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UNITED STATES TELEPHONE ASSOCIATION

USTA 100 Years 1897-1997

November 6, 1998

Ms. Magalie Roman Salas
Secretary
Federal Communications Commission
1919 M Street, NW - Room 222
Washington, DC 20554

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FEDERAL COMMUNICATIONS COMMISSION
OFFICE OF THE SECRETARY

RE: ***Ex Parte*** **Notice**
CC Docket No. 96-45

Dear Ms. Salas:

On November 6, 1998, United States Telephone Association President and CEO Roy Neel sent the attached letter to Julia Johnson, Chairman of the Federal-State Joint Board and all of the Joint Board members.

Pursuant to Commission Rule 1.1206(b)(1), two copies of the written presentation are being filed in the Office of the Secretary. Please include them in the public record of the above-referenced proceeding.

Sincerely,

Lawrence E. Sarjeant

Lawrence E. Sarjeant
Vice President - Legal and Regulatory Affairs
and General Counsel

Attachment

cc w/o att: Members of the Federal-State Joint Board Staff

No. of Copies rec'd 0+2
List A B C D E

UNITED STATES TELEPHONE ASSOCIATION

USTA 100 Years 1897-1997

November 4, 1998

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

Dear Chairman Johnson:

USTA's comprehensive Universal Service Plan for non-rural carriers represents the unified position of our diverse local exchange carrier members. As such, it constitutes an important public policy statement. Our plan should be given the most serious consideration by the Joint Board and the Commission as they attempt to comply with the requirements of the 1996 Telecommunications Act of preserving and advancing universal service and replacing implicit support mechanisms.

I am deeply concerned that the merits of this significant plan are not being given serious consideration. As the Joint Board approaches the time to advance a recommended decision to the FCC, it is imperative that you focus on the key elements of our plan and recognize its significance.

Major features of the USTA plan are that it:

- Provides high cost support to eligible telecommunications carriers with the obligation to serve high-cost areas, but with the bulk of support to higher cost states
- Replaces interstate implicit support in rates which is non-sustainable in a competitive environment and is inconsistent with the 1996 Act
- Provides correct incentives for new carriers to offer service to local customers
- Provides for the FCC and the states to share responsibility and coordinate steps
- Encourages States to rebalance to reduce the amount of support needed

I emphasize three critical points about the USTA plan.

1401 H STREET NW SUITE 600 WASHINGTON DC 20005-2164 TEL 202.326.7300 FAX 202.326.7333 INT www.usta.org

1. **Implicit support in the form of access charges must be made explicit for any universal service plan to be responsible and pro-competitive.**

The 1996 Act specifically requires that implicit charges be eliminated and be made explicit. The Joint Board and the Commission cannot again leave in place implicit access charges that support universal service, thereby evading this critical policy decision. Any universal service plan that does not embody implicit access charges would be imprudent and inappropriate. In addition, it would be irresponsible to leave the current revenues from the Carrier Common Line (CCL) and Presubscribed Interexchange Carrier Charge (PICC) mechanisms in place as implicit charges any longer. Reform of universal service support must be coordinated with access reform. Furthermore, the current implicit recovery mechanisms are not sustainable in a competitive environment. If the Joint Board and the Commission are to foster a competitive environment, it is absolutely necessary to take action to eliminate the implicit subsidy. The USTA plan provides a workable means of making incentives available to potential competitors and should be adopted.

2. **Customers of all income segments would benefit from adoption of the USTA plan through overall reduction in telephone rates.**

The USTA plan assures that support for affordable local service is sustainable in a competitive environment. In an analysis conducted by the National Economic Research Associates (NERA), it was demonstrated that residential customers in all income brackets would experience a reduction in rates if the USTA plan were adopted. As the attached chart shows, the elimination of the implicit subsidies in the CCL and PIC charges results in a reduction of 1.1 cents per interstate toll minute and an average reduction of $.42 per month in a customer's average local and long distance bill. This positive result includes customers who make no toll calls, because of the elimination of the flat-rate PIC charged to customers by the interexchange carriers.

The NERA calculations were based on a sample of 4,000 actual customers' bills. The PICC pass-through charge and an estimated average per-minute reduction caused by elimination of the CCL charge were eliminated from the customers' bills. A 2.1 % surcharge was applied to the overall bill to pay for the interstate portion of the universal service program.

This result to customers is significant and clearly demonstrates that the impact of the USTA plan on a customer's bill is positive. It does not result in a increased subsidy for universal service because customers are already paying these amounts through charges for long distance and other services. It is imperative that the interexchange carriers pass through the reductions in access charges embodied in the plan. In the aggregate, the customer would be better off than under the current scheme of implicit subsidies.

The Joint Board and the Commission need to recognize that the USTA plan embodies important public policy and would not harm a single customer.

3. The combined use of interstate and intrastate revenues for determining contributions for the federal universal service fund is justifiable.

The Joint Board and the Commission's authority to use combined interstate and intrastate revenues for contributions to the federal universal service fund is based on several provisions of the 1996 Act. First, Section 254(b) provides that all telecommunications service providers should contribute to universal service on an "equitable and nondiscriminatory basis."

Second, the Commission has considerable discretion in selecting the revenue base to be used to determine the contributions to the federal universal service fund under Section 254(d). As long as the contribution mechanism encompasses all interstate carriers and is nondiscriminatory and equitable, the mechanism is sustainable. The Commission has recognized that it can use both interstate and intrastate revenues as the revenue base for determining universal service fund contributions in its Universal Service proceeding.

