ORIGINAL

**BELLSOUTH**

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**EX PARTE**

September 18, 1998

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

SEP 18 1998

Re: CC Docket No. 96-45, Federal-State Joint Board on Universal Service

Dear Ms. Salas:

On September 17, 1998, Mr. Ernest Bush and Mr. Peter Martin representing BellSouth and Mr. Dennis Weller representing GTE met with Commissioner Julia Johnson, member of the Federal-State Joint Board and Mr. Mark Long and Mr. Walter Bolter, member of Federal-State Joint Board staff. During this meeting, a USTA consensus plan for federal universal service support for non-rural companies was described. The attached documents represent the basis for the presentation and discussion.

In accordance with Commission rules, the original of this response and one copy are being filed with your office. Acknowledgment and date of receipt are requested. Please call the undersigned with any questions.

Sincerely,

Cynthia K. Cox

cc: Commissioner Julia Johnson (w/o attachment)
Mr. Mark Long (w/o attachment)
Mr. Walter Bolter (w/o attachment)

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# A Plan for Federal Universal Service Support for Non-Rural Companies

September 17, 1998

After years of different approaches, Local Exchange Companies have finally reached agreement on a federal approach for funding universal service in a competitive environment.

USTA
Federal Universal Service
Fund Proposal
for Non-Rural Companies

# Description of the Problem

Affordable service for residential and business customers in high cost areas is possible because of support from other revenue sources.

- Universal service support comes from a variety of sources:
  - *Explicit mechanisms*
  - *Implicit support*
- Intra-company support allows local exchange service to be priced below cost, e.g.:
  - *Interstate access charges*
  - **Intrastate access charges**
  - *IntraLATA toll service charges*
  - **Geographic rate averaging**
  - *Business-to-residential subsidies*
  - **Charges for discretionary services**

# Goals of a Universal Service Policy for Non-Rural LECs

- Preserve and advance universal service during the transition to competition.

- Identify and establish universal service support mechanisms consistent with the 1996 Act.

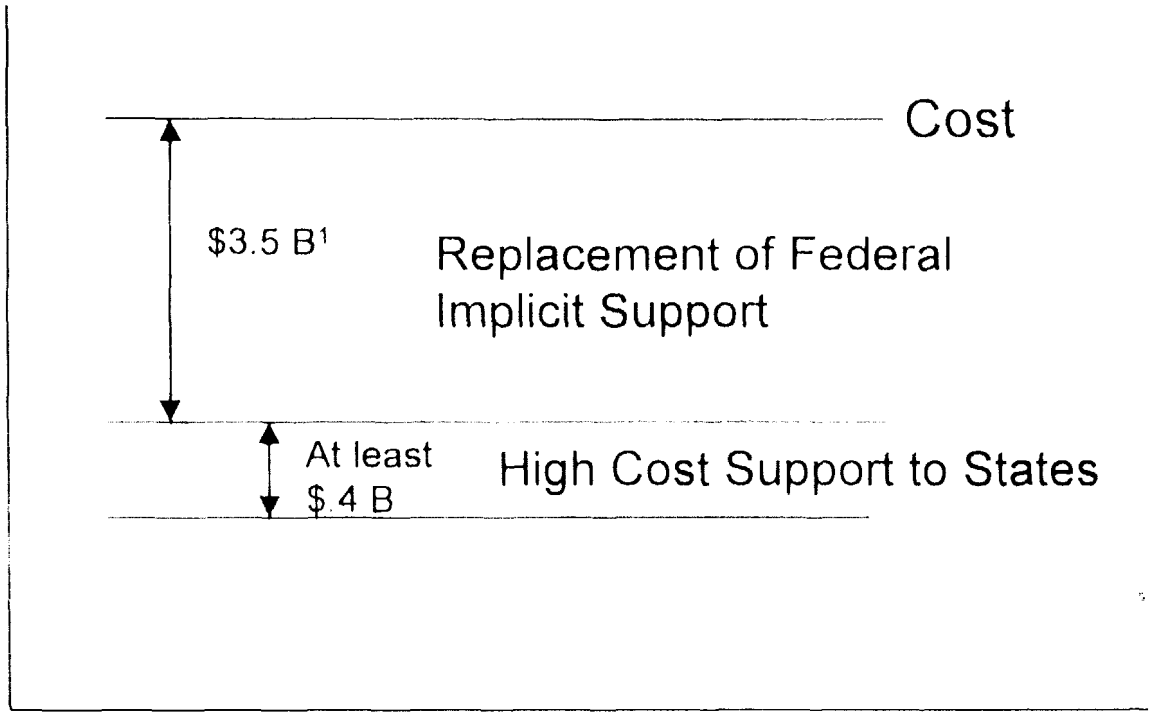
- Create competitively neutral fund that removes disincentives for competition.

