ARIZONA CORPORATION COMMISSION
STAFF'S FIRST SET OF DATA REQUESTS TO
U S WEST COMMUNICATIONS, INC.
ACC DOCKET NO. T-1051B-97-637 (Unserved Areas)
FCC DOCKET NO. 96-45; 97-160; DA 98-715
MAY 29, 1998

DS-1. Currently, are there any potential customers within the Company's exchange boundaries that do not have telephone service? If yes, how many?

DS-2. Please indicate the basis for your estimate provided in response to Question 1.

DS-3. Where are these potential customers located? List the estimated number of potential customers by wire center or exchange and by section, township and range.

DS-4. If your response to DS-1 is yes, why do these potential customers not have telephone service at the present time? Have any of these potential customers requested service at any time? If yes, please provide the names of the customers and the dates service was requested.

DS-5 For the customers listed in your response to DS-3, indicate the distance from the potential customer's location to the nearest available facilities.

DS-6. Are there any potential customers immediately outside the Company's exchange boundaries that do not have telephone service? If yes, how many?

DS-7. Please indicate the basis for your estimate provided in response to Question 6.

DS-8. Where are these potential customers located? List the estimated number of potential customers by wire center or exchange, and if possible, by section, township and range.

DS-9. If your response to DS-6 is yes, why do these potential customers, if any, not have telephone service at the present time? Have any of these potential customers requested service at any time? If yes, please provide the names of the customers and the dates service was requested.

DS-10. For the customers listed in your response to DS-8, please indicate the distance from the potential customer's location to the nearest available facilities.

DS-11. Has your Company received any complaints from potential customers regarding their inability to obtain telephone service during the last five years? Please indicate the number of complaints received by year, the nature of each complaint, and where the customer is located.

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DS-12. If your answer to DS-11 was yes, how were each of these complaints resolved? Please list all instances where the complaint is still unresolved and date the complaint was received.

DS-13. Does your Company have an approved line extension tariff on file with the Commission? If yes, please attach a copy and briefly explain how it works.

DS-14. How often in the past five years have you given estimates under your tariff to potential customers without service?

DS-15. What have those estimates been? Please provide as many individual examples as possible for the prior 10 year period. Please also indicate what your average estimate is for line extension requests you receive.

DS-16. Have all potential customers provided with these estimates been able to pay the required amount to have facilities put in place to obtain telephone service?

DS-17. If your answer to Question 16 is no, how many potential customers have been unable to pay the required amount to have facilities put in place? Please indicate per request the dollar amount which the potential customer was unable to pay, and when the request was made for the last 10 year period.

DS-18. Would any of these potential customers qualify for federal Lifeline assistance using the federal default eligibility criteria? If yes, please estimate how many would fall into this category?

DS-19. How much does the Company currently receive in Federal High Cost Funds? How much does the Company receive in Long Term Support assistance from the Federal jurisdiction? How much does the Company receive in Federal assistance from DEM Weighting?

I

NAVAJO NATION PROFILE

SO[illegible]
Division of Community Development (DCD)
Larry Rodgers, Statistician

SCHOOL ENROLLMENT (1990)

Number of persons 3 years of age and older enrolled

Preprimary	3,286	6.2%
Elementary and high school	43,795	82.2%
College	6,183	11.6%

LANGUAGE SPOKEN AT HOME (1990)

Persons 5 years of age and older

English only	22,855	17.42%
American Indian language	107,665	82.04%
Spanish	494	.38%
Asian/Pacific Islander language	79	.06%
Other language	136	.10%

NATIVITY AND PLACE OF BIRTH (1990)

Native population	151,015
Born in state of residence	126,369
Born in another state	24,537
Born outside the U. S.	109
Foreign-born	270
Entered U. S. between 1980 and 1990	171

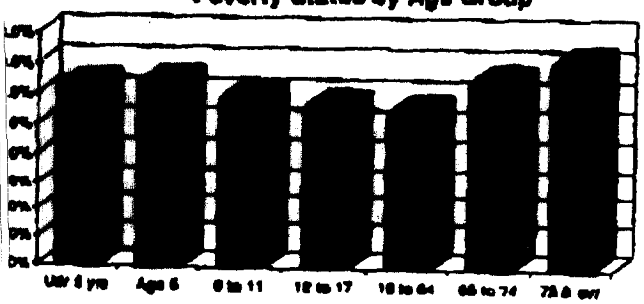
INCOME AND POVERTY STATUS: 1970 to 1990

	1970 Census	1980 Census	1990 Census
Per Capita Income	$776	$2,414	$4,106
Median Family Income	$3,084	$9,079	$11,885
Percent of Persons below the Poverty Level	64.5%	49.7%	56.1%
Percent of Families below the Poverty Level	62.1%	47.3%	57.4%

POVERTY STATUS IN 1989

Persons for status determined	150,577	
Below poverty	84,508	56.1%
Persons 18 years and over	85,824	
Below poverty	46,619	54.3%
Persons 65 years and over	8,864	
Below poverty	5,878	66.3%

