support mechanisms on an interim basis until a forward-looking economic cost methodology is developed.[496] Accordingly, the Commission's decision to base contributions to the high cost and low-income support mechanisms solely on interstate revenues was consistent with the Majority State Members' report.

216. Indeed, by declining to base those contributions on intrastate revenues, the Commission promoted comity between the federal and state regulators, and allowed the state commissions to continue to work together to reach consensus on this issue. Because we are still in the process of adopting a forward-looking economic cost mechanism and a revenue benchmark, we conclude that assessing contributions on interstate revenues alone, at least until

[491] *Id.* at 9200, para. 831.

[492] *Recommended Decision*, 12 FCC Rcd at 499, para. 817.

[493] *Universal Service Order*, 12 FCC Rcd at 9198, para 824.

[494] *Id.* at 9200, para. 832 *citing* Recommended Decision, 12 FCC Rcd at 501, para. 821.

[495] *Majority Opinion of the State Members of the Joint Board on the Funding of Universal Service*, filed April 23, 1997 ("Majority State Members' Report").

[496] Majority State Members' Report.

a unified federal-state approach is developed for the high cost and low-income support mechanisms, is consistent with the public interest.

217. We note that some commenters raise related issues on which the Commission continues to deliberate. For example, members of the wireless industry are concerned about the difficulty of distinguishing their interstate revenues from their intrastate revenues, given the mobile nature of wireless technologies, the inability to determine precisely the point of origin of calls, and the difficulty of matching phone numbers with points of origin.[497] Wireless carriers have also raised issues regarding revenue reporting requirements,[498] including issues perceived to be particular to their industry concerning itemizing roaming revenues, special resale issues, bundled offerings, and fraud-related uncollectibles.[499] We also note that wireless providers have challenged state decisions that they should be subject to state universal service mechanisms.[500] These are difficult issues, and we are committed to working with the wireless industry and the state commissions to resolve these issues.[501]

218. Recovery. For similar reasons, we conclude that it is appropriate to allow carriers to recover contributions to the support mechanisms for high cost areas and low-income consumers through rates for interstate services only. The Joint Board concluded that the "role of complementary state and federal universal service mechanisms require[d] further reflection," but did not address the issue of the recovery of these contributions. Accordingly, we reaffirm the conclusion that this approach to recovery promotes comity between the federal and state governments because it allows the Commission and the states to develop compatible universal service mechanisms. This approach also promotes the statutory goal of affordable basic residential service because it avoids a blanket increase in charges for basic residential dialtone service. We find that it is reasonable and in the public interest to maintain, for the present time, the historical approach to recovering universal service support contributions for high cost areas and low-income consumers. We note, however, that the Commission concluded in its *Fourth Order on Reconsideration* that CMRS providers may recover their universal service contributions through rates charged for all services.[502] The Commission concluded that the reasons that generally warrant permitting contributors to

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[497] *See, e.g.*, Comcast comments at 10-11; CTIA comments at 2-3; PCIA comments at 14; Vanguard comments at 6; Nextel reply comments at 5.

[498] Some wireless providers are concerned that the Commission's "good faith" estimation process will result in competitive inequities. *See, e.g.*, Comcast comments at 11-15; CTIA comments at 3; Comcast reply comments at 7. *See also Order on Reconsideration, Second Report and Order, and Further Notice of Proposed Rulemaking*, CC Docket No. 97-21 and No. 96-45 at para. 21 (rel. August 15, 1997).

[499] *See, e.g.*, CTIA comments at 2; Comcast comments at 11-12; PCIA comments at 13-16.

[500] *See Cellular Telecommunications Industry Association v. FCC, et al.*, Case No. 97-160 and consolidated cases.

[501] We note that these issues are before the Commission on reconsideration and we do not wish to prejudge those petitions.

[502] *Fourth Order on Reconsideration* at para. 309.

recover contributions to the federal universal service mechansisms through rates on interstate services, such as ensuring the the continued affordability of residential dialtone services and promoting comity between the federal and state governments, do not apply to CMRS providers.[503]

B. Percentage of Federal Funding

219. As noted above, the Commission is responsible for ensuring that there are specific, predictable, and sufficient federal and state mechanisms to preserve and advance universal service. Upon further review, we conclude that a strict, across-the-board rule that provides 25 percent of unseparated high cost support to the larger LECs may have the result of withdrawing some federal explicit universal service support from some areas. The Commission will work to ensure that states do not receive less funding as we implement the high cost support mechanisms under the 1996 Act. We find that no state should receive less federal high cost assistance than it currently receives. We emphasize again that the following discussion concerns only non-rural local exchange carriers. High cost support for rural carriers will continue to be provided in accordance with the plan adopted in the *Universal Service Order*, which contemplates no changes earlier than January 1, 2001.

