UNITED STATES
TELEPHONE
ASSOCIATION

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FEDERAL COMMUNICATIONS COMMISSION
OFFICE OF THE SECRETARY

December 24, 1998

Magalie Roman Salas
Secretary
Federal Communications Commission
445 12th Street SW
TWB 204
Washington DC 20554

RE:Federal-State Joint Board on Universal Service
CC Docket No. 96-45; DA 98-2410

Dear Ms. Roman Salas:

Yesterday, USTA filed comments on the Joint Board's Second Recommended Decision in the above- referenced matter. Inadvertently, an insufficient number of internal commission copies was provided to your office. Attached please find twelve copies pursuant to the instructions contained in the Public Notice released on November 25, 1998 (DA No. 98-2410). We regret any inconvenience this may have caused. Please contact me if you have any questions.

Sincerely,

Lawrence E. Sarjeant

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

No. of Copies rec'd 0+11
List A B C D E

Before the
FEDERAL COMMUNICATIONS COMMISSION
Washington, D.C. 20554

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OFFICE OF THE SECRETARY

In the Matter of	)	
	)	
Federal-State Joint Board on Universal Service	)	**CC Docket No. 96-45**
	)	**DA 98-2410**

**COMMENTS
OF THE
UNITED STATES TELEPHONE ASSOCIATION
ON THE
SECOND RECOMMENDED DECISION**

The United States Telephone Association (USTA) hereby submits its comments on the Second Recommended Decision of the Joint Board in the above-captioned proceeding (Recommended Decision).[1] USTA is the principal trade association of the local exchange carrier (LEC) industry. Its members provide over 95 percent of the exchange carrier-provided access lines in the United States. Incumbent LECs traditionally have been the sole providers of universal service.

I. Introduction

The Joint Board on universal service issued the Recommended Decision to address issues related to the determination of high cost universal service support, including the share of federal high cost support. The Joint Board offers a modest proposal addressing these issues which, in USTA's estimation, does not go far enough in addressing the important matter of making implicit support explicit.

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[1] 63 Fed. Reg. 67837, Dec. 9, 1998.

USTA has proposed an alternative Universal Service Plan for non-rural carriers that complies with the requirements of the Communications Act of 1934, as amended, (the Act)[2] to preserve and advance universal service and replace implicit support mechanisms.[3] This plan provides high cost support to eligible telecommunications carriers with the obligation to serve high-cost areas, but with the majority of support to higher cost states. The Plan also provides correct incentives for new carriers to offer service to local customers. It incorporates shared responsibility between the Commission and the states for universal service support and encourages states to rebalance rates to reduce the amount of support needed. This plan is comprehensive and thoroughly addresses the requirements in the Act for meaningful universal service reform. The Commission should adopt the USTA Plan.

II. The Recommended Decision is a good first step in addressing the issues of positioning adequate universal service support for non-rural carriers in a more competitive marketplace, but USTA raises concerns over the scope and direction of several aspects.

A. Embedded implicit support needs to be made explicit by Commission action.

A major tenet of USTA's Plan is that embedded implicit support must be made explicit. This is a necessary action for the Commission to take because the existing rate structures that embody implicit subsidies in access charges require revision in order for explicit universal service support mechanisms to be distributed in a competitively neutral manner. As a result of current implicit access support, business and residential customers in all areas receive affordable

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47 U.S.C. §§ 151 *et seq.*

Ex parte letter from John W. Hunter, USTA Senior Counsel, to Magalie Roman Salas, FCC Secretary, in CC Docket No. 96-45, Sept. 29, 1998.

service. By virtue of the fact that this support is implicit, it cannot be made portable to a new carrier. Until action is taken to rectify this situation, competitors are effectively preempted from entering local markets and providing residential service. In order for competition to fully develop in the residential market, implicit support must be made explicit. Good public policy demands such action.

The Act directs the Commission to develop "specific, predictable, and sufficient" federal universal service support mechanisms.[4] In addition, the Act specifies that any such support should be explicit and sufficient to achieve the universal service purposes of the Act.[5] Furthermore, the Act specifies that all telecommunications service providers should contribute to universal service on an equitable and nondiscriminatory basis.[6] This requirement will not be met so long as most of the support for universal service from the interstate jurisdiction is in the form of implicit support in rates that only ILECs have to charge. Therefore, Commission action to address implicit support mechanisms is consistent with the Act and should be undertaken immediately.

USTA has demonstrated that its plan would not harm any group of customers. In fact, customers in every category of use would experience a slight reduction in rates. See Attachment A herein. The National Economic Research Associates (NERA) conducted an analysis that demonstrated this result, which is explained in the attached affidavit of Dennis Weller, Chief

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47 U.S.C. §254(b)(5).

47 U.S.C. §254(e).

47 U.S.C. §254(b)(4).

Economist with GTE. See Attachment B, herein. The study shows that the elimination of the implicit subsidies in the carrier common line (CCL) charge results in a reduction of 1.1 cents per minute in interstate usage charges. The study also demonstrates that the elimination of the presubscribed interexchange carrier charges (PICC) results in elimination of the pass through charges from the IXCs. The combined effect of the removal of CCL and PICC is an average reduction of $.42 per month in a customer's average combined local and long distance bill.

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 an increased subsidy for universal service because customers are already paying these amounts through charges for long distance and other services. This analysis demonstrates that it is critical for reductions in access charges to be passed on to the customer by the interexchange carriers (IXCs). The Recommended Decision advocates that any reductions in access charges be realized by the consumer.[7] The Commission should implement measures to assure that the IXCs cooperate in this plan for the benefit of consumers.