Poverty Status by Age Group



VETERAN STATUS (1990)

Total civilian veterans	5,826
Civilian veterans 16 to 64 years of age	
Male	4,468
Female	170
Civilian veterans 65 years and over	
Male	1,121
Female	67
Period of military service:	
May 1975 or later*	1,135
Vietnam era	2,140
Feb 1955 to July 1964	433
Korean conflict	745
World War II	1,335
World War I, other service	38

*Does not include the Persian Gulf conflict

HOUSING CHARACTERISTICS (1990)

Total housing units	56,372	
Lacking complete plumbing	29,099	78.6
Lacking complete kitchen facilities	26,869	72.6
Source of water		
Public system or private company	34,306	
Individual drilled well	11,360	
Individual dug well	2,071	
Some other source	8,635	
Sewer disposal		
Public sewer	18,569	
Septic tank or cesspool	10,449	
Other means	27,354	-745
Total housing units occupied	37,000	
Owner Occupied	27,586	
Renter Occupied	9,432	
Primary heating fuel used		
Utility gas	4,998	725
Bottled tank or LP gas	5,174	
Electricity	23,349	
Fuel oil, kerosene, etc.	594	
Coal	2,427	
Wood	20,094	54.3
Solar energy	22	
Other fuel	167	
No fuel used	175	
Occupied housing units *without telephone*	28,688	
Percent of units *without telephone*	77.5%	

Period structure built

1980's	20,252	1950's	5,093
1970's	15,758	1940's	1,664
1960's	11,676	1939/earlier	1,929

U.S. Census Bureau

County Estimates for People of All Ages in Poverty for Arizona: 1993

Table A93-04. Estimated Number and Percent People of all Ages in Poverty by County: Arizona 1993

(Small Area Income and Poverty Estimates Program. Bureau of the Census)
(Population as of March 1994)

	People of All Ages in Poverty			
	Number		Percent	
State and County	Estimate	90% Confidence Interval	Estimate	90% Confidence Interval
Arizona	757,556	718,443 to 796,669	18.5	17.6 to 19.5
-Apache County	27,120	21,525 to 32,715	40.8	32.4 to 49.2
-Cochise County	22,998	18,578 to 27,417	21.9	17.7 to 26.2
-Coconino County	22,937	18,399 to 27,475	22.0	17.6 to 26.4
-Gila County	9,543	7,635 to 11,451	21.3	17.0 to 25.6
-Graham County	7,150	5,640 to 8,661	26.1	20.5 to 31.6
-Greenlee County	1,172	922 to 1,422	12.8	10.0 to 15.5
-La Paz County	3,774	3,010 to 4,538	26.4	21.1 to 31.8
-Maricopa County	379,587	321,428 to 437,746	16.0	13.6 to 18.5
-Mohave County	20,791	16,576 to 25,006	17.7	14.1 to 21.3
-Navajo County	27,034	21,601 to 32,467	31.2	24.9 to 37.5
-Pima County	139,155	114,074 to 164,236	19.0	15.6 to 22.5
-Pinal County	31,868	25,524 to 38,212	25.7	20.6 to 30.8
-Santa Cruz County	9,871	7,757 to 11,984	27.4	21.5 to 33.3
-Yavapai County	19,145	15,448 to 22,841	15.0	12.1 to 17.9
-Yuma County	35,412	27,827 to 42,996	28.0	22.0 to 34.0

These estimates were released in January 1998.

Return to Tables by Income Year, by Nation/State, by Statistic
Return to Tables that can Viewed or Printed
Go to Data Files that can be Downloaded
Return to State and County Income and Poverty Estimates 1993 Contents page

Last Revised: *Monday, 12-JAN-98*

Consumer Federation of America

DR. MARK N. COOPER

Dr. Cooper is Director of Research at the Consumer Federation of America and President of Citizens Research, an independent consulting firm.

At the Consumer Federation he has responsibility for energy and telecommunications policy and analysis, as well as internal consulting duties for survey research and economic analysis.

As a consultant Dr. Cooper has provided expert testimony on behalf of People's Counsels and citizen intervenors before public utility commissions on telecommunications and electric utility matters in over three dozen jurisdictions in the U.S. and Canada. Dr. Cooper has also testified on regulatory, anti-trust and public policy issues dealing with the health care, energy and telecommunications industries before Congress, the federal agencies and in the courts.

Dr. Cooper holds a Ph.D. from Yale University and is a former Yale University and Fulbright Fellow. He has published numerous articles in trade and scholarly journals and is the author of two books (The Transformation of Egypt, Johns Hopkins, 1982; Equity and Energy: Rising Energy Prices and the Living Standards of Lower Income Americans, Westview 1983).

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Consumer Federation of America

STATEMENT OF DR. MARK N. COOPER
Director of Research

In the Matter of Federal-State Joint Board On Universal Service Forward Looking Mechanisms for High Cost Support for Non-Rural LECs,

June 8, 1998

When the Telecommunications Act of 1996 was passed, consumers were promised competition that would lower prices and provide more choices. When the FCC issued its first set of decisions under the Act, consumers were told that universal service programs could be funded without an increase in their bills. Universal service funding was supposed to keep basic service affordable.