1. Background

220. Section 254(b)(5) establishes the principle that "[t]here should be specific, predictable and sufficient Federal and State mechanisms to preserve and advance universal service."[504] Additionally, section 254(i) provides that "the Commission and the States should ensure that universal service is available at rates that are just, reasonable and affordable."[505] The Commission has stated that section 254 continues the historical partnership between the federal and state jurisdictions in advancing and preserving universal service mechanisms.[506] Similarly, the Joint Board stated in its *Recommended Decision* that the 1996 Act "reflects the continued partnership among the states and the Commission in preserving and advancing universal service.[507]

221. The Commission, in its *Universal Service Order*, decided initially to fund 25 percent of the difference between a carrier's forward-looking economic cost of providing

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[503] *Fourth Order on Reconsideration* at para. 309 ("Because section 332(c)(3) of the Act alters the 'traditional' federal-state relationship with respect to CMRS by prohibiting states from regulating rates for intrastate commercial mobile services, allowing recovery through rates on intrastate as well as interstate CMRS services would not encroach on state prerogatives. Further, allowing recovery of universal service contributions through rates on all CMRS services will avoid conferring a competitive advantage on CMRS providers that offer more interstate than intrastate services.").

[504] 47 U.S.C. § 254(b)(5).

[505] 47 U.S.C. § 254(i).

[506] *Universal Service Order*, 12 FCC Rcd at 9194, para. 818.

[507] *Id.* at 9189, para. 806 *citing Recommended Decision*, 12 FCC Rcd at 500, para. 819.

ATTACHMENT B

USAC
UNIVERSAL SERVICE
ADMINISTRATIVE CO.

100 South Jefferson Road
Whippany, NJ 07981

Ed English, Secretary & Treasurer
(973) 884-8074 Fax: (973) 884-8262
E-mail: eenglis@neca.org

May 8, 1998

Chairman William E. Kennard
Federal Communications Commission
1919 M Street, N.W. - Room 802
Washington, D.C. 20554

Dear Chairman Kennard:

At the request of Commission staff, USAC is providing an accounting, as of April 21, 1998, of the total contributions to the universal service fund that are available for use to support the schools and libraries program for the second quarter of 1998, and an accounting of the amount of the contribution that USAC expects to receive from (i) incumbent local exchange carriers; (ii) interexchange carriers; (iii) information service providers; (iv) commercial mobile radio service providers; and (v) other providers.

Please contact me if you have any questions or if you require any additional information.

Sincerely,

Robert Haga for

Ed English

Attachment

ATTACHMENT A

FUNDS AVAILABLE FOR SECOND QUARTER 1998
FOR SCHOOLS & LIBRARIES SUPPORT MECHANISM
(amounts stated in thousands)

FUNDS AVAILABLE FROM 1Q98 S&L MECHANISM **$ 298,773** [1]

PROJECTED FUNDS AVAILABLE FOR 2Q98 S&L MECHANISM **$ 619,076** [1]

CONTRIBUTIONS TO SCHOOLS AND LIBRARIES BY CARRIER TYPE: [2]

CXR Type [3]		Jan 1998	Feb 1998	Mar 1998	Apr 1998	May 1998	June 1998
LEC	Collections	29,151	29,094	29,134			
	Projected Collections			146	30,469	30,469	30,469
IXC	Collections	43,179	43,057	40,899			
	Projected Collections			2,781	45,454	45,454	45,454
CMRS	Collections	14,120	14,120	14,066			
	Projected Collections			118	14,759	14,759	14,759
All Others	Collections	14,679	14,283	12,839			
	Projected Collections			2,574	16,052	16,052	16,052
	Total Collections:	101,129	100,554	96,938			
	Projected Collections:			5,619	106,734	106,734	106,734

NOTES:

1 - Adjusted for bankrupts, late payers, late charges, projected administrative expenses, and interest.
2 - Not adjusted for bankrupts, late payers, late charges, projected administrative expenses, and interest.
3 - Information Service Providers (ISPs) currently are not required to contribute directly to the Universal Service. The amount of ISPs indirect contribution is not specifically represented here.