The Recommended Decision specifically acknowledges that the Commission has jurisdiction to determine what implicit universal service high cost support is in interstate access rates and to take appropriate action to make that support explicit.[8] The Commission should exercise its jurisdiction *post haste*. This is a critical policy decision that must be addressed. The current implicit recovery mechanisms are not sustainable in a competitive environment. The

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[7] Recommended Decision at ¶23

[8] *Id.*

Commission needs to adopt a universal service plan that embodies the implicit subsidies currently in access charges in order to foster a competitive environment. To do otherwise would be imprudent and inappropriate. The USTA Plan provides a workable, practical means of making incentives available to potential competitors and should be adopted by the Commission.

B. A number of problems exist with the use of a forward-looking economic cost model to distribute high cost support.

The USTA Plan accepts that a properly designed cost model may be used for non-rural carriers to implement the distribution of high cost funds, but not to size the fund itself.[9] Nonetheless, despite the fact that surrogates may be employed to effectuate distribution, there are other reasonable methodologies that could be employed to distribute high cost support funds. The Commission has focused on the adoption of a forward-looking economic cost proxy model for several purposes, and USTA has consistently pointed out problems with the implementation of those models.[10] The Recommended Decision acknowledges the fact that no model is complete and that the Joint Board cannot make a final recommendation as to the method to be used to distribute high cost support. Specific problems identified are the selection of input values,[12] the

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USTA has consistently opposed the use of a forward-looking economic cost model to determine the amount of universal service support. *See* USTA Comments in CC Docket No. 96-45, filed Aug. 9, 1996, Comments filed Dec. 19, 1996, and Reply Comments filed Jan. 10, 1997.

Id.

Recommended Decision at ¶28.

Id.

use of proprietary geocoded customer location data.[13] and potential alternative data sources.[14]

In addition. individual Joint Board members in their separate statements acknowledge the shortcomings. For instance. Commissioner Ness states the need for continued work on the selection of inputs to develop an accurate model and that "we will not use this tool unless it is has [sic] achieved a level of accuracy. predictability. and openness that earns it broad acceptance." Chairman Johnson and Commissioner Baker jointly acknowledge that the model is not now workable. Public Counsel Hogerty recognizes the need for development of a reliable model and calls for inputs that are not proprietary. Commissioner Tristani acknowledges that there is not now a working model. Commissioner Furtchgott-Roth expresses numerous objections to the use of a forward-looking cost model to determine universal service subsidy and questions how the Joint Board can make decisions regarding the cut-off for what costs are significantly above the national average and the level of federal universal service support. Commissioner Furtchgott-Roth specifically questions how the Joint Board can endorse the use of a model without a specific plan for recommending inputs or reevaluating the framework after the inputs have been selected and actual numbers are available. Commissioner Schoenfelder bases her dissent partially on the Joint Board's reliance of a proxy model and questions the lack of realistic results.

Based on the criticisms expressed by USTA and the Joint Board members. the Commission should not rely on a forward-looking economic cost model to distribute high cost universal service support to carriers. The Commission should not proceed with the use of

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Recommended Decision at ¶29.

Id.

forward-looking cost models as a basis for distributing universal service support.

C. The framework for recovery of high cost support is generally sound, but a number of specific aspects should be addressed.

The Recommended Decision sets forth specific aspects of its proposed method of recovery for high cost support for non-rural carriers. USTA comments on a number of those issues below.

1. Size of the area

The Recommended Decision proposes that federal support initially be determined by measuring costs at the study area level.[15] but that the Commission consider the impacts of competition on universal service support once competition develops within a study area.[16] This recommendation addresses the geographic basis for determining costs. but does not consider how universal support should be distributed within an area. The Recommended Decision only goes as far as stating that support should not go directly to the states. but rather to the carriers.[17]

USTA believes that distribution of explicit support throughout a study area may be deaveraged so that higher cost regions within a study area receive greater support per-line than lower-cost regions. This policy is important to portability and competition. since it eliminates the ability of new entrants to target lower cost. higher volume customers within a particular study area. Carriers should be allowed to use zones within a study area for this purpose. The Commission should provide for a deaveraging feature in any universal service support plan that it

Recommended Decision at ¶ 32.

Recommended Decision at ¶ 34.

Recommended Decision at ¶ 61

adopts for non-rural carriers.

2. Distribution mechanism

The Recommended Decision proposes a general distribution mechanism for high cost support that embodies the identification of areas with high costs and the selection of a national benchmark to determine eligibility for support.[18] USTA agrees with the Recommended Decision insofar as the necessity of identification of a national benchmark is concerned. The component of the USTA Plan that provides high cost funding to the states calls for the development of an equitable mechanism based on a cost benchmark to identify those states which will need additional support due to significant numbers of high cost customers and relatively few low cost customers over whom to spread these costs. The level of the benchmark, together with the cost estimate, would determine the amount of support needed in an area. A percentage level above the benchmark is necessary in order to assure that the eligible carrier receiving support has incentives to operate efficiently.

Another component of the USTA Plan addresses federal support and provides for the replacement of interstate access. Under that part of the plan, each ILEC study area would receive explicit per-line support equal to the amount of access reduction made by the ILEC in that study area divided by the number of residential access lines in that study area. The amount of per-line support in a study area would remain constant until the Commission acts to adopt an alternative mechanism for distributing explicit support among eligible carriers. The benchmark does not apply to this portion of the plan.