Two years later, we have virtually no competition for residential customers and all we hear about is putting surcharges on the bottom of my bill. By my most recent estimate, various interests want a dollar for schools and libraries, a dollar for high cost areas, a dollar for local number portability, a dollar for the PICC, a dollar and a half for the subscriber line charges on second lines, and more yet to come. These charges are not necessary and they will not go on the bill without a fight.

The FCC started down the right path to rate reform but it has gone astray. It had ten billion dollars of excess profits, inefficiency and misallocated costs to work with in access charge reform, but it has not availed itself of those resources. It must do so if consumers are to benefit from the Act.

EFFECTIVE COMPETITION IS THE TRIGGER FOR UNIVERSAL SERVICE FUNDING, BUT IT IS NOT HERE YET

The belief that universal service funds would be necessary stemmed from the belief that competition would erode the ability of local exchange companies to recover costs that supported universal service from high margin, competitive services. As competition unfolded, margins would decline. The FCC recognized that competition should also squeeze out a lot of fat.

Unfortunately, there is not enough competition to do either. Until competition starts to make its presence felt, the Commission need do nothing to support the revenues of the non-rural local exchange companies. It would be the cruelest of ironies to start supporting the LECs with universal service funds, in the name of competition, thereby increasing ratepayers bills, before competition is strong enough to provide the benefit of downward pressure on prices.

ESTIMATE THE SIZE OF THE FUND CORRECTLY

When competition does make its presence felt, the FCC must be careful to establish the universal service fund on a sound basis.

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The FCC adopted forward-looking economic costs as the basis for pricing. That will be the right thing to do.

The FCC declared time and time again that the loops is a common cost and revenues from all services that use the loop should help to pay for it. That will be the right thing to do.

The FCC has also recognized that universal service areas should be consistent with unbundled network element areas. That will be the right thing to do.

These three policies will create a fund that is modest in size and relatively easy to raise.

COLLECT FUNDS FROM TELECOMMUNICATIONS SERVICE PROVIDERS AS THE ACT REQUIRES

The universal service fund should be collected from telecommunications service providers in proportion to their total revenues. The federal statute makes no provision for the recovery of telecommunications service provider contributions for universal service from ratepayers in the form of a line item surcharge on ratepayers' bills. The federal statute is quite clear that it is telecommunications service providers who must contribute. If subscribers are forced to pay a line item surcharge, then telecommunications service providers are not contributing, as required by the 1996 Act.

Claims that only a line item on a consumer's bill can meet the requirement that universal service is explicit is a thinly veiled effort to avoid the responsibility the law placed on telecommunications service providers. If a telecommunications service provider is assessed a contribution explicitly to be paid to a universal service fund administrator and pays no other universal service support in any of the prices it is charged, then the funding is explicit. The law does not say funding must be explicit to the customer, it says it must be explicit to the service provider.

Providers should be allowed to decide how to recover universal service fund contributions, which are just a cost of doing business. This will allow them to recover those contributions in the most efficient manner possible. The FCC recognized this dynamic process. Let it work.

FUND UNIVERSAL SERVICE PROGRAMS WITHOUT RAISING CONSUMER BILLS

If the Commission decides that it wants various surcharges on people's bills, it should at least use federal universal service funds to reduce the subscriber line charge. The subscriber line charge is a federal charge, levied on customers for access to the interstate network. It is one of the core services included in the definition of universal service. Therefore, federal universal service funds used to reduce the SLC would meet this requirement of the Act.

The economic evidence in the decade since the subscriber line charge was set at $3.50 indicates that the cost of providing the loop has plummeted, but the Commission has failed to lower the SLC to reflect that decline. Stop collecting the subscriber line charge because it is simply funding the excess profits, inefficiencies and misallocated costs of access. If you lower the SLC, you could tell people to write checks to the universal service fund instead. That would be inconsistent with the Act, but at least it would deliver on the promise not to raise consumers' bill.

FCC En Banc Hearing

June 8, 1998

Remarks of Dennis Weller

Chief Economist

GTE

- I appreciate the Commission's willingness to revisit these important issues.

1) **Current Universal Service Support Implicit in Today's Rates**

Universal service support today is provided through a combination of explicit support from existing state and Federal mechanisms, and implicit support from the rates for other services, such as access, long distance, and vertical services.

- The chart behind me provides an overview of where universal service support comes from, and where it goes, for GTE's serving areas in 28 states.
- The chart shows the contribution generated by each major service category (revenue minus TSLRIC cost) at today's rates. As you can see, interstate switched access, intrastate access, intraLATA toll, and vertical services each provide large contributions — based on markups of several hundred percent over the direct cost. In contrast, residence local service has a large negative contribution.
- For comparison, I have also shown the contributions that each category would generate if rates were rebalanced to yield the same revenue, but with a uniform markup over direct cost across all the service categories. These provide a reference point for "cost-based" competitively sustainable rates which reflect the underlying TSLRIC costs, but which are also consistent with the current overall price level. The difference between the current rates and these "cost-based" rates is a measure of the market interference produced by regulation — the amount of support each

category generates or receives.