ATTACHMENT C

SLC
SCHOOLS AND LIBRARIES CORPORATION

1023 15th Street, N.W.
Suite 200
Washington, DC 20005
Phone: 202-289-2663
Fax: 202-289-7836

Ira Fishman
Chief Executive Officer

May 1, 1998

Honorable Magalie Roman Salas
Secretary
Federal Communications Commission
1919 M Street, NW
Washington, DC 20054

RE: Schools and Libraries Corporation
Fund Size Requirements for Third Quarter 1998
CC Docket Nos. 96-45, 97-21

Dear Secretary Salas:

In accordance with 47 C.F.R. § 54.709(a)(3), enclosed are the original and four (4) copies of the Third Quarter 1998 Fund Size Requirements for the Schools and Libraries Universal Service Program.

Acknowledgment and date of receipt of this letter is requested. A duplicate copy has been provided for that purpose.

Respectfully submitted,

Ira Fishman
Chief Executive Officer

Enclosure

Board of Directors

Kathleen "K. G." Ouye, Chair, Schools & Libraries Corporation; City Librarian, San Mateo Public Library

Henry R. Marockie, Ed.D., Vice Chair, Schools & Libraries Corporation; Council of Chief State School Officers; State Superintendent of Schools, West Virginia Department of Education

Kenneth D. Brody, Managing Partner, Winslow Partners, LLC

Anne L. Bryant, Executive Director, National School Boards Association (NSBA)

Ira Fishman, Chief Executive Officer, Schools & Libraries Corporation

Frank J. Gumper, Vice President, Long Range Public Policy, Bell Atlantic

Brian L. Talbott, Ph.D., Executive Director, American Association of Educational Service Agencies; Superintendent, Educational Service District 101

Before the
FEDERAL COMMUNICATIONS COMMISSION
Washington, D.C. 20554

Schools and Libraries Fund
Fund Size Requirements for Third Quarter 1998
CC Docket Nos. 96-45, 97-21

I. Introduction

The Schools and Libraries Corporation (SLC or Corporation) hereby submits this filing in accordance with section 54.709(a)(3) of the Federal Communications Commission's (FCC or Commission) rules.[1] This filing details fund size requirements for Third Quarter 1998 for the Schools and Libraries Fund.

II. Schools and Libraries Fund

The Commission's May 7, 1997, Universal Service Order[2] outlined a plan to ensure that all eligible schools, libraries[3] and rural health care providers have affordable connections to the global telecommunications network. The plan created a fund to provide telecommunications services and to wire schools and libraries for access to the Internet. Pursuant to the Commission's rules,[4] this fund is capped at $2.25 billion per

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[1] 47 C.F.R. § 54.709 (a)(3).

[2] Federal-State Joint Board on Universal Service, CC Docket No. 96-45, *Report and Order*, 12 FCC Rcd 8776 (1997) (Universal Service Order).

[3] The term "school" includes individual schools, school districts, and consortia of schools and/or school districts. The term "library" includes individual library branches, library facilities, library systems, and library consortia.

[4] *See* 47 C.F.R. § 54.507(a).

funding year. The Commission appointed the National Exchange Carrier Association (NECA) to temporarily administer, through an independent, non-profit subsidiary, billing and collection for support mechanisms which will fund the universal service programs. The Commission ordered NECA to incorporate an independent, non-profit subsidiary to perform these duties, Universal Service Administrative Company (USAC), and two, non-profit, unaffiliated corporations, the Schools and Libraries Corporation and the Rural Health Care Corporation (RHCC).

USAC will administer, temporarily, the universal service support mechanisms for high cost areas and low-income consumers, as well as billing, collection and disbursement functions for schools, libraries and rural health care providers. The SLC will provide all other functions for the schools and libraries program, such as administering the application process, creating and maintaining a Web Site to post services requested applications, and performing outreach and public education.

III. Projected Demand

The SLC has undertaken a statistically valid sampling of applications filed for the 1998 Funding Year in order to project the total amount of discounts requested in those applications. There is a 95 percent confidence level that the projection of total requests is within 5 percent of the actual total requests in the more than 30,000 applications that have been received. Based upon the analysis of this sample, we project that $2.02 billion in discounts have been requested by applicants who have filed through April 28th.