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[18] Recommended Decision at ¶¶ 41-44.

3. Hold harmless

The Recommended Decision advocates that the Commission retain its commitment to hold states harmless so that no non-rural carrier receives less federal high cost assistance than the amount it currently receives from explicit support.[19] USTA agrees with this recommendation and urges the Commission to retain its current hold harmless policy with regard to non-rural carriers' universal service support.

4. Portability and use of support

The Recommended Decision proposes that the policy of making high cost support available to all eligible telecommunications carriers in order to foster competitive neutrality be continued. USTA agrees that universal service support must be portable. In fact, the USTA Plan's removal of implicit charges from access to make them explicit is based on the need to establish policies that foster competition.

The Recommended Decision advocates that carriers should comply with the requirements of Section 254 of the Act for federal universal service support eligibility. USTA agrees with this requirement.

The Recommended Decision also proposes that support be targeted to customers living in the highest cost areas. USTA agrees with the result of this proposal, but points out that if its

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Recommended Decision at ¶53.

Recommended Decision at ¶56.

Recommended Decision at ¶58.

Id.

plan is followed and support is disaggregated. the desired result would be accomplished.

The Recommended Decision addresses the issue of whether distribution of universal service funding should be made to the states or directly to eligible carriers. The Joint Board concludes that it cannot recommend a mechanism that distributes support to states in block grants.[23] USTA agrees with this conclusion and advocates distribution of support directly to eligible carriers.

5. Assessment and recovery of contributions

The Recommended Decision addresses various alternatives for assessing carrier contributions to the federal universal service fund.[24] The Joint Board recognizes that, if the Fifth Circuit rules that the Commission has authority to assess universal service contributions on interstate and intrastate revenues,[25] the use of total retail carrier revenues could be utilized. The Joint Board also recognizes that the Commission could consider a flat, per-line recovery of each carrier's assessment.

The Recommended Decision states that a carrier should have the option of recovering its contributions from end-users through a line-item charge on its bills. This issue is of vital importance to carriers, and USTA advocates that the Commission affirm the Joint Board's recommendation to allow carriers to recover their contributions to the universal service fund from end-users. In fact, under the USTA Plan, customers would actually experience a slight

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Recommended Decision at ¶ 61

Recommended Decision at ¶¶ 62-63

Texas Office of Public Utility Counsel v. FCC, No. 97-60421 (5th Cir. 1997).

reduction in rates by paying a charge that reflects current implicit and explicit contributions.[26] Since customers are now paying most of the implicit access charges that fund non-rural federal universal service support, the recovered contribution paid by end-users should not increase.

The Commission should allow carriers to base recovery on interstate and intrastate revenues for several reasons. First, recovery 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. This is so because there are interstate uses that are reflected in intrastate end user revenues such as private line uses, leaky PBX traffic and connections to Internet providers. These segments of intrastate revenues are bound to increase, thereby causing the undesirable results stated above.

Second, recovery based on interstate revenues only could create distorted economic incentives for customers to purchase services from intrastate tariffs and for carriers to misreport the jurisdictional classification of traffic to avoid the interstate-only surcharge.

Third, a recovery mechanism based on combined interstate and intrastate revenues does not mean that intrastate revenues will be used to pay for the federal universal service fund. Any contributions for the federal universal service fund assessed on interstate carriers constitute an additional interstate cost. Each carrier is entitled to recover its interstate cost. 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 base for recovery does not impact a state's authority to regulate the rates and charges for intrastate charges that is

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[26] *See* Sec. II(A), *supra*.

reserved to it under the Act.

Fourth, the use of combined revenues allows the largest possible funding base, which means that the rate would be much smaller. This situation would create the least market distortions.

The Recommended Decision also proposes a series of requirements concerning the identity of universal service contribution recovery on a customer's bill.[27] USTA takes strong exception to the recommendations that call on the Commission to prescribe how carriers describe specific charges on their customers' bills. Such unnecessary constraints would have both practical and legal ramifications.[28] Prescriptive billing content and format rules would inhibit a carrier's ability to respond quickly to changing customer needs. They would also preclude carriers from meeting the differing residence and business service class needs. Such rules as contemplated by the Joint Board call into question the Commission's legal authority over the commercial relationship between carriers and their customers.[29] The Commission itself has recognized that it must consider First Amendment considerations when dealing with such issues.

While USTA believes that it may be appropriate for the Commission to adopt general principles regarding billing practices, it is neither necessary nor useful for the Commission to

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[27] Recommended Decision at ¶¶ 70-73.

[28] See USTA Comments in *Truth-in-Billing and Billing Format*, CC Docket No. 98-170, filed Nov. 13, 1998.

[29] See Commissioner Furtchgott-Roth's Dissenting Statement at 15-16.

[30] *Truth-in-Billing and Billing Format*, Notice of Proposed Rulemaking, CC Docket No. 98-170, FCC 98-232 (released Sept. 17, 1998) at ¶ 15.

prescribe how carriers carry out general billing principles. Carriers must be afforded the flexibility to conduct themselves responsibly in their billing contacts with customers without unnecessary regulatory burdens. Therefore, USTA urges the Commission not to adopt the specific constraints on billing practices advocated in the Recommended Decision.

D. Determinations for the non-rural universal service fund should not create a precedent for rural carrier support mechanisms.