- I have also shown the amount of explicit support GTE receives from the current Federal high cost fund — about $90 million annually.
- There are several points I would like to draw from this chart:
  - The current flow of support — from all sources — is very large. The difference between the rates local customers actually pay, and the rates they would pay if rates were rebalanced, is almost $23 per month. Interstate access alone provides about $1.2 Billion of implicit support for GTE. For the industry as a whole, it's about $6.3 Billion. Said differently, a sufficient level of federal universal service support must at least equal the level of support implicit in today's services.
  - Of the support being provided today, most is implicit. GTE is the largest single recipient from the current high cost fund, yet that accounts for only 7% of the total support GTE generates from interstate sources.
  - Debates about whether the explicit fund should be large or small ignore the simple fact that we have a large fund today, when we properly include both explicit and implicit support.
  - Finally, if we use consistent costs and revenues, we ought to be able to look through the telescope either way, and get a reasonably consistent answer. That is, if we compare the revenues and costs on the right hand side of the chart, we should find a shortfall that roughly corresponds to the additional contribution being generated by the services on the left-hand side. To arrive at a different answer, one must either ignore one component of the system, or assume a radically different, unrealistic cost level — and parties in this proceeding have done one or the other, or both.

2) **Why We Need to Change the Current System**

What's wrong with this picture? Why should we not continue with this system?

- First, if we continue without change, we will never have competition for most local customers. Look at the right-hand bar on the chart, and ask yourself "who would want to enter this business?" Carriers will focus their efforts on the customers who have high volumes of the services on the left, and provide local service only to the extent it is necessary to attract those customers. An analysis of GTE's residential customers in Texas shows that a carrier would be unable to cover its costs on 78% of those customers — even if that carrier's costs were based on the very low interim UNE rates approved by the Texas Commission, and even if we include the revenue for all of the telecommunications services those customers buy. (See chart accompanying this outline.) At <u>our</u> costs, an even larger proportion would be unprofitable. Many people have complained that the Act is not working to promote local competition, but there is no reason to expect it to work if we leave the current subsidized rates in place.

  Even if the current implicit support mechanism could somehow be maintained, why would we wish to do so? The current implicit support cannot be made portable to other carriers, so as long as we rely on this approach for support, we will be walling off three-quarters of the local customers from the benefits of competition. Sufficient, explicit support would correct the price signal to new entrants, because it would attach enough revenue to the provision of local service to make it a reasonable business proposition for an entrant.

- Second, as the Commission has recognized, competition will inevitably eliminate the implicit support on the left-hand side of the chart.
- Third, the large implicit fund we have today is very inefficient. Many customers are "contributing" to universal service at very high rates. The

offsetting reductions in access made possible by sufficient support would allow significant reductions in long distance charges. Fortunately, the funding to support universal service is already in the system. We don't need to change the total revenue on my chart — we only need to rearrange it.

- Finally, continued reliance on implicit support is not permissible under the 1996 Act. Section 254 requires that all carriers contribute to universal service on and equitable and nondiscriminatory access. Contributions, which are generated on a selective basis — in some rates for some carriers — are not equitable and nondiscriminatory.

3) **Goals for the Federal Universal Service Mechanism**

The Commission need not — and should not — adopt a Federal universal service mechanism that is sufficient to address the entire problem depicted on the chart. Much of the current implicit support comes from state rates today, and should be replaced by state rebalancing or by explicit state funding. What amount of support must the Federal mechanism supply in order for the overall result to be sufficient? GTE has offered three objectives, or targets, the Federal plan must satisfy:

- First, the Federal plan should be sufficient to replace the current flow of implicit support from interstate access. GTE has estimated this flow at $6.3 Billion annually for nonrural ILECs. This includes the current recovery of those carriers' contributions to the school and library fund; if that amount were recovered through a separate mechanism, the remaining implicit support would be about $5.2 Billion.
- Second, the Federal plan should provide a certain amount of new explicit support to states with very high costs and/or low funding bases. This amount should be chosen to strike a balance between high and low cost states.
- Third, the new Federal plan should replace the explicit funding provided to

nonrural ILECs by the current high cost fund, which is about $217 million. The new fund should do not harm; support, which is already incorporated in state rates, should not be removed.

4) **Calculation of Federal Support**

I recommend that the Commission determine Federal universal service support on the basis of small geographic areas. For each area, the estimated cost should be compared to a sliding scale of benchmarks, with an increasing percentage of Federal support above each successive benchmark. This is a more general form of the two-benchmark plan US West has proposed.