IV. Estimates of SLC Expenses

A. Third Quarter 1998

In the Third Quarter of 1998, the SLC will begin processing the second round of applications -- for Funding Year 1999. Expenses for the SLC staff itself will be lower than the Second Quarter estimate because staffing remains below earlier budget projections. Start-up costs also will be lower as the largest initial phase of Web Site development and formulation of operating procedures will be completed in the Second Quarter. On the other hand, other contractor costs will be higher than the January Second Quarter estimate because the SLC will be processing both 1998 vendor invoices and 1999 funding applications.

There are some significant assumptions underlying our expense estimates. They include the following:

- a total of about 50,000 FCC Forms 470 for 1999 funding filed in the Third Quarter, with 10 percent filed on paper,
- no significant volume of FCC Forms 471 processed in the Third Quarter,
- about 75,000 FCC Forms 486 and 500,000 invoices filed for Funding Year 1998, and
- the volume of calls to the Client Service Bureau is down from the Second Quarter due to a better informed client base and the availability of more detailed filing guidance.

With these assumptions, expenses and interest income for the Third Quarter 1998 are estimated as follows (amounts in millions):

3Q 1998 Expenses	\$4.2
Expenses from USAC	.2
Interest Income	- 0[5]
Total	\$4.4

[5] Interest earned in the Third Quarter will depend on the size of collections and on the amount and rate of disbursements in July. Therefore, this represents a very conservative assumption.

As noted above, the SLC will be supporting two complete application cycles in 1998 – for Funding Years 1998 and 1999. The Web Site opened for applications for 1998 funding on January 30, 1998, and the 75-day window closed on April 15. Applications can continue to be filed after the close of the window, but we are seeing a significant decline in the volume of applications for 1998 funding since the close of the window. On July 1, 1998, we will begin receiving applications for funding for 1999. We expect to have funding commitments made before December 31, 1998 for 1999 funding requests for those who file within the first three to four months after July 1. Therefore, our Client Service Bureau will handle a new round of questions for 1999 later this year, as well as data entry for 1999 applications. Our Program Integrity Assurance unit is beginning pre-commitment review now of applications for 1998 funding and will begin review of applications for 1999 funding in the fall of 1998.

We have analyzed how our estimated Third Quarter expenses split out between support for the 1998 Funding Year and the 1999 Funding Year. We estimate that 35 percent of the $4.2 million we project to need for expenses in the Third Quarter will be for 1998 Funding Year-related activities and 65 percent for 1999 Funding Year. That proportion will be even more heavily weighted to Funding Year 1999 in the Fourth Quarter, and, of course, there will be additional costs for funding 1999 next year.

Exhibit 1 shows more detail behind the Third Quarter estimate.

B. Prior Period Adjustment

In the First Quarter 1998 filing that NECA did on SLC's behalf, there was an estimate of $564,000 for start-up expenses for 1997 to be paid to NECA in that quarter. The actual payment was $1.86 million. That filing also estimated SLC's First Quarter

1998 expenses at $1.942 million. As we explained in our Second Quarter filing, NECA produced the First Quarter estimate (and the 1997 expenses as well) without a good sense of the likely demand for the program and without a detailed plan for program implementation. We are reviewing invoices submitted to the SLC by NECA and will provide final First Quarter expenses in a supplementary filing.

V. Next Filing

Pursuant to the Commission's rules,[6] the next filing will be on or before August 1, 1998.

Respectfully submitted,

Ira Fishman
Chief Executive Officer
Schools and Libraries Corporation
1023 15th Street, N.W., Suite 200
Washington, DC 20005

May 1, 1998

[6] *See* 47 C.F.R. § 69.620(b).

Exhibit 1

Schools & Libraries Corporation
Third Quarter 1998 Budget Estimate
(Amounts in thousands)

SLC Operating	
Labor Costs	$450
Travel, Supplies, Other	100
Contingency	50
Total	$600
Non-Recurring Start-Up	$600
NECA Operating	$3,000
Total	$4,200

Expenses SLC	$4,200
Expenses from USAC	200
Interest Income SLC	(0)[7]
Total	$4,400

[7] Interest earned in the Third Quarter will depend on the size of collections and on the amount and rate of disbursements in July. Therefore, this represents a very conservative assumption.

CERTIFICATE OF SERVICE

I hereby certify that a copy of the foregoing filing was served this 1st day of May 1998, by mailing copies thereof by United States Mail, first class postage paid or by hand delivery, to the persons listed below.