The Recommended Decision specifically states that the Commission should not create any precedent for any potential revisions to support mechanisms for rural carriers.[31] The Joint Board also acknowledges the Commission action in delaying any changes to the support mechanisms for rural carriers until at least January 1, 2001.[32] Commissioner Ness unequivocally states that "issues involving rural carriers are 'off the table.'" USTA strongly urges the Commission to affirm its earlier determination and the Joint Board recommendation that decisions made regarding non-rural universal service support do not create a precedent for rural carrier universal service support policies.

III. Conclusion

USTA advocates that the Commission adopt the USTA Universal Service Plan for non-rural carriers. Although the Recommended Decision is a good first step in addressing the need to [illegible] universal service support for non-rural carriers in a more competitive environment, it does not go far enough in dealing with implicit subsidies currently in access charges. USTA advocates that the Commission make the hard policy decision and deal with implicit subsidies in

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Recommended Decision at ¶ 30.

Recommended Decision at ¶ 9.

this proceeding and make those charges explicit.

USTA also urges the Commission to recognize the shortcomings of the forward-looking economic cost model and delay any reliance on such a model for determining distribution of universal service support amounts.

Respectfully submitted.

UNITED STATES TELEPHONE ASSOCIATION

By John W. Hunter

Its Attorneys:

Lawrence E. Sarjeant
Linda L. Kent
Keith Townsend
John W. Hunter

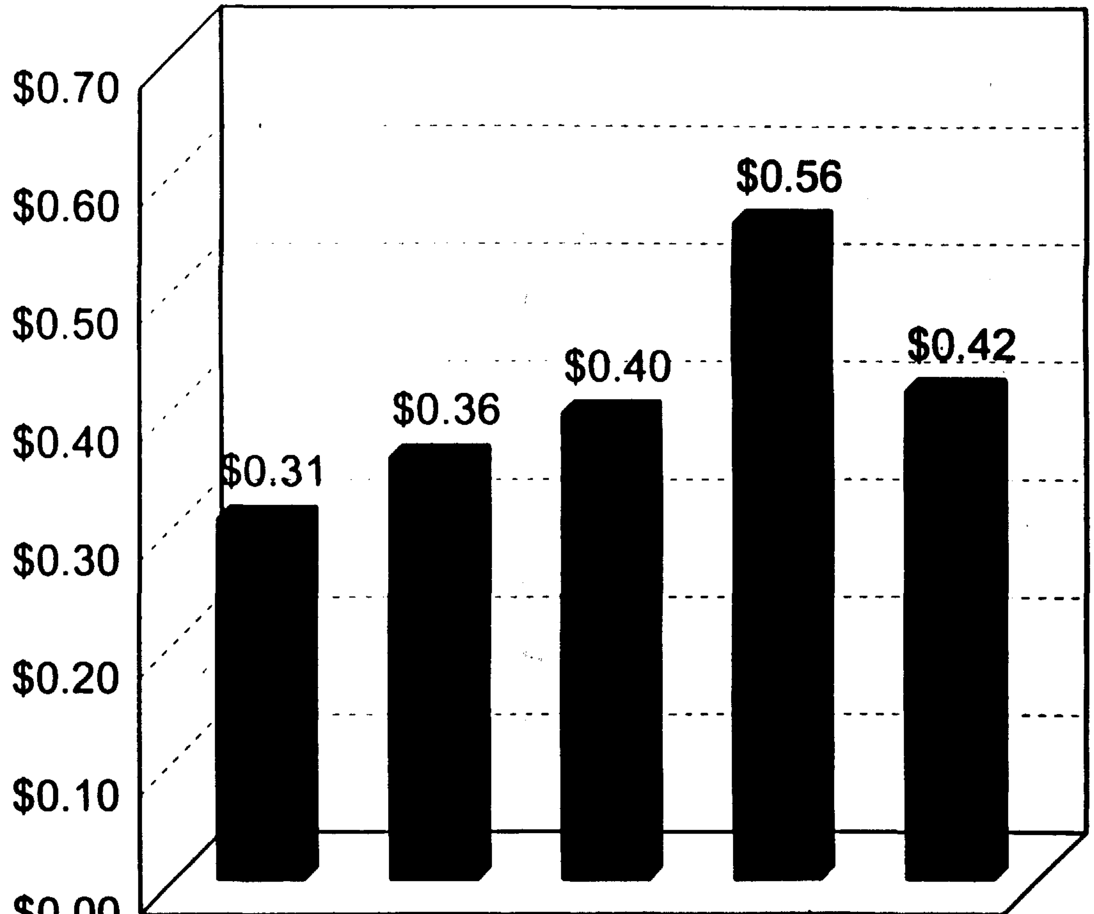
1401 H Street, NW
Suite 600
Washington, DC 20005
(202) 326-7375

December 23, 1998

ATTACHMENT A

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.**

ATTACHMENT B

AFFADAVIT OF DENNIS WELLER

23 December 1998

My name is Dennis Weller. I am Chief Economist for GTE. On behalf of USTA, I have worked with Paul Brandon of National Economic Research Associates ("NERA") to prepare estimates of how residential telephone customers would be affected if the USTA universal service proposal for non-rural companies were implemented by the FCC. In the course of the debate over universal service policy, many parties have speculated as to how different groups of subscribers might gain or lose if the current implicit support from interstate access charges were replaced by a system of explicit funding, such as the one USTA has proposed. We have sought to provide more concrete answers to this question, based on an analysis of a nationwide sample of actual customer bills.