- The benchmarks and percentages should be chosen to produce a Federal plan that meets the objectives I have outlined. There is no particular benchmark that is reasonable *a priori*; a set of benchmarks and percentages is reasonable if it produces a reasonable result.
- It is vital that the Commission chooses its cost model platform and inputs <u>before</u> it finalizes its choice of benchmark. Otherwise, the Commission cannot assure itself that the plan will produce a reasonable outcome.
- Because the Commission has not yet specified the model and inputs, I cannot give you an unqualified recommendation of specific benchmarks and percentages at this time. However, an example will serve to illustrate the approach: a plan with three benchmarks at $20, $25, and $40. The Federal plan would provide 25% of the support over $20, 50% of the support over $25, and 100% of the support over $40. I have evaluated this plan using the BCPM model (version 3.1) and the staff's common inputs. This plan would produce about $5.7 Billion in Federal support annually.

GTE recommends that the Commission continue with an approach based on a cost model and benchmarks because it would target support on the basis of small areas. However, it is clear that the cost models being considered by the Commission cannot be relied upon to produce entirely reliable estimates. If we compare the results for the plan I have just outlined, we see very large differences between the two models. The BCPM estimates 40% more support than the HAI model nationwide, but 51% less support in Arkansas. In Puerto Rico, BCPM would provide 271% more support than HAI. If we look at smaller areas, the results bounce around even more; the two models don't even support the same wire centers. Even if the Commission can make a choice among these estimates, how can it have any confidence that the results are reasonable? Actual costs are a better metric for sizing universal service support than the cost estimates produced by these cost models.

That is why I strongly recommend that the Commission should adopt the three objectives I have outlined. They provide a clear set of external; objective measures that will allow the Commission to judge whether the results produced by a given calculation are reasonable. If the results do not satisfy the objectives, then the benchmarks and percentages should be adjusted until they do. If the targets cannot be achieved using reasonable benchmarks and the costs estimated by the model, then the model must be underestimating the cost.

The Commission's actions in establishing the Federal fund must be consistent with its actions in access reform. It would be insufficient to replace \$5.2 billion of implicit support with a \$1 billion fund. If, on the other hand, the Commission determines that the implicit support amount in access is less than GTE has estimated, then it also has determined that a higher level of access charges than the one GTE has assumed is reasonable and competitively sustainable over the long term.

5) **Application of Federal Support**

The support generated by the Federal fund should be applied toward the three objectives, using a "cascading" approach similar to the on the Commission has applied to common line charges:

- The support should first be used to replace the current high cost funding each nonrural ILEC receives
- Any net increase in Federal support should be applied toward reductions in interstate switched access. This should continue until the per-minute rate has reached some reference level; GTE has used $.008 per minute in its calculations.
- Any amount remaining after the interstate access offsets have been made should be provided to the states. The benchmarks and percentages should be chosen to ensure that the support amount is sufficient for these purposes, and to achieve the desired distribution of support to the states where it is needed.

GTE has proposed the use of a sliding scale of benchmarks and percentages because one or two benchmarks will not provide the Commission with enough policy variables to ensure that all of its objectives are met.