By: [signature]
Matthew Harcourt
SLC

The following parties were served:

Magalie Roman Salas*
Secretary
Federal Communications Commission
1919 M Street, N.W., Room 222
Washington, D.C. 20554
(Original and four copies)

International Transcription Service (ITS)*
1231 20th Street, N.W.
Washington, D.C. 20037

Chairman William E. Kennard*
Federal Communications Commission
1919 M Street, N.W., Room 814
Washington, D.C. 20554 (2 copies)

Commissioner Susan Ness*
Federal Communications Commission
1919 M Street, N.W., Room 832
Washington, D.C. 20554 (2 copies)

Commissioner Harold Furchtgott-Roth*
Federal Communications Commission
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Commissioner Gloria Tristani*
Federal Communications Commission
1919 M Street, N.W., Room 826
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A. Richard Metzger*
Chief, Common Carrier Bureau
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Washington, D.C. 20554

Julia Johnson
Chair, Florida Public Service Commission
2540 Shumard Oak Blvd.
Gerald Gunter Building
Tallahassee, FL 32399-0850

* - Hand delivered

ATTACHMENT D

SLC
SCHOOLS AND LIBRARIES CORPORATION

1023 15th Street, N.W.
Suite 200
Washington, DC 20005
Phone: 202-289-2683
Fax: 202-289-7836

Ira Fishman
Chief Executive Officer

May 7, 1998

Chairman William E. Kennard
Federal Communications Commission
1919 M Street, N.W., Room 814
Washington, DC 20554

Dear Chairman Kennard:

Pursuant to your request. attached are the estimates requested by the Conference Report on H. R. 3579, regarding the requests for funding from schools and libraries. The estimates are based on the applications received as of April 28, 1998 in order to give as complete a projection as possible. The estimates are disaggregated by the eligible services and facilities and by discount level.

The overall projection of $2.02 billion filed last week was based upon a statistical sampling that has a confidence level of 95% with a +/- 5% margin of error. The enclosed estimates of course are less precise because each item on the matrix is based on a subset of the overall sampling. If you have any questions, please do not hesitate to contact me.

Respectfully Submitted,

Ira Fishman
Chief Executive Officer

Board of Directors

[illegible]

Henry R. Marockie, Ed.D.
Vice Chair
Schools & Libraries Corporation
Council of Chief State School Officers
State Superintendent of Schools
West Virginia Department of Education

Kenneth D. Brody
Managing Partner
Winslow Partners, LLC

Anne L. Bryant
Executive Director
National Schools Boards Association
(NSBA)

Ira Fishman
Chief Executive Officer
Schools & Libraries Corporation

Frank J. Gumper
Vice President
Long Range Public Policy
Bell Atlantic

Brian L. Talbott, Ph.D.
Executive Director
American Association of Educational Service Agencies
Superintendent Educational Service District 101

Funding Request Analysis
May 5, 1998

Disc. Range	Telecomm & Dedicated Serv. Post Disc. Sample	Telecomm & Dedicated Serv. Post Disc. @ 30,758 apps.	Internet Access Post Disc. Sample	Internet Access Post Disc. @ 30,758 apps.	Internal Connections Post Disc. Sample	Internal Connections Post Disc. @ 30,758 apps.	TOTAL Post Disc. Sample	TOTAL Post Disc. @ 30,758 apps.
20 - 24%	$ 396,700	$ 1,337,655	$ 46,316	$ 156,174	$ 731,941	$ 2,468,073	$ 1,174,958	$ 3,961,902
25 - 39%	$ 600,061	$ 2,023,347	$ 30,242	$ 101,975	$ 199,647	$ 673,201	$ 829,940	$ 2,798,523
40 - 49%	$ 25,557,123	$ 86,177,543	$ 3,262,658	$ 11,001,544	$ 36,195,410	$ 122,049,400	$ 65,015,191	$ 219,228,487
50 - 59%	$ 26,213,435	$ 88,390,598	$ 4,364,765	$ 14,717,803	$ 37,856,042	$ 127,648,979	$ 68,434,241	$ 230,757,380
60 - 69%	$ 31,410,926	$ 105,916,327	$ 5,510,168	$ 18,580,056	$ 49,383,728	$ 166,519,852	$ 86,304,824	$ 291,016,235
70 - 79%	$ 20,740,794	$ 69,937,086	$ 4,695,639	$ 15,833,498	$ 34,056,246	$ 114,836,227	$ 59,492,679	$ 200,606,809
80 - 89%	$ 60,140,147	$ 202,790,045	$ 6,430,103	$ 21,682,035	$ 140,610,395	$ 474,132,333	$ 207,180,645	$ 698,604,413
90%	$ 29,394,026	$ 99,115,419	$ 1,819,481	$ 6,135,214	$ 79,203,776	$ 267,071,806	$ 110,417,285	$ 372,322,438
							$ -	
Total	$ 194,483,284	$ [illegible]	$ 26,160,371	$ 88,208,200	$ 378,237,188	$ 1,275,398,870	$ 598,848,762	$ 2,019,298,189