- Changes are required to achieve these goals:

    1. Implicit intra-company universal service support must be replaced with a sustainable recovery mechanism.

    2. Additional high cost support should be provided to high-cost areas of the country.

# Size of the Federal USF for Non-Rural LECs




$3.9 B equates to a 2.1% surcharge on total retail revenues.

Note: Does not include support for low income consumers.

[1] CCL + PICC + Nonservice specific TIC - contributions to universal service currently built into these rates.

# Replacing Intra-Company Universal Service Support

Support derived from interstate access rates is an important source of universal service funding and is not sustainable in a competitive environment.

A new collection mechanism should be established:

1. Calculate current support based on CCL and PICC revenues, plus revenues to be ultimately transferred to the PICC, by study area.

2. Reductions in access (implicit subsidy) should match the size of the amounts collected from end users (explicit subsidy).

# Replacing Intra-Company Universal Service Support

3. Explicit support will be collected by all telecommunications carriers through an end-user surcharge on total retail revenues.

4. Each ILEC Study Area would receive explicit support equal to the access reduction divided by residential lines in a given study area.

5. Explicit support would be portable to any ETC within a study area.

6. Distribution of the explicit support throughout a LEC study area should be deaveraged.
   - Little or no support in low cost areas
   - Considerable support in high cost areas

7. Any reductions in access charges should only be matched by states in a time period sufficient to make similar adjustments in state rate structures.

# Support for High-Cost Areas of the Country

The Large LECs support the following principles:

1. A federal program to support high-cost areas/states is necessary and mandated by Congress.

2. States must also take steps to address their high-cost problems internally.

3. Any state with high cost areas should get support, but high cost states with relatively few low cost areas should receive proportionately more support.

4. Support should be sufficient to assure affordable service to high-cost customers of non-rural LECs. It should be sized at least at the current level of support.