6) **Contributions and Recovery**

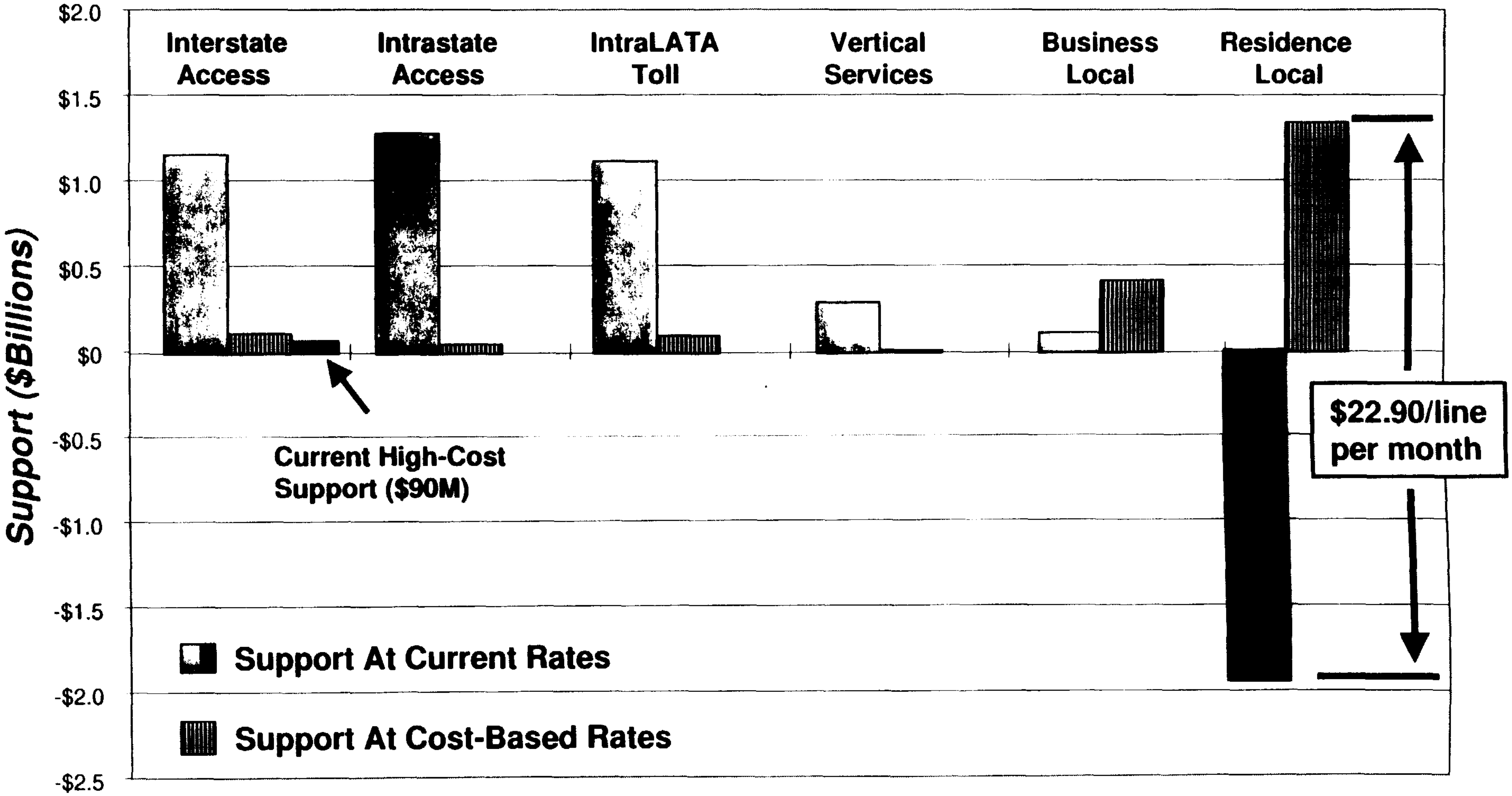
I propose that the funding needed for the Federal plan should be generated through a uniform percentage surcharge on both state and interstate retail revenues. For the illustrative plan I have outlined, a surcharge of about 3% would be sufficient to raise the necessary funds. Because interstate access provides a disproportionate share of implicit universal service funding today, it simply is not possible to eliminate that implicit support, and generate the necessary explicit funding, on a base of interstate revenues alone. I also propose that states should base their funding mechanisms on both state and interstate revenues. In this way, both the Federal and state plans will have the largest possible funding base, and hence the lowest possible contribution rate, and all carriers and services will pay on the same basis, at the same rate.

7) **Effects on Customers**

The explicit fund I propose does not create any new universal service funding; it simply replaces what is now implicit with explicit support. The new explicit fund will be more efficient, more sustainable, fairer, and more neutral than the implicit support we are using now. Instead of selectively burdening some customers with very high implicit contributions, it would require every customer to pay a modest surcharge of about 3% — an amount, which is unlikely to threaten affordability for anyone. Customers would benefit from an immediate reduction in long distance charges of about 13%. And, because the new support would be portable, the majority of local customers would become more attractive to potential entrants, so that they will no longer be excluded from the benefits local competition can bring.