ATTACHMENT E

FEDERAL COMMUNICATIONS COMMISSION
WASHINGTON

OFFICE OF
THE CHAIRMAN

May 7, 1998

The Honorable Thomas J. Bliley, Jr.
Chairman
Committee on Commerce
U.S. House of Representatives
2125 Rayburn House Office Building
Washington, D.C. 20515

Dear Mr. Chairman:

I am writing to respond to your request for a review of the impact on telephone ratepayers of the Commission's implementation of the universal service support mechanisms contained in the Telecommunications Act of 1996 ("the 1996 Act"), as to the changes that took effect January 1, 1998 through the first six months of the year.

As the following analysis by the Common Carrier Bureau and the Wireless Telecommunications Bureau shows, we have found that the changes in universal service support that were implemented January 1, 1998, did not increase the overall costs of long-distance carriers or the costs that local telephone companies need to collect in local rates. We are continuing our analysis of interstate long-distance rates to determine whether long-distance carrier rates have fully reflected the access charge reductions this Commission ordered to take effect on that date. For CMRS customers, we are finding that consumers have been seeing, and are continuing to see, reductions in prices even though the 1996 Act required for the first time that wireless carriers contribute to the support of universal service.

Long Distance Carriers:

Detailed analysis of the changes that took effect January 1, 1998 -- the charges that the interstate long-distance industry pays to local telephone companies and to support universal service -- shows no increase in long-distance carrier costs. Even taking the broadest view of universal service contributions by long-distance carriers, we find that increases in contributions for universal service support were offset by reductions in interstate access charges. As set out in the attached table, using projected 1998 demand and first quarter 1998 contribution factors, we conclude that IXC annual contributions to the new universal service mechanisms for 1998 should total approximately $2.406 billion. At the same time, we find that, using projected 1998 demand, access charge costs to IXCs decreased by approximately $1.46 billion annually as of January 1, 1998. In addition, starting January 1, 1998, IXCs no longer had to contribute $0.53 per line to the former universal service fund that provided low-income and high-cost support, saving them an additional $980 million in 1998. The total IXC cost reductions from these two sources total $2.44 billion. Thus, while there were significant changes to the structure of the interstate access charges and universal service costs on

January 1, 1998, the overall cost of these two items to IXCs did not increase on January 1, 1998. Therefore, we see no need for overall long-distance carrier rate increases as the result of these universal service changes.

As you may know, we are currently analyzing whether long-distance carriers have reflected these changes in their rates to end users. A number of long-distance carriers have decided to levy new line items on customer bills over the past few months. These decisions were made by the carriers themselves. As explained above, there was no overall cost increase on January 1 to long-distance carriers and therefore no regulatory justification for any rate increases. IXCs have asserted that new billing line items have been offset by reductions in per-minute toll calling rates. Because the long-distance market is competitive and the Commission, therefore, does not regulate long-distance rates, the Commission currently does not have sufficiently detailed data to verify these claims. On February 26 , 1998, I sent letters to the three major long-distance carriers seeking a response to claims that they have not flowed through access charge reductions to their consumers but have increased their overall rates. We have received responses from those carriers, and we are in the process of evaluating the extent to which they have in fact flowed through access charge reductions.

In addition, as shown on the attached chart, the Commission's access reform decisions reduced IXC common line access charges as of January 1, 1998, by $815 million annually. These decisions have reduced implicit subsidies and facilitated the development of competition by aligning certain common line rates with the manner in which LECs incur the costs of providing service. Specifically, the Commission has reduced the subsidy for non-primary residential and multi-line business lines by identifying additional costs that should be recovered through flat-rate charges instead of through per-minute charges, and by raising the ceiling on flat-rate charges that end users pay for these lines. These changes eliminate some of the implicit subsidies that were present in the old access charge regime and have reduced long-distance carrier access bills substantially.