The USTA Proposal

USTA has proposed a federal universal service plan for nonrural areas which includes two components:

The first component seeks to replace the implicit support for universal service generated by interstate access charges. Specifically, the USTA plan would eliminate the current SLC and PICC charges.[1] This flow of funding would be replaced by deaveraged, portable per-line support payments.

The second component of the USTA plan would provide funding from the federal universal service mechanism to the states, in order to assist states with high funding needs and limited resources to maintain affordable local rates that are comparable to those in other states. USTA has not made a recommendation as to the dollar amount of this component, except that it should be at least as large as the current federal support mechanisms.

Our analysis estimates the effect on residence customers of implementing the first component of the USTA proposal. Because USTA does not specify the dollar amount of the second component, we have not evaluated any change in the funding provided to the states, but have simply assumed that it remains at today's levels. The first component of the USTA plan would involve $4.3 Billion in funding annually, the revenue currently generated by the CCL and PICC charges assessed by nonrural companies.

USTA proposes that the federal universal service mechanisms should all be funded through a surcharge based on the total retail revenues, both state and

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Under the FCC's current access reform plan, certain costs which are now being recovered through other elements, such as the non-service specific component of the TIC charge, are being transitioned to the PICC. For the purposes of the USTA plan, the PICC is calculated as if this transition had been completed.

This is not meant to suggest that this component of the funding <u>should</u> remain the same; it simply means that we did not study the effects of any change to it.

interstate, of all telecommunications carriers. To provide the funding necessary for the first component of the USTA plan, $4.3 Billion, a surcharge of 2.15% would be required.[3]

Data for the study

The study analyzes data from a nationwide sample of customer bills for residence wireline customers.[4] Our study does not examine effects on business customers, or customers of wireless of CLEC services. Customers participating in the sample send their actual bills for both local and long distance service to PNR. We examined bills for 4,175 residence customers for the months of March and April 1998.[5] The data include call detail for each customer, and any charges the customer's long distance carrier may have assessed to pass through the PICC charge.

Effects of the USTA Proposal

There are three ways in which a residence customer might be affected by implementation of the USTA plan

First, the USTA plan would eliminate the PICC charge. To measure the

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Today the nonrural ILECs recover their own contributions to the existing federal mechanisms - high cost long term support ("LTS") schools and libraries, rural health care, Lifeline and Linkup - through their interstate access charges Of the $4 3 Billion in revenue generated by the CCL and PICC today, about $800 million represents this recovery of the ILECs' contributions Under USTA's proposal the ILECs contributions would be recovered through the surcharge on retail revenues The 2 15% surcharge thus includes the amount needed to fund ILEC contributions to all of the federal universal service mechanisms

MarketShare Monitor collected by Market Facts Inc and PNR and Associates, Inc

The data set includes customer weights which we used to make the sample representative of U S households effect of this change, we deducted from each customer's bill any PICC pass-through charge assessed by that customer's long distance carrier.[6]

Second, the USTA plan would eliminate the CCL charge. To estimate the effect of this change, we identified each interstate long distance call in the customer's call detail. We multiplied the number of minutes of these calls times the current nationwide average CCL rate, which is 1.1 cents per minute (for both ends of the call), and deducted the result from the customer's bill.[7] This calculation assumes that the IXC will pass through the reduction in the CCL to its end users.

Third, in order to fund this component of the USTA plan, customers would pay a surcharge of 2.15% on their retail purchases. To estimate the effect of this, we added an amount to each customer's bill equal to 2.15% of the total of the customer's local and long distance bills. We included state, interstate and international charges for telecommunications services, but excluded non-telecommunications items on the bill, such as taxes, equipment, and inside wire maintenance

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In March and April 1998 when these data were collected, AT&T was in the process of implementing a PICC pass-through charge However the implementation took place over several months some of the customers in our sample had not yet been affected Later this year, AT&T adjusted its charge to 85 cents For the purpose of this study, we have deducted 85 cents from the bill of every AT&T long distance customer in the sample

For an international call we deducted half this amount (0.65 cents) per minute, to represent the savings on the domestic end of the call

IV. Results of the Analysis

The results of our calculations are shown in Table 1. The first section of Table 1 shows the effect for an average customer; the calculations described above are performed for a customer whose local and toll bills are at the mean for the sample. The net effect of the USTA proposal on this customer, after taxes, is a reduction in the customer's bill of 41 cents per month (line I in Section I of the table).

One might ask how all customers can be made better off by a plan which is revenue neutral. The answer is simple. This analysis considers the universe of wireline residence customers nationwide. When an explicit funding mechanism, like the USTA plan, is implemented, other groups of customers, such as wireless and CLEC customers, will, for the first time, begin to contribute to the funding of universal service. Today, the burden of the universal service subsidy generated by interstate access falls entirely on wireline ILEC customers; under the USTA plan, all customers would contribute through the 2.15% surcharge on their bills.

In order to show the distributional effects of the USTA plan, we segmented the customers in the sample according to the size of their bills, and according to their household incomes. The second section of Table I shows the results of the calculation when customers are segmented by their expenditures. Row I in Section II of the table shows the net savings, after taxes, by expenditure level. Note that even customers in the lowest expenditure group, ($0 – 25 per month) save an average of 34 cents per month as a result of the USTA plan.

