

U S WEST, Inc.
Suite 700
1020 Nineteenth Street, NW
Washington, DC 20036
202 429-3133
FAX 202 296-5157

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USWEST

Glenn Brown
Executive Director-
Public Policy

EX PARTE

October 23, 1998

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FEDERAL COMMUNICATIONS COMMISSION
OFFICE OF THE SECRETARY

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

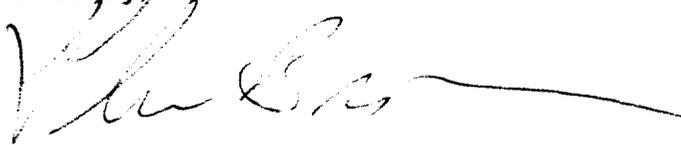
RE: CC Docket 96-45 and 97-160

Dear Ms. Salas:

Today, October 23, 1998, Kenneth Cartmell, Executive Director and the undersigned representing U S WEST, met with Paul Gallant, Legal Advisor to Commissioner Gloria Tristani to discuss universal service funding. The attached charts were used during our discussion.

In accordance with Commission Rule 1.1206(a)(2), the original and four copies of this summary of the presentation is being filed with your office. Acknowledgment and date of receipt are requested. A copy of this submission is provided for this purpose. Please contact me if you have questions.

