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FEDERAL COMMUNICATIONS COMMISSION
OFFICE OF THE SECRETARY

November 20, 1998

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

EX PARTE OR LATE FILED

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

Dear Ms. Salas:

In response to concerns regarding the issue of how the universal service fund that is proposed in the USTA Universal Service Fund Plan for non-rural companies would be sized in subsequent years, the attached proposal is being placed in the record of the above-referenced proceeding as part of the USTA plan. This proposes a specific alternative method of adjusting the size of the fund in subsequent years.

An original and two copies of this *ex parte* notice are being filed in the Office of the Secretary. Please include it in the public record of the above-referenced proceeding.

Respectfully submitted,

John W. Hunter
Senior Counsel

Attachment (1)

cc: Members of the Federal-State Joint Board on Universal Service

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The USTA USF Proposal - Sizing the Federal USF in Subsequent Years

With regard to the USTA Federal Universal Service Fund Proposal, questions have arisen regarding how the fund would be sized in subsequent years. USTA originally proposed that the amount of funding be frozen on a per line basis by study area. Thus, if the number of lines increased, the fund size would increase, and if the number of lines decreased, then the fund size would decrease. In addition, USTA urged the FCC to begin a subsequent proceeding to deal with the size of the fund on a long-term basis. This subsequent proceeding could look at market-based approaches to reduce the fund size over time.

While the USTA approach is conceptually solid, it has been noted by some regulators that a frozen amount of support per line may not be acceptable to the FCC, given the decline in prices that would otherwise have occurred under the current price caps regime. With that in mind, an alternative approach has been developed that attempts to address this concern.

The alternative would be to rerun the FCC's cost model on a periodic basis, with updated inputs,[1] to see if the cost of universal service is declining on a prospective basis. The new results could be compared to the previous period's results and the resultant ratio could be used to adjust the universal service support on a per line basis. For example, assume that in 1999 the nationwide cost per line as calculated by the model is $30.00, and in the next period, the cost per line declines to $29.50. The federal support per line would then be decreased by 1.67% (which equals $0.50/$30.00).

[1] The cost model should be standardized and should not be changed from year to year. Only the inputs should be updated.