5. Increases in high cost funding received by regulated ETCs offset by intrastate rate reductions.

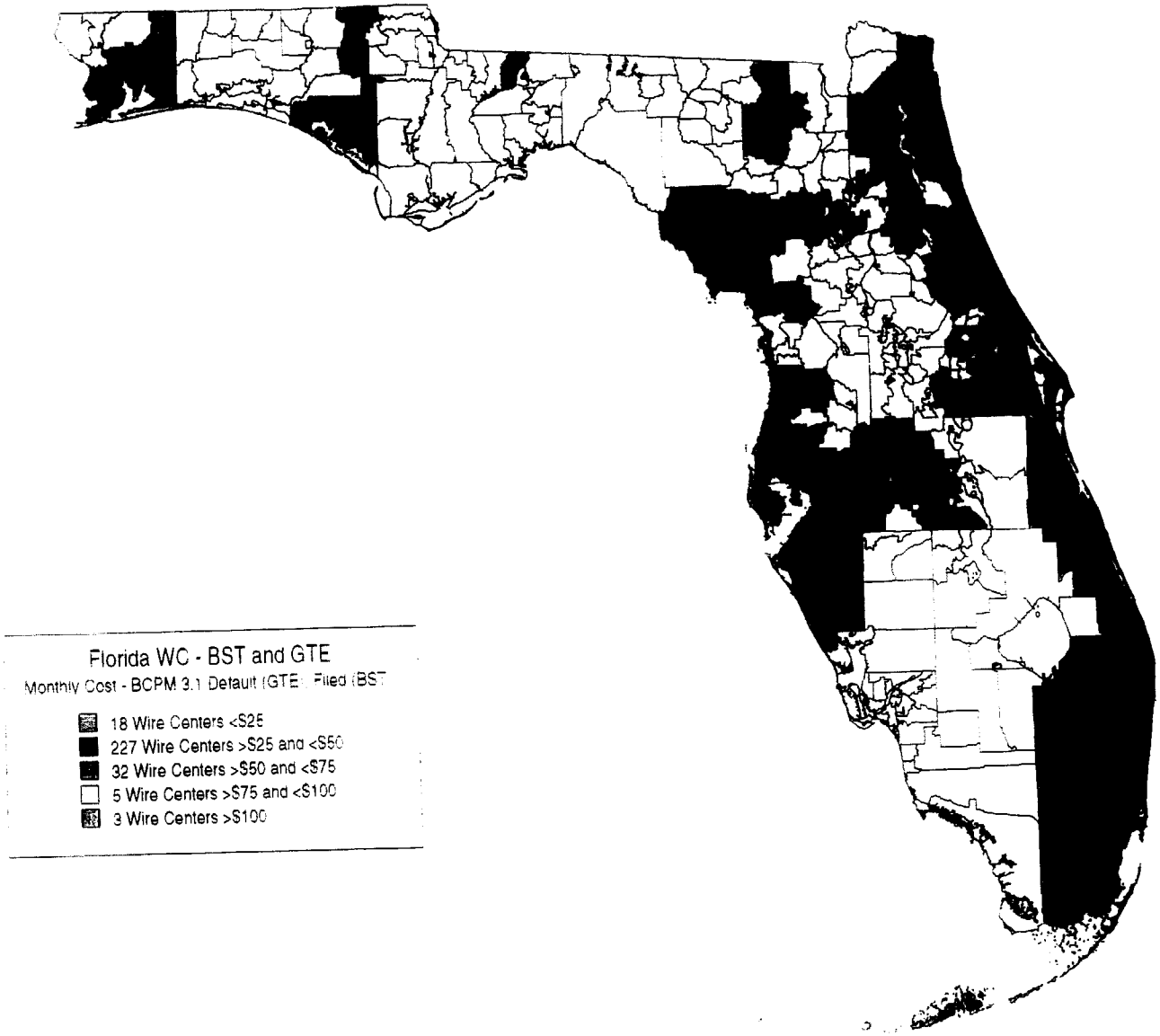
# Collection Mechanism for High Cost Support

- High cost support should be funded by a surcharge on the total retail bills assessed by every telecommunications carrier.

- Basing the surcharge on combined revenue is competitively neutral and eliminates the opportunity for strategic behavior.

- State funding should also assess both state and interstate revenues.