Sincerely,



Attachment

cc: Paul Gallant

No. of Copies rec'd 013
List ABCDE

UNIVERSAL SERVICE

Glenn Brown
Ken Cartmell
U S WEST
October, 1998

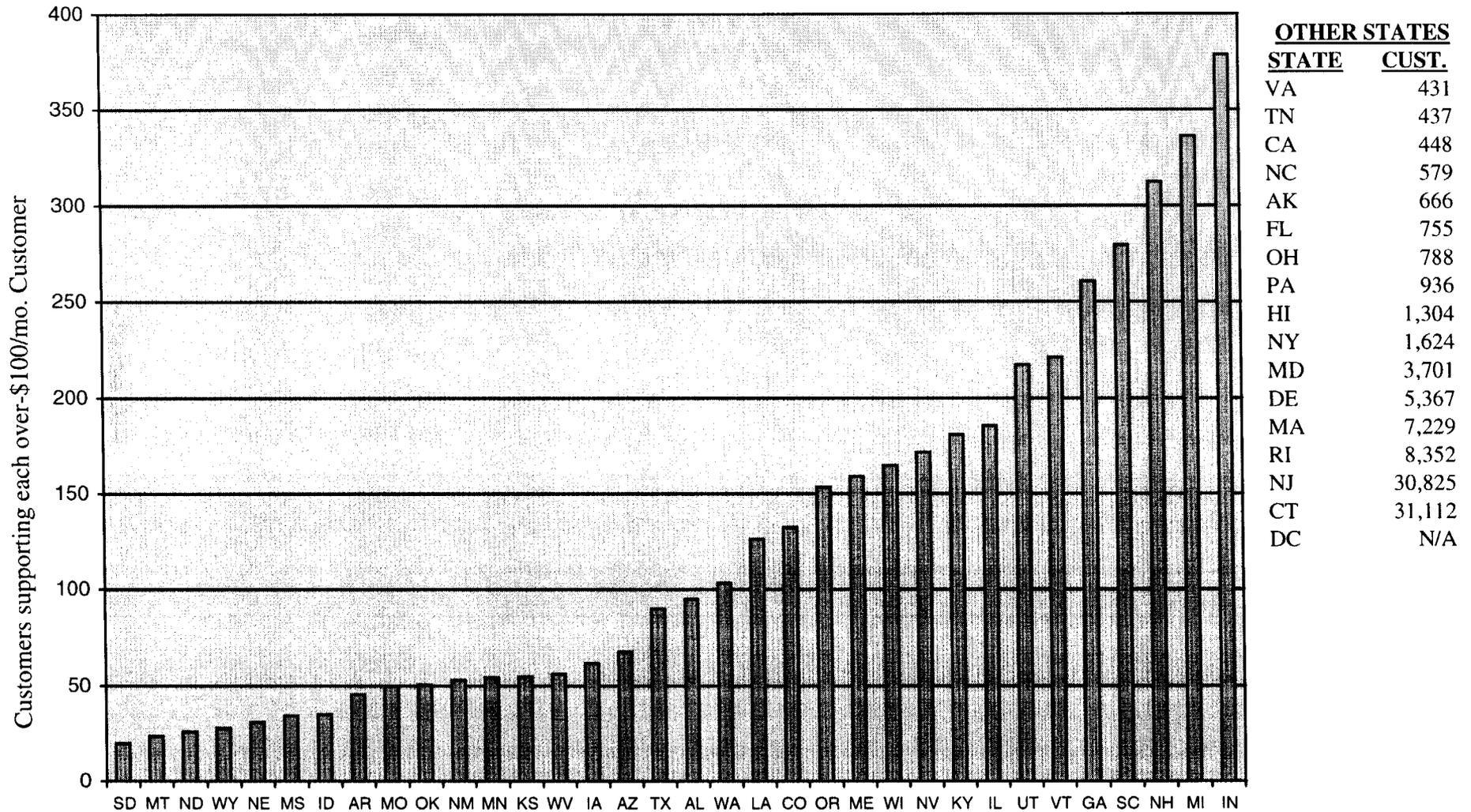
Four Purposes of Universal Service Fund

1. Rural High-Cost
2. Replace Implicit Support
3. Lifeline/Low-Income
4. Fund Schools, Libraries and Rural Health Care

High Cost Funding

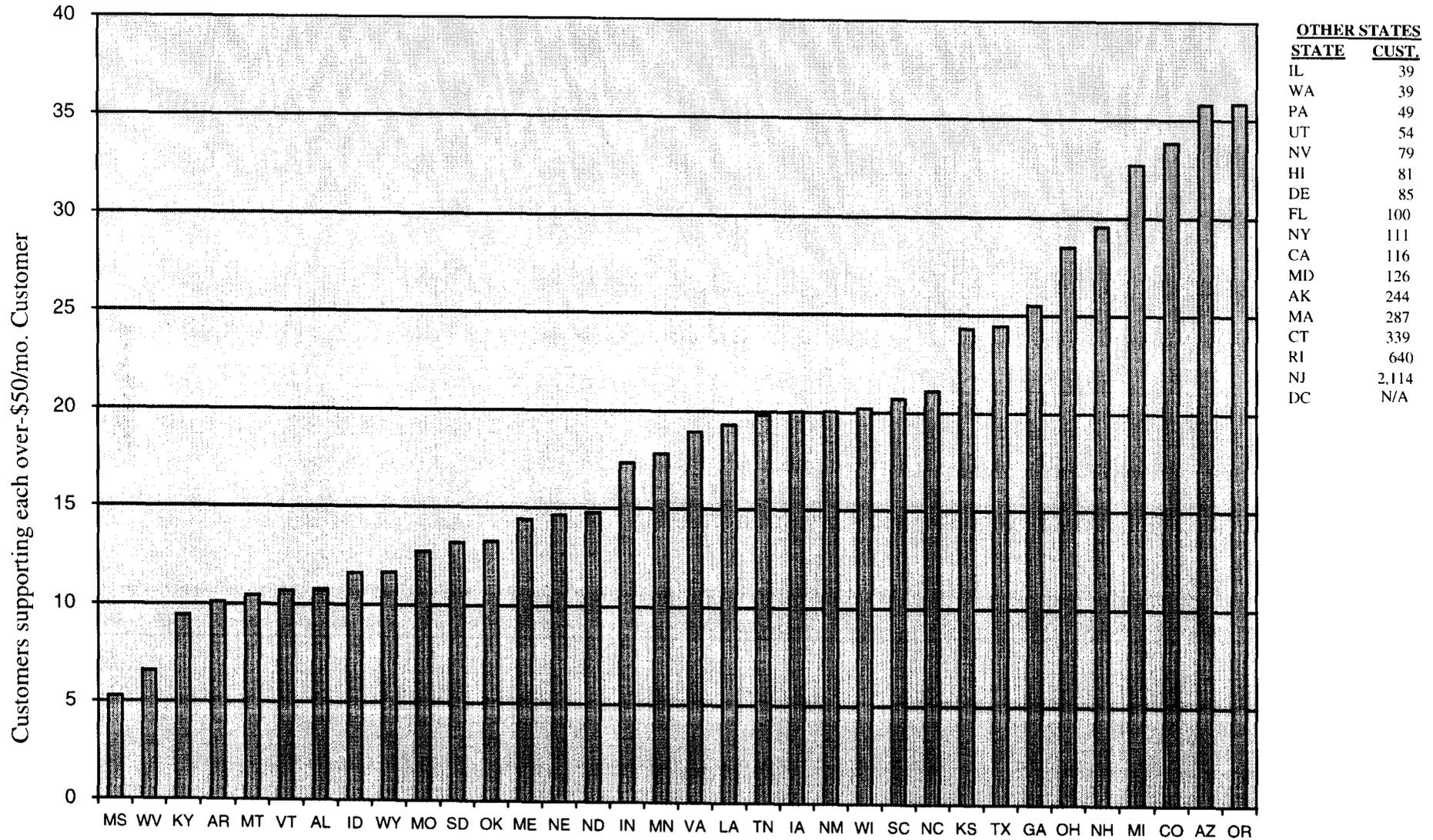
- The High Cost Funding Solution Must Do The Following:
 - The New Explicit Interstate Support Mechanism Must Be “Sufficient” As Provided in Section 254(b)(5) of the 1996 Act.
 - States Must Take Steps to Address Their High-Cost Problem Internally Through Rate Rebalancing and State High-Cost Funds.
 - Additional Federal Support Must Be Provided to Those States Which Lack Sufficient Numbers of Low-Cost Customers to Support Funding at Affordable Levels.
 - Funding Must Be Targeted to Areas Smaller Than a Wire Center (i.e., No Subsidy to “Main Street”).
 - Funding Should Be Recovered in a Competitively Neutral Manner Through a Surcharge on All State and Interstate Revenues of All Telecommunications Providers.
 - It must be simple, easy to administer, and fair.