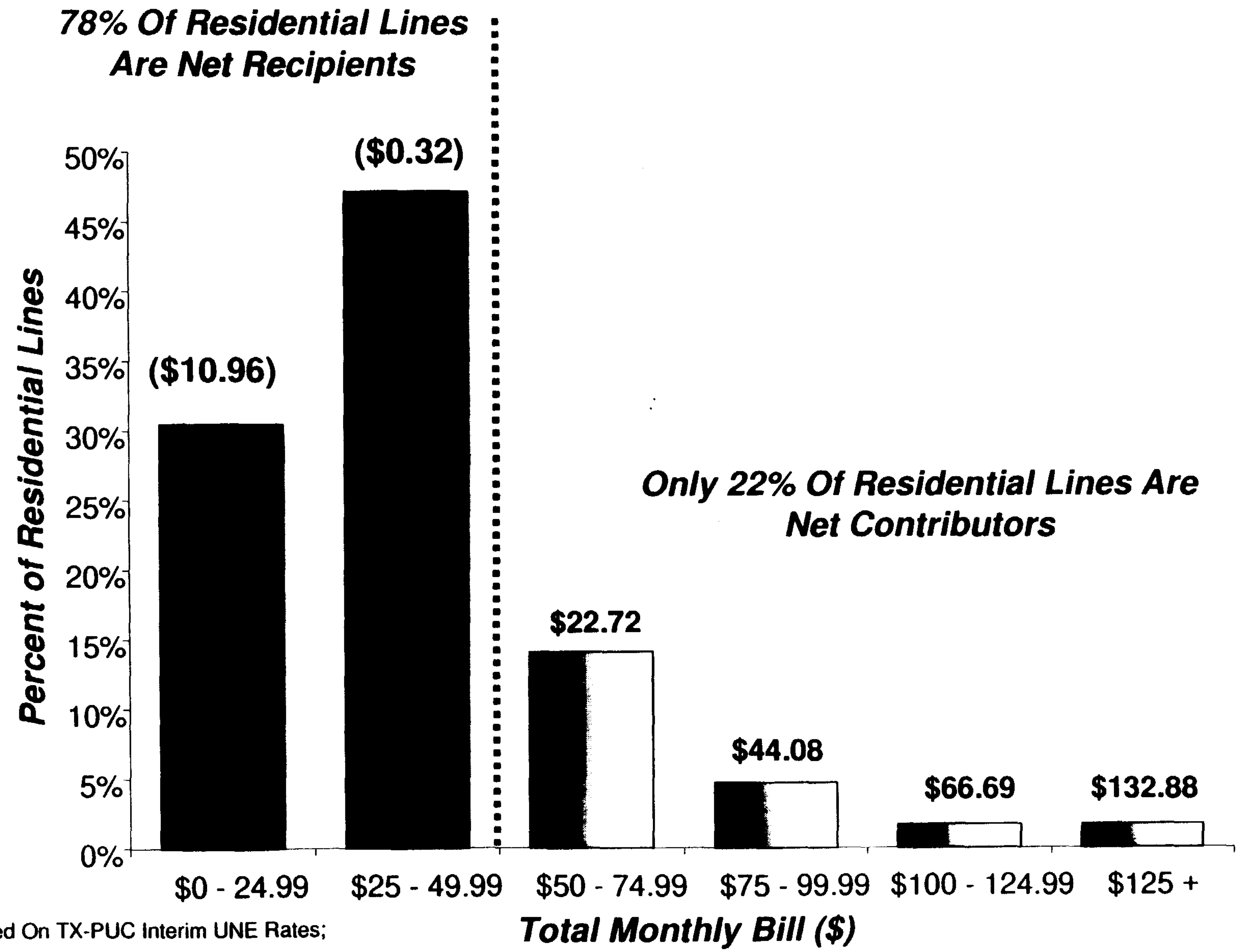
In sum, there is no reason we should shrink from adopting a new, explicit fund that is sufficient to do the job. Rather than ask ourselves how long we can jury-rig the old, inefficient system, we should be moving ahead to adopt a new approach that will produce a wide range of benefits for consumers.

GTE's Universal Service Support By Service



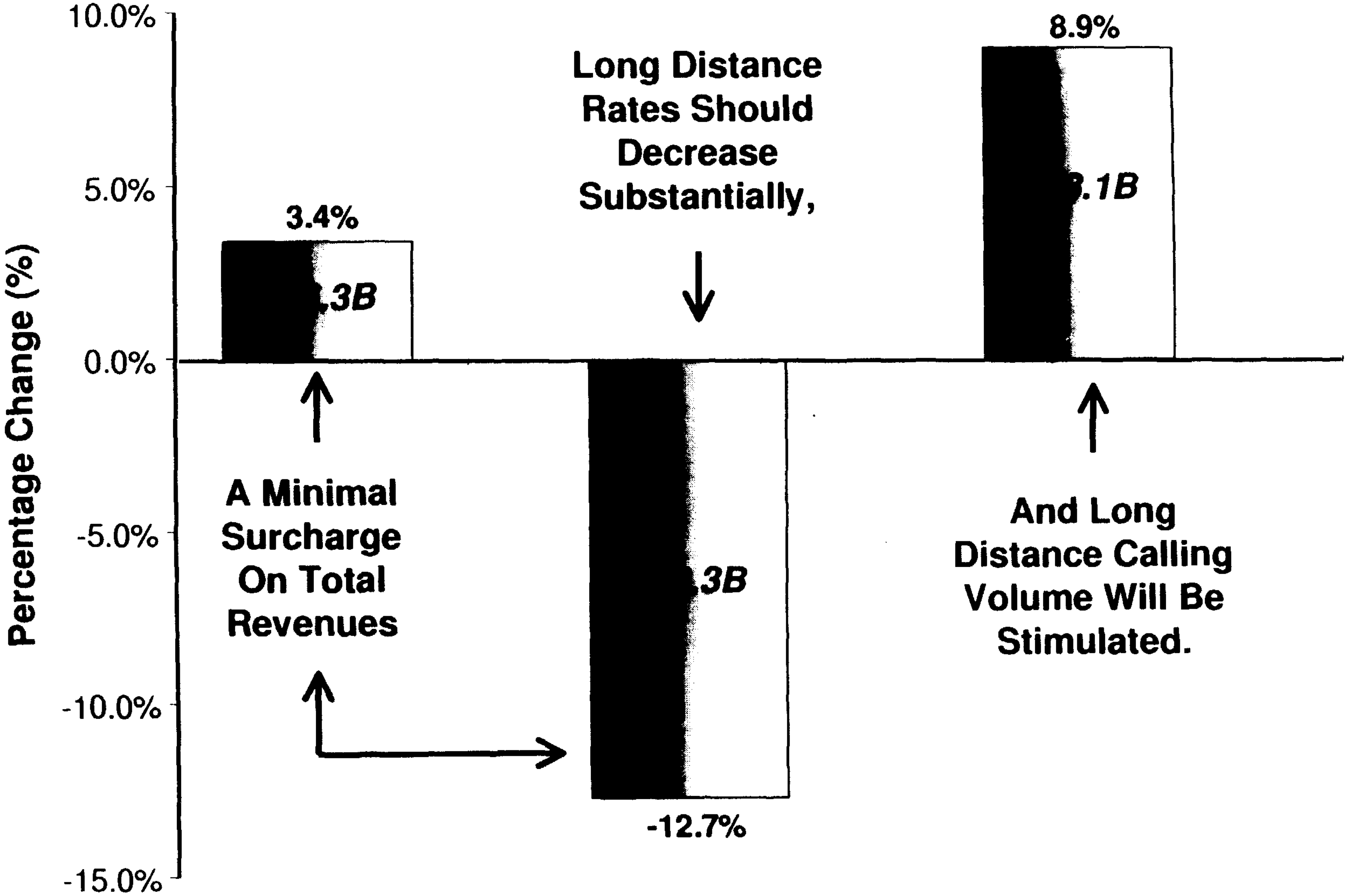
* Interstate contribution excludes EUCL charges