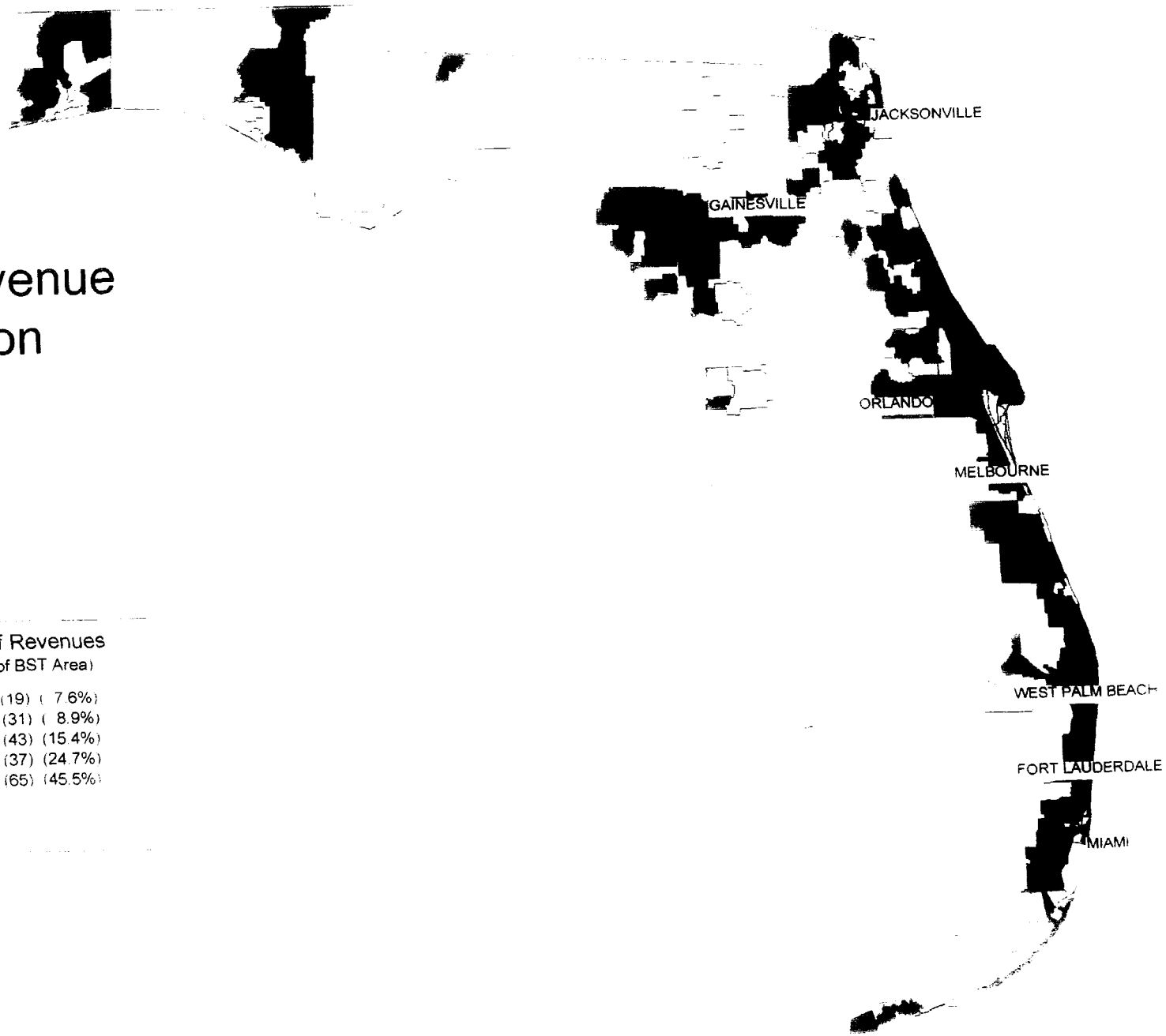
# Costs of Providing Supported Services in Florida




Cost of Universal Service by wire center: it is generally higher in the rural areas.