The third section of Table 1 shows the results of the calculation when customers are segmented by their reported household incomes. These results are also displayed graphically in Appendix A. Note that while higher income customers save somewhat more, the effects of the USTA plan are quite consistent across income groups. Even customers with incomes below $10,000, for example, have their bills reduced, on average, by 31 cents per month. The same result is shown by the leftmost bar in Appendix A.[8]

Finally, we studied the subset of customers in the sample who made no toll calls, and thus could not realize any savings from the reductions in the per-minute rate. Even for this group, the net effect of the USTA plan is that they just about break even. The results for customers with no toll are shown on the right-hand side of Section I in Table I. The average net change in these customer's bills, after taxes, is a reduction of five cents per month.

V. Analysis of the Results

These results show that the adoption of the USTA proposal would not harm any group of wireline residence customers. In fact, it would generate small reductions in the bills paid by customers at every income level, and every usage level. The USTA plan has these benign distributional effects for several reasons.

First, customers at every income level make long distance calls. Years

[8] Table I shows the change in customers' bills. A reduction in the bill is therefore shown as a negative number in Table 1. Appendix A shows customer savings, so that a reduction in the bill appears as a positive bar in the chart.

ago, it was widely perceived that long distance service was a luxury purchased only by the wealthy. Today, the use of long distance has become much more widespread. For example, toll calling represents about 40% of the total bill, on average, for our entire sample of customers. If we examine the lowest income category, those with incomes below $5,000, we find that toll charges make up 40% of the bill for that group as well. While it is true that, in general, higher income customers make more long distance calls, the differences are not dramatic. Of course within each income group, there are some customers who make toll calls and others who do not.

Second, the elimination of the PICC charge removes a flat amount from the customer's bill, so that customers benefit from this change regardless of their long distance usage. Even for customers in the zero usage group, this reduction is enough to offset the amount those customers pay as a result of the 2.15% surcharge.

Finally, because the funding for the USTA plan is recovered through a charge based on a percentage of revenue, each customer's contribution is proportional to that customer's usage. A customer who uses more long distance, and who therefore benefits more from the reduction in usage charges, will also pay more through the percentage surcharge. This ensures that the net benefits of the USTA plan are distributed in a relatively even fashion among wireline residence customers.

Conclusion

There are several important policy reasons for replacing the current implicit support from interstate access with an explicit funding mechanism. An explicit fund would make universal service more sustainable as competition develops, it would remove the current distortions caused by implicit support from the prices of access and long distance services, and it would provide better price signals for local entry by making the support portable to new carriers, thus encouraging the development of efficient local competition.

However, there has always been a concern that these advantages could be obtained only at the cost of some near-term harm that would be imposed on local subscribers, especially those with low incomes, or those who do not make many long distance calls. The analysis presented here demonstrates that such fears are groundless. In fact, the explicit federal funding mechanism USTA proposes would not harm any group of wireleline residence subscribers, regardless of their income or usage levels. Even those who make no long distance calls will not be harmed. For most customers, the immediate effect of the USTA plan will be a small reduction in their monthly bills. The broader policy benefits listed above – especially the increased prospects for meaningful competition for local residence service – are more difficult to quantify, but are likely to be more significant over the long term.

Impact of USTA $4.3B Consensus Proposal

Data Source: MarketShare Monitor

The Average Customer: mean "Local Total Current Charges" and "Long Distance Total Bills"
Net total bill impact of a 2.15% surcharge and a $0.011 per minute toll reduction (due to $4.3B net of PICC interstate access flow-through).

		Means	If average customer has no toll calls	
A	Local Total Current Charges (after taxes)	$33.39	$27.52	(excludes intraLATA toll)
B	Long Distance Total Bill (after taxes)	$22.38	$0.97	(PICC pass through and service charges)
C	Total Local and LD before surcharge and savings (after taxes)	$55.77	$28.49	
D	Savings on LD Toll (before taxes)	$0.81	$0.00	
E	PICC Savings	$0.65	$0.60	
F	2.15% Surcharge on Local and LD (before taxes)	$1.15	$0.56	
G	Net Impact - total savings to avg. customers bill (before taxes)	$0.30	$0.00	
H	Total Local and LD after surcharge and access (after taxes)	$56.36	$28.45	
I	Net Impact - total savings to avg. customers bill (after taxes)	$0.41	$0.05	
J	Interstate and International toll minutes	74	0	
	Customers in sample: 4178			

II. Revenue Segmentation: mean "Local Total Current Charges" and "Long Distance Total Bills"
Net total bill impact of a 2.15% surcharge and a $0.011 per minute toll reduction (due to $4.3B net of PICC interstate access flow-through).

	Means	0 to 25.00	25.01 to 35.00	35.01 to 50.00	50.01 to 75.00	75.00 or more	Total
A	Local Total Current Charges (after taxes)	$17.06	$25.72	$31.39	$39.26	$54.18	$33.39
B	Long Distance Total Bill (after taxes)	$2.70	$6.24	$13.37	$25.48	$69.83	$22.38
C	Total Local and LD before surcharge and savings (after taxes)	$19.76	$31.95	$44.76	$64.74	$124.01	$55.77
D	Savings on LD Toll (before taxes)	-$0.09	-$0.26	-$0.54	-$0.97	-$2.34	-$0.81
E	PICC Savings	-$0.62	-$0.64	-$0.63	-$0.64	-$0.72	-$0.65
F	2.15% Surcharge on Local and LD (before taxes)	$0.41	$0.66	$0.93	$1.33	$2.56	$1.15
G	Net Impact - total savings to avg. customers bill (before taxes)	-$0.28	-$0.24	-$0.24	-$0.28	-$0.50	-$0.30
H	Total Local and LD after surcharge and access (after taxes)	$19.43	$31.65	$44.42	$64.34	$123.28	$55.36
I	Net Impact - total savings to avg. customers bill (after taxes)	-$0.34	-$0.30	-$0.33	-$0.40	-$0.73	-$0.41
J	Interstate and International toll minutes	8	23	49	88	218	74
	Sample Size By Revenue Segment	770	880	954	895	676	4,175
	Percent of Total Sample	18.4%	21.1%	22.9%	21.4%	16.2%	100.0%

III. Income Segmentation: mean "Local Total Current Charges" and "Long Distance Total Bills"
Net total bill impact of a 2.15% surcharge and a $0.011 per minute toll reduction (due to $4.3B net of PICC interstate access flow-through).