How Many Customers are There to Support Each Customer Costing Over \$100/month?



Note: The costs used in this chart are computed using FCC "common inputs" in the BCPM3 model.

How Many Customers are There to Support Each Customer Costing Over \$50/month?



Note: The costs used in this chart are computed using FCC "common inputs" in the BCPM3 model.

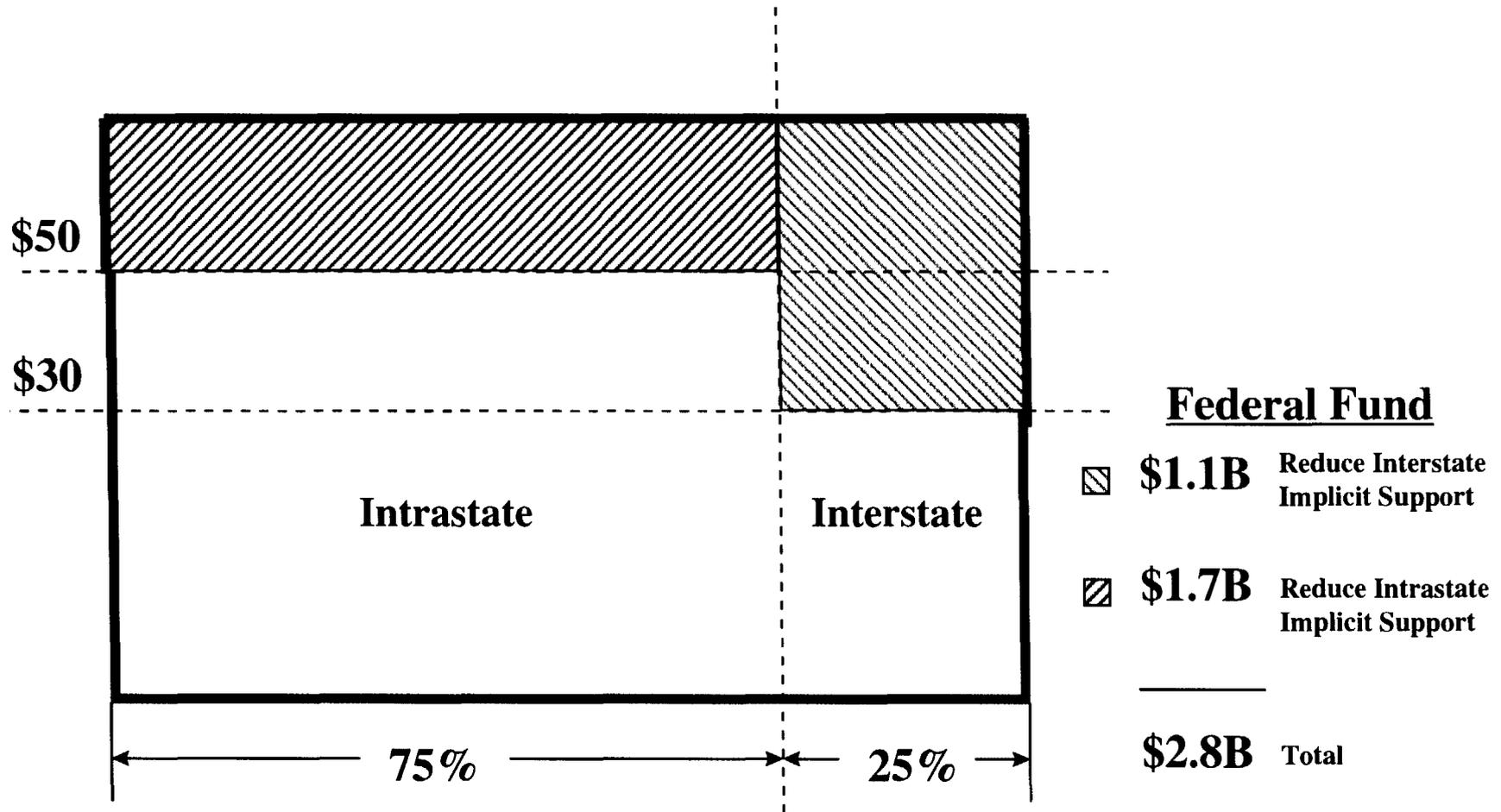
Sufficiency of Funding

- The 1996 Act States That Funding Must Be “Sufficient” (254(b)(5))
- To Be Judged “Sufficient”, the New Mechanism Must Pass Tests of Affordability and Comparability:
 - Quality Services Should Be Available at Just, Reasonable and Affordable Rates. (254(b)(1))
 - Consumers in All Regions of the Nation ... Should Have Access to Telecommunications and Information Services ... at Rates That Are Reasonably Comparable to Rates Charged for Similar Services in Urban Areas. (254(b)(3))
- Merely Maintaining Explicit Funding at Current Levels Would Not Pass the Sufficiency Test.
 - Present Explicit Funding Mechanisms Were Established in a Monopoly Environment and Contemplated Significant Amounts of Implicit Support.
 - A Factual Finding That Present Levels of Explicit Funding Are Sufficient for a Competitive Local Marketplace Would Be Necessary.
- If (Arguendo) Funding Is Artificially Constrained to Current Levels, Then Current Recipients Cannot Be “Held Harmless” at Present Funding Levels.
 - States With Relatively Fewer Low-Cost Customers Will Require More Funding to Maintain Affordability and Comparability Standards.

The IHCAP Plan

- **The Interstate High Cost Affordability Plan (IHCAP)**
 - A Proxy Model Is Run for Small Areas of Geography.
 - A Cost-Based Affordability Benchmark Is Established
 - The Interstate Fund Provides:
 - 25% Of Funding From the Benchmark up to a “Super-Benchmark”,
 - 100% Of Funding Above the Super-Benchmark.
 - States With Proportionately More Costs Above the Super-Benchmark Would Receive Proportionately More Interstate Funding.
 - Application of IHCAP Is Automatic, With No Arbitrary Judgements Required.
- **Other Plans Have Been Proposed That Would Also Accomplish the Objectives for High-Cost Funding.**
 - Multiple Benchmarks
 - Multiple Percentages
 - However They Would be More Complex and Require Arbitrary Break Points

Under IHCAP Reductions Would be Required in Both State and Interstate Rates



Note: This chart assumes a fund size of \$4.5B derived from using FCC "common inputs" in the BCPM3 model. The actual fund size will be determined after completion of further proceedings to finalize model inputs.

The Wyoming Example

- The Wyoming PSC Has Done All of the Right Things:
 - Moved Rates Toward Forward-Looking Economic Costs
 - Established a State Universal Service Fund
 - Basic Rates Have Increased, and Access Charges Have Fallen Dramatically
 - Toll Rates Have Decreased, Investment Has Accelerated, and Competition is Emerging
- Wyoming Now Finds Itself in a Dilemma:
 - In Wyoming There Are Only 28 Customers to Support Each Customer Over \$100/mo.
 - The Cost of Funding Universal Service is Threatening Affordable Service
- The Solution:
 - Wyoming and Similarly Situated States Need Additional Interstate Assistance to Preserve Affordable Basic Service
 - Under IHCAP, Wyoming Would Receive Such Funding (assumes BCPM3 w/FCC common inputs):

Super-Benchmark	Funding
\$50/mo.	\$40.9M
\$60/mo.	\$38.0M
\$70/mo.	\$35.4M
\$80/mo.	\$33.0M