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Alan F. Ciamporcero
Vice President
Regulatory Affairs



GTE Service Corporation

1850 M Street, N.W., Suite 1200
Washington, D.C. 20036-5801
202 463-5290
202 463-5239 - fax
e-mail: aciamporcero@dcoffice.gte.

November 4, 1998

Ms. Magalie R. Salas
Secretary
Federal Communications Commission
1919 M Street, NW
Room 222
Washington, D.C. 20054

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FEDERAL COMMUNICATIONS COMMISSION
OFFICE OF THE SECRETARY

Re: CC Docket Nos. 96-45, 97-160, DA 98-715, Federal-State Board on Universal Service

Dear Ms. Salas:

In accordance with Section 1.1206(a)(2) of the Commission's Rules, 47 C.F.R. section 1.1206(a)(2) (1991), please include the attached letter in the record of the above proceeding. Please contact me if you have any questions.

Sincerely,

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FEDERAL COMMUNICATIONS COMMISSION
OFFICE OF THE SECRETARY

Dear Ms. Salas:

GTE viewed with alarm last week's Joint Board hearing. There was no apparent recognition of the importance for universal service of the implicit support that resides in interstate access charges today. In fact, some members suggested that the current federal high-cost fund might be sufficiently large to protect universal service in the future. A fund sized near current levels cannot make current implicit subsidies explicit – and cannot, therefore, provide a universal service mechanism that will work in the competitive world of the future.

If the implicit access subsidies are not made explicit, two problems will result. First, competition will follow subsidy. Competitors will continue to focus on subsidy-rich downtown business districts and ignore most residential customers. Second, this targeted competition will eliminate the support from these subsidy-rich areas and leave a massive shortfall – and a universal service problem – to be addressed by the remaining, largely residential customers. The Joint Board should not turn its back on this critical universal service issue.

The FCC expressly asked the Joint Board's opinion on the relationship between universal service subsidies and interstate access charges. The Board should recommend that:

- The universal service support embedded in access charges be identified and recovered in a fund that is collected and distributed on a competitively neutral basis.
- To the extent that implicit support is identified and recovered in a universal service fund, it should be removed from access charges.
- Any access reductions must expressly recognize and reflect the impact they would have on universal service support.

USTA has proposed a plan to move the support currently provided by the PICC and CCL to the universal service fund. This would create a universal service fund of about \$4.5 billion, to be recovered by a surcharge on all telecommunications users. The surcharge would be about 2%, which would be more than offset for most consumers by access reductions.

This plan would go a long way to addressing the implicit subsidy problem. That's what Congress meant to accomplish. To do otherwise would violate Section 254 of the Telecommunications Act, which cannot be read as a mandate simply to continue current

policies. The USTA plan would also spur broad-based competition, motivating competitors to go after customers beyond the reach of their current facilities.

If the implicit subsidy problem is not fixed, the support will eventually be competed away. The problem will then be kicked downhill, increasing the pressure on the states and local companies to increase local rates. That's a problem none of us want to face – and it can be averted by wise choices now.

Sincerely,

A handwritten signature in black ink, reading "Alan F. Kamporek". The signature is written in a cursive style with a large initial 'A'.

c: Members of Federal-State Joint Board on Universal Service
Ms. Magalie R. Salas, Secretary, FCC