	Means	Less than $5,000	$5,000 - $7,499	$7,500 - $9,999	Segment < $10,000	$10,000 - $12,499	$12,500 - $14,999	$15,000 - $17,499	$17,500 - $19,999	$20,000 - $22,499	$22,500 - $24,999	$25,000 - $27,499	$27,500 - $29,999	$27,500 - $29,999
A	Local Total Current Charges (after taxes)	$27.79	$30.18	$25.90	$27.91	$28.26	$30.97	$28.23	$30.68	$30.95	$30.88	$31.92	$31.96	$30.41
B	Long Distance Total Bill (after taxes)	$18.44	$18.75	$12.14	$15.95	$17.14	$19.12	$20.53	$18.10	$16.36	$29.42	$18.52	$24.00	$19.83
C	Total Local and LD before surcharge and savings (after taxes)	$46.22	$48.92	$38.04	$43.86	$45.40	$50.09	$48.76	$48.78	$47.30	$60.30	$50.44	$55.96	$50.24

		$30,000 - $32,499	$32,400 - $34,999	$35,000 - $39,999	$40,000 - $44,999	$45,000 - $49,999	$50,000 - $59,999	$30,000 - $59,999	$60,000 - $74,999	$75,000 - $99,999	$100,000 - $124,999	$125,000 and over	$60,000 +	Total
D	Savings on LD Toll (before taxes)	$0.56	$0.50	$0.50	$0.51	$0.84	$0.63	$0.77	$0.67	-$0.65	-$0.74	-$0.84	-$0.87	-$0.87
E	PICC Savings	$0.60	$0.60	$0.66	$0.62	$0.84	$0.63	$0.64	$0.67	-$0.63	-$0.61	-$0.80	-$0.88	-$0.83
F	3.15% Surcharge on Local and LD (before taxes)	$0.96	$1.01	$0.79	$0.91	$0.96	$1.03	$1.01	$1.01	$0.96	$1.25	$1.04	$1.15	$1.04
G	Net impact - total savings to avg. customers bill (before taxes)	$0.20	$0.06	$0.37	$0.23	$0.34	-$0.23	$0.40	-$0.33	-$0.29	-$0.08	-$0.18	-$0.20	-$0.26
H	Total Local and LD after surcharge and access (after taxes)	$45.84	$48.76	$37.59	$43.56	$44.87	$48.76	$48.25	$48.34	$46.82	$60.10	$50.16	$55.67	$49.86
	Net impact - total savings to avg. customers bill (after taxes)	$0.28	$0.17	$0.45	$0.31	$0.43	-$0.33	$0.51	-$0.44	-$0.34	-$0.18	-$0.28	-$0.30	-$0.30
J	Interstate and International toll minutes	51	52	45	49	56	56	70	61	60	73	56	61	62
	Sample Size By Income Segment	82	122	150	334	222	236	134	151	218	151	100	122	1,306
	Percent Of Total Sample	1.5%	3.0%	3.7%	8.1%	5.4%	5.8%	3.3%	3.7%	5.3%	3.7%	3.8%	3.0%	34.0%
	Percent of Sub Segment	10%	37%	45%	100%	16%	17%	10%	11%	16%	11%	12%	8%	100%
	Means	$30,000 - $32,499	$32,400 - $34,999	$35,000 - $39,999	$40,000 - $44,999	$45,000 - $49,999	$50,000 - $59,999	$30,000 - $59,999	$60,000 - $74,999	$75,000 - $99,999	$100,000 - $124,999	$125,000 and over	$60,000 +	Total
A	Local Total Current Charges (after taxes)	$34.45	$31.86	$35.04	$33.12	$33.84	$35.60	$34.24	$36.39	$38.96	$39.46	$42.96	$38.82	$33.34
B	Long Distance Total Bill (after taxes)	$22.13	$21.00	$20.74	$22.45	$24.03	$25.04	$22.77	$23.48	$29.87	$31.22	$43.06	$27.83	$22.44
C	Total Local and LD before surcharge and savings (after taxes)	$56.58	$52.86	$55.78	$55.57	$57.86	$60.65	$57.01	$59.87	$68.93	$70.72	$86.03	$66.65	$55.78
D	Savings on LD Toll (before taxes)	$0.56	$0.66	$0.72	$0.80	$0.87	$0.94	-$0.81	-$0.85	-$1.14	-$1.51	-$1.34	-$1.10	-$0.81
E	PICC Savings	$0.67	$0.63	$0.62	$0.67	$0.64	$0.67	-$0.65	-$0.66	-$0.66	-$0.80	-$0.70	-$0.86	-$0.65
F	3.15% Surcharge on Local and LD (before taxes)	$1.16	$1.06	$1.15	$1.15	$1.20	$1.25	$1.16	$1.24	$1.42	$1.47	$1.76	$1.36	$1.15
G	Net impact - total savings to avg. customers bill (before taxes)	$0.07	$0.23	$0.16	$0.42	$0.37	$0.36	$0.26	$0.40	$0.36	-$0.70	-$0.26	-$0.42	-$0.31
H	Total Local and LD after surcharge and access (after taxes)	$58.42	$52.55	$55.45	$55.03	$57.36	$60.17	$56.61	$59.34	$68.36	$69.86	$85.60	$66.30	$55.36
	Net impact - total savings to avg. customers bill (after taxes)	$0.16	$0.32	$0.26	$0.54	$0.46	-$0.48	$0.40	-$0.53	$0.53	-$0.86	-$0.42	-$0.56	-$0.42
J	Interstate and International toll minutes	52	62	65	83	85	86	74	87	106	140	124	102	75
	Sample Size By Income Segment	177	134	256	261	221	330	1378	508	298	108	85	995	4104
	Percent Of Total Sample	4.3%	3.3%	6.2%	6.4%	5.4%	8.0%	33.6%	12.3%	7.3%	2.6%	2.1%	24.2%	100%
	Percent of Sub Segment	13%	10%	19%	19%	16%	24%	100%	51%	30%	11%	9%	100%	