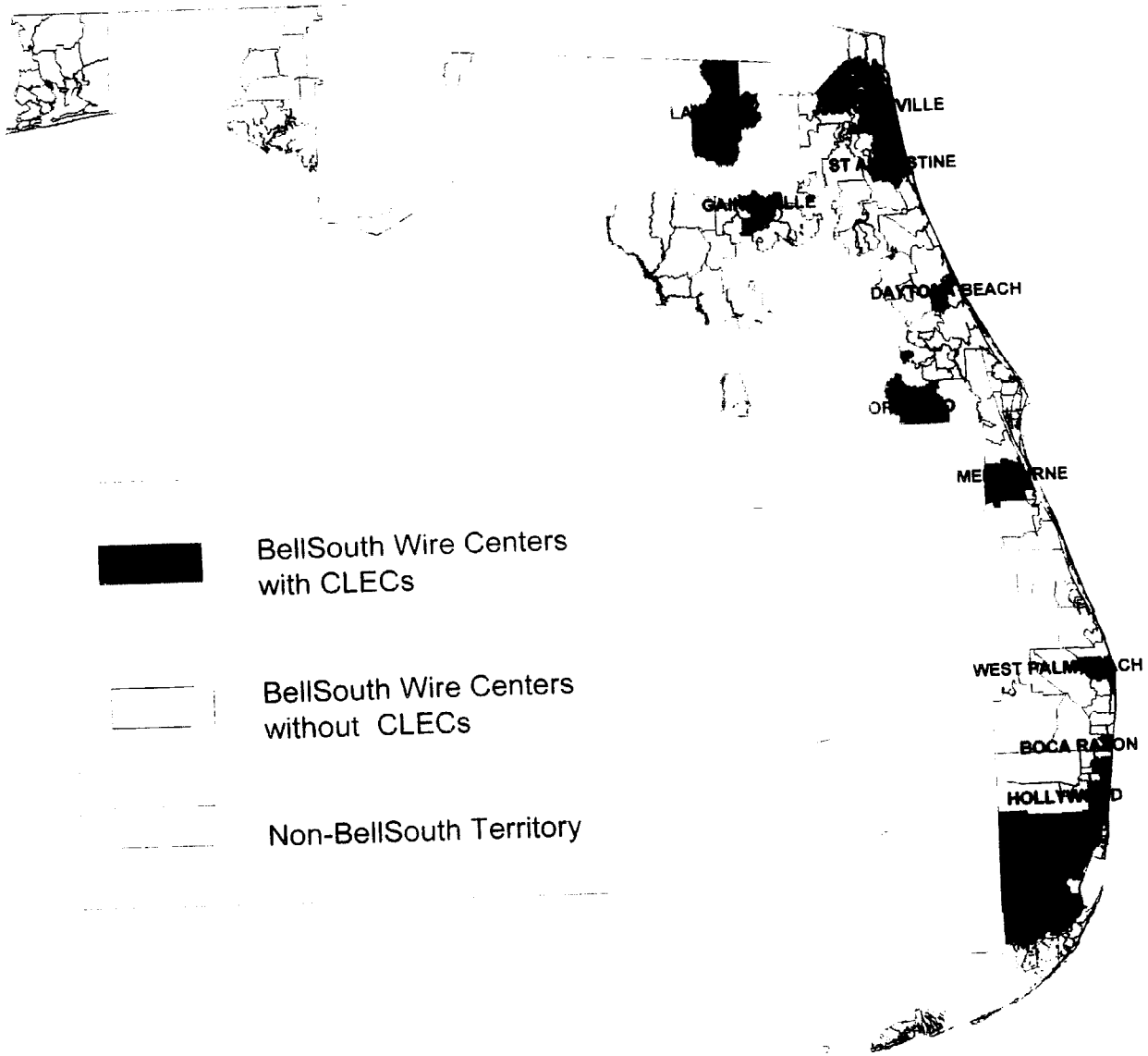
# LEC Revenues Are Highly Concentrated

Florida
Total Revenue
Distribution




Distribution Of Revenues
(# WCTRs) (% of BST Area)

| | | | |
|---|---|---|---|
| Top | 30% | (19) | ( 7.6%) |
| Next | 30% | (31) | ( 8.9%) |
| Next | 25% | (43) | (15.4%) |
| Next | 10% | (37) | (24.7%) |
| Bottom | 5% | (65) | (45.5%) |

# Competitors Are Locating in High Revenue Wire Centers

(BellSouth Florida Wire Centers With Collocation Companies)