Contribution By GTE's Texas Residential Segments



* Costs Based On TX-PUC Interim UNE Rates;
Total Bill Includes Local, EUCL, Access, Toll, And Vertical Services.

What Is The Impact Of A $6.3 Billion Interstate Fund?



* Assumes total telecommunications revenues of $190B; average access common line rate of 2.2 ¢/min; cost-based access rate of 0.8 cents; average toll revenue 18¢/min.; ratio of access to toll minutes 2 to1; toll price elasticity of demand equals -0.7; total access min. for non-rural companies of 450B based on 1998 price cap TRP filings.

CC Docket# 96-45, 97-160
DA 98-715

SPRINT'S FEDERAL UNIVERSAL SERVICE FUND PROPOSAL

I. Existing, implicit subsidies must be eliminated. To the extent that subsidies are required, they should be funded through an explicit, competitively neutral USF.
- The elimination of explicit subsidies is required by the Telecommunications Act of 1996
- Existing, implicit access subsidies:
  - are not competitively neutral (only IXCs/toll users fund subsidies);
  - thwart facilities-based local competition; and
  - uneconomically and inequitably burden long distance users.

II. Principles upon which the federal USF plan should be based:

- ***Support should be based on forward looking costs***
  - Using a forward-looking cost methodology as the starting point in calculating the support amount is appropriate since it enables the Commission to arrive at a rate that emulates competitive market conditions. Facilities-based competition will not develop unless the sum of revenues and subsidies is predictable and accurate. Using forward-looking costs is the only way the marketplace will send the correct signals to potential entrants.
    - If costs are under-estimated, that will artificially attract inefficient entry that should not occur.
    - If costs are over-estimated, that will discourage efficient entry that should occur.

- ***Federal USF should be a national fund, based on both state and interstate retail revenues***
  - The Commission has stated, both in its May 8th Order and in its recent Report to Congress, that Section 254 grants it the authority to create a national fund made up of contributions from intrastate as well as interstate revenues.
  - In order to ensure competitive neutrality, as well as sufficient support flow between states, a national fund is not only reasonable, but essential.
  - To assess USF contributions on only interstate revenues would effectively exempt ILECs from contributing to universal service support.

- ***Where a cost-based rate might be considered prohibitive, the federal benchmark should be based on the maximum affordable local service rate***
  - Since the benchmark is intended to be a measure of "affordability" the appropriate standard is the basic local service rate, not average revenues.
  - Income considerations should be excluded, since low income households are addressed directly through the Lifeline/Link-up programs.
  - The federal benchmark rate should be set at a level representing the maximum affordable local service rate – a rate which is considerably higher than the below-cost local service rates that exist today

- ***USF should be narrowly targeted to high cost areas***
  - Sprint believes that costs and support should be determined on a census block group level

- ***USF support should be equally available to all Eligible Telecommunications Carriers (ETCs)***

- ***Implementation of the plan should be revenue neutral at its inception***
  - Any new USF funding (i.e., funding in excess of current levels of high cost support) to a company should be offset, dollar–for–dollar, with reductions in access charges

- ***USF fund obligations should be recovered through a surcharge on end users' retail charges.***
  - The end user surcharge is the key to any workable USF plan. Without it, competitive neutrality, both in terms of contribution levels and recovery, is a virtual impossibility.
  - Because implicit subsidies exist today, end users are already supporting the universal service fund. Consequently, the removal of these implicit subsidies, replaced with the explicit surcharge, will not result in an overall increase in consumer charges.
  - In its recent order regarding Local Number Portability cost recovery, the Commission found that it was appropriate to allow LECs to recover their LNP costs through a monthly end user surcharge. The Commission should apply the same reasoning to USF cost recovery.

- ***States are free to adopt intrastate USF plans if they desire***
  - Employing a lower benchmark affordable rate, the state plan would act as a safety net for those areas where the federal benchmark rate may, in the state's opinion, prove burdensome.

- Funding for state plans must come solely from intrastate retail revenues.