V. **Assumptions/Information**

A. The above data was obtained from Market Facts, Inc., and PNR and Associates, Inc., *Market/Share Monitor*, bills for months of March and April 1998

B. State and local taxes and federal excise tax was removed from the local and LD average bill before the surcharge and access savings were calculated

C. A negative number above indicates a savings to the customer.

D. Assumed state and interstate base of $200 billion.

CERTIFICATE OF SERVICE

I, Ellen M. Bateman, do certify that on December 22, 1998 copies of the foregoing Comments of the United States Telephone Association were either hand-delivered, or deposited in the U.S. Mail, first-class, postage prepaid to the persons on the attached service list.

Ellen M. Bateman

Before the
FEDERAL COMMUNICATIONS COMMISSION
Washington, D.C. 20554

In the Matter of	)	
	)	
Federal-State Joint Board on Universal Service	)	**CC Docket No. 96-45**
	)	**DA 98-2410**

COMMENTS
OF THE
UNITED STATES TELEPHONE ASSOCIATION
ON THE
SECOND RECOMMENDED DECISION

Its Attorneys

Lawrence E. Sarjeant
Linda L. Kent
Keith Townsend
John W. Hunter

1401 H Street, NW
Suite 600
Washington, DC 20005
(202) 326-7375

December 23, 1998

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SUMMARY

The Joint Board's Second Recommended Decision is a modest proposal that addresses some of the issues related to high cost universal service support for non-rural carriers. However, it does not propose that the Commission make the implicit subsidies in access charges explicit. This is absolutely essential for comprehensive, workable and viable universal service reform to be viable in a competitive market. As long as the current implicit subsidies remain in access charges, universal service support cannot be made portable and, thus, cannot be made available to competitors.

USTA has proposed a Universal Service Plan for non-rural carriers that calls for implicit support to be made explicit. Adoption of this critical element is not only necessary for a competitive environment, it is also consistent with the requirements of the Communications Act that the Commission develop "specific, predictable, and sufficient" universal service support mechanisms. The Act also requires that federal universal service support must be explicit and sufficient to achieve the universal service purposes set forth in the Act.

Adoption of the USTA Plan also will not harm any group of customers. In fact, elimination of implicit subsidies in the carrier common line would result in a reduction of 1.1 [illegible] interstate toll minute charges. The combined CCL and presubscribed interexchange [illegible] charges would result in an average reduction of $.42 per month in the average combined [illegible] long distance bills of customers. This positive impact on customers' bills should be [illegible] by the Commission.

Although the Recommended Decision does not directly advocate that the Commission deal with implicit access charges in universal service, it does recognize that the Commission has jurisdiction to determine the amount of high cost support in access rates and to take appropriate action to make that support explicit. USTA advocates that the Commission exercise its jurisdiction and immediately address this important policy question. The USTA Plan is a viable solution and should be adopted by the Commission.

The Commission should not use forward-looking economic cost proxy models to distribute high cost support for non-rural carriers. While USTA acknowledges that a properly designed cost model may be used for such distribution, there are other reasonable methodologies that could be employed. The Joint Board states that it cannot make any recommendations regarding the use of forward-looking cost models because the current models being considered are incomplete. Specifically, the Recommended Decision identifies selection of input values, use of proprietary geocoded customer location data, and potential alternative data sources as problems.

Distribution of explicit support throughout a study area should be deaveraged. This will allow higher cost regions within a study area to receive greater support per-line than lower-cost regions. Such deaveraging is essential to portability and competition. Development of an equitable mechanism based on a national cost benchmark is also needed to identify high cost states. Support for an area should be based on the benchmark and a cost estimate.

Universal service support must be portable and targeted to customers living in the highest cost areas. This would be accomplished if support is disaggretated, as advocated in the USTA Plan. Also, distribution of support should be made directly to eligible carriers.

Contributions to the federal universal service fund should be based on a carrier's total retail revenues. The Commission should not adopt the Recommended Decision's suggested requirements for identity of contribution recovery on a customer's bill.

As emphasized by the Recommended Decision, the determinations made by the Commission for the universal service support mechanisms for non-rural carriers should not serve as precedent for universal service support mechanisms for rural carriers.