Local Exchange Carriers:

The various universal service changes implemented January 1, 1998, should have had no effect on local exchange rates, which are regulated by state public service commissions. Those changes did not reduce the amount of federal high-cost support that local telephone companies have been receiving for their customers. The major changes instead affected the manner in which such support has been collected, expanding the pool of contributors from just interstate long-distance carriers to all interstate telecommunications carriers.

CMRS Carriers:

CMRS carriers' costs have declined in recent years. And, as competition increases, we have seen the rates that CMRS customers decline as well. As a result, CMRS customers pay less for service today than they did even one year ago, notwithstanding wireless carriers' new universal service obligations.

Since passage of the 1996 Act, cellular carriers have taken advantage of its provisions to renegotiate their existing interconnection agreements with incumbent LECs, and new broadband PCS entrants have been able to reach interconnection agreements for the first time. Most of these interconnection agreements have been negotiated on a voluntary basis, but in many cases the parties have had to resort to arbitration. Many of the agreements, whether voluntary or arbitrated, are in effect pending final State cost decisions.

The charges in these new agreements that CMRS providers pay to local telephone carriers to terminate calls to customers on the wireline network, known as Transport and Termination (T&T) rates, are much lower and more cost-based than pre-Act rates. T&T rates now average about .8 cents per minute for the most common type of LEC-CMRS interconnection. Prior to passage of the 1996 Act, wireless carriers paid an average rate of approximately 3 cents per minute to LECs for the completion of mobile-to-wireline calls. Moreover, T&T arrangements at that time also typically provided for no payments from LECs to wireless carriers for the costs of terminating wireline-to-mobile calls.

The Wireless Telecommunications Bureau estimates that the reduction in LEC-CMRS T&T rates has thus far generated from $660 million to $900 million in annual savings for broadband CMRS carriers. The annual savings will grow in the future as total wireless minutes of use grow. Moreover, given the increasing competitiveness of the CMRS sector, the bulk of these savings should be passed on to CMRS customers.

The 1996 Act, for the first time, did impose federal universal service support obligations on all "providers of interstate telecommunications services," including wireless carriers. As a result, as of January 1, 1998, the Commission now requires wireless carriers to contribute to federal universal service support. Based on their contributions during the first half of 1998, the annual contribution of CMRS carriers should be less than $300 million. As with interstate long-distance carriers, the Commission does not regulate wireless carrier rates to consumers, including how they choose to recover their universal service contributions from their customers. Some have chosen to include those costs on customer bills, while others have not.

Our analysis of available information demonstrates, however, that CMRS customers have been seeing significant overall reductions in their rates. While we are not aware of any sources of information that track mobile telephone prices in a comprehensive and systematic manner, there are a number of reports available indicating that prices are falling substantially.

Analysts generally agree that mobile telephone prices, defined as dollars per minute of use, have declined significantly over the past few years, though they differ a bit on the reported magnitude. For example, The Robinson-Humphrey Company estimates that from

April 1997 to December 1997, the average available price of cellular service and PCS dropped 12.3% for low-end users, 28.8% for mid-level users, and 31.1% for high-end users. The Yankee Group estimates that the average price has dropped 25% in markets where at least one PCS firm has begun service. The Yankee Group also finds that the most expensive price plans in some cities are now approximately $0.50 per minute for the average customer, and that cheapest price plans in the least expensive cities are in the mid $0.20 per minute range.

New PCS entrants are typically pricing their services below the incumbent cellular operators. For example, The Robinson-Humphrey Company finds that, at the end of the December 1997, PCS prices were between 16.5% and 20.3% below their cellular competitors. The Yankee Group reports that, as of September 1997, PCS prices were averaging 20% below analog cellular in major cities where at least one PCS competitor is operating.

Finally, the Cellular Telephone Industry Association reports that the average monthly bill (as opposed to average price per minute of use) for cellular, broadband PCS, and Enhanced SMR subscribers fell 14% -- from $51.00 to $43.86 -- between December 1995 and June 1997.

Conclusion

In conclusion, Mr. Chairman, our analysis shows a continuation in the historic downward trend of overall telecommunication rates. As the Commission implements universal service under the 1996 Act, I look forward to the opportunity to talk with you personally about this issue and to assist you in any way. Thank you again for the opportunity to address your questions and concerns.

Sincerely,

William E. Kennard
Chairman