Beyond the nondiscriminatory requirement, the equitable standard similarly favors inclusion of both interstate and intrastate revenues. A mechanism based solely on interstate revenues could understate interstate revenues in general, and result in more favorable treatment to a limited class of interstate carriers, such as those providing local services. Under such circumstances, the Commission can exercise its discretionary authority and adopt a mechanism that it deems to promote the public interest and the statutory objectives.

It should be noted that a contribution mechanism that is based on combined interstate and intrastate revenues does not mean that intrastate revenues will be used to pay for the federal universal service fund. The rates and charges that a carrier establishes to recover its federal universal service fund contributions are jurisdictionally interstate. Therefore, a combined interstate and intrastate revenue base does not impact a state commission's authority to regulate the rates and charges for intrastate charges that is reserved to it under the Act.

These arguments should clarify the merits of the USTA universal service plan and once again emphasize its significance. The USTA plan is the single solution to the universal service dilemma that is fair, sustainable, will promote competition, and will result in a reduction in customers' bills. I urge you to give our plan serious consideration and adopt its elements. Please do not hesitate to call me if we can be of assistance or provide further clarification.

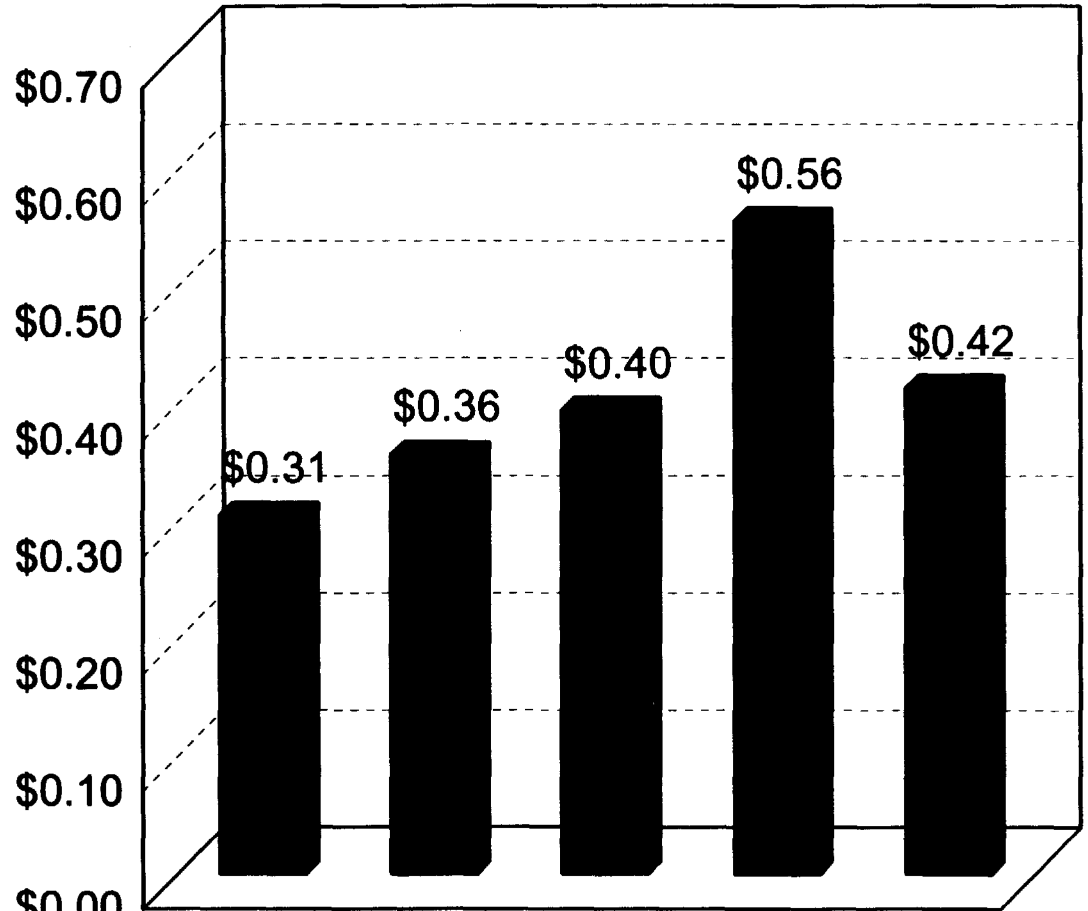
Sincerely,

Roy Neel
President and CEO

attachment

Net Customer Bill Savings By Household Income

On Average, Customers In All Income Segments Would Benefit From The USTA Proposal Which Would Eliminate Interstate CCL and PICC (A $4.3B Reduction In Access Charges)



	Less than $10,000	*$10,000 - $29,999*	*$30,000 - $59,999*	*$60,000 +*	*Average Customer*
Average Local & Long Distance Bill Before Access Reduction And Surcharge	$43.86	$50.24	$57.01	$65.86	$55.78
Average Local & Long Distance Bill After Access Reduction And Surcharge	$43.56	$49.88	$56.61	$65.30	$55.37
Net Savings	$0.31	$0.36	$0.40	$0.56	$0.42

* Analysis based on 1998 PNR Bill Harvest data. Customer benefits reflect elimination of the PICC and a CCL reduction of 1.1 cents per interstate toll minute. This portion of USTA's plan would be funded by a 2.15% surcharge on total retail revenue. Any increase in high-cost funding to states would produce additional reductions in state rates.