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

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

REPLY COMMENTS OF GVNW CONSULTING, INC.

GVNW Consulting, Inc. (GVNW) submits reply comments in the above-referenced Further Notice of Proposed Rulemaking (FNPRM). GVNW is a management-consulting firm, which provides financial and regulatory consulting services to independent telephone companies. Any rules adopted by the Commission with respect to the definition of basic service packages to be provided by eligible telecommunications carriers has a direct impact to these independent telephone companies. The following reply comments focus on GVNW's concerns of including local usage as part of the "basic service package".

INTRODUCTION

The challenge of achieving Universal Service for the telecommunications carriers is to meet the principles set forth in Section 254 (b) of the Telecommunications Act of 1996 (TA 96). In the Commission's actions that seek to implement those principles, the Commission previously concluded "that setting an appropriate minimum level of usage for local service is essential in order to uphold the principle of competitive neutrality."[1]

In this proceeding, the Commission asks "how much, if any, local usage we should require eligible telecommunications carriers to provide to customers as part of a "basic service" package if they

[1] *In the Matter of Federal-State Joint Board on Universal Service,* Memorandum Opinion and Order and Further Notice of Proposed Rulemaking, CC Docket 96-45, FCC 98-278, rel. Oct. 26, 1998, para. 47.

desire to be eligible for universal service support for providing basic telecommunications service."[2] GVNW submits that the real issue is not the amount of local usage but instead that consideration needs to be given to the impacts of requiring specific targets for local usage. GVNW suggests that whatever amount of usage is included with the "basic service package" that the Commission ensure that cost recovery related to that usage be well defined. In requiring specific targets, the Commission needs to further consider: the effect of internet traffic on local usage; technological cost differences, if any; and ensure that there is consistency in cost assignment and service that is provided.

MINIMUM LOCAL USAGE

GVNW would encourage the Commission to avoid implementing a structure that would force local measured service upon the ILECs. The rural companies typically offer basic services at a flat rate. Today, LECs have various rate structures to accommodate local usage: 1) flat rate, 2) local measured service and, 3) a combination of flat rate and measured. These rate structures have developed over the years through the state regulatory processes where the consumers have a strong voice. The state commissions have undertaken the effort of implementing local measured service, many times through difficult and time consuming proceedings. State commissions oversee local exchange pricing, where they must weigh the balance between rate levels and rate structures, as well as the interests of the consumers. We ask the FCC to use caution in prescribing a minimum level of local usage so as not to impede the states' right to make local pricing decisions and avoid imposing a local measured structure upon the ILECs.

GVNW does not agree with AT&T that "service quality and minimum usage requirements are unnecessary if USF support is limited to primary connections".[3] The rural areas are able to promote

[2] Id. Para. 46.
[3] Comments AT&T Corp., on the *Further Notice of Proposed Rulemaking*, CC Docket 96-45, filed January 11, 1999, page 7.

advanced services in rural areas, such as internet, through second lines. Including these lines would accomplish for the rural carriers the principle of "access to telecommunications and information services, including interexchange services and advanced telecommunications information services that are reasonably comparable to those services provided in urban areas, and that are available at rates that are reasonably comparable to rates charged for similar services in urban areas".[4] It is essential that the Commission does not implement a method that thwarts and impedes the ability of the rural companies to develop and evolve advanced services.

CONSIDERATION TO TECHNOLOGICAL DIFFERENCES

GVNW agrees with AT&T that "establishing a minimum usage level is a daunting task. It would likely be impossible to establish a local usage requirement that did not advantage one class of carriers and simultaneously preclude the provision of universal service by another class".[5] Wireless and wireline carriers have different local calling boundaries, with the wireless boundaries being larger and often encompassing multiple wireline calling areas. Typically, rural telephone companies have a smaller calling scope than urban companies. The regulatory debate over usage must give consideration to not only the technological differences but the differences in local calling scopes.

Sprint PCS recommends that "a separate usage requirement for wireline and wireless should be adopted. Any attempt to conform usage patterns for these two very distinct technologies will only serve to skew the standard in favor of entrenched wireline providers and would, as a result, contravene the principles of competitive and technological neutrality". [6] GVNW is dubious as to the merit of this recommendation, as it may provide for preferential treatment of companies based on their technology.

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[4] *The Communications Act of 1934 as amended by The Telecommunications Act of 1996,* Section 254 (b)(2).
[5] Comments of AT&T Corp., on the *Further Notice of Proposed Rulemaking*, CC Docket 96-45, filed January 11, 1999, page 8.
[6] Sprint PCS comments, Docket No. 96-45, at 2 and 8-9 (Oct. 17, 1997). Restated in FNPRM, filed January 11, 1999, page 16.

Bell Atlantic suggests that the, "Inclusion of a local usage component raises issues of competitive neutrality, since landline and wireless carriers have very different cost characteristics".[7] At the heart of the difference is the local loop. Landline carriers have a fixed cost for the physical plant, whereas wireless carriers have low fixed cost for customer access, in that there is no physical local loop dedicated to each customer. The Commission recognized these differences in the Notice at paragraph 48. GVNW emphasizes that the distinguishing difference between urban and rural landline carriers is that typically the loop is longer in the rural areas, creating higher costs for rural LECs. The Commission has recognized "that loop cost is a particularly large portion of the total cost of local service in most rural areas, where population densities are lowest and the longest local loops are required".[8] Stating further that, "In some cases the loop costs are so high that carriers require subscribers to pay a portion of that cost in addition to the regular tariffed basic service rate."[9] GVNW would further add that the wireless carriers are not under the same regulatory obligations as wireline LECs in determining their costs. It would seem this in and of itself would make it problematic for the industry to meet the principle of competitive neutrality.

EFFECT OF INTERNET TRAFFIC ON LOCAL USAGE

Consideration needs to be given to the effects of internet traffic on local usage. To date several states have deemed internet traffic to be local in nature. The Commission has not yet made its determination as to the jurisdictional nature of this type of traffic. The possible inclusion of internet traffic in the local usage that is to be included in the definition of universal service raises significant costing and recovery questions. If a national average were to be used, this usage would set artificially

[7] Comments of Bell Atlantic on the *Further Notice of Proposed Rulemaking*, CC Docket 96-45, filed January 11, 1999, page 5.
[8] *In the Matter of Federal-State Joint Board on Universal Service*, Memorandum Opinion and Order and Further Notice of Proposed Rulemaking, CC Docket 96-45, FCC 98-278, rel. Oct. 26, 1998, para. 47.
[9] Id. Footnote 101.

high levels of usage. This could advantage the urban areas while having an opposite effect in the rural areas where internet has not achieved the market penetration that urban areas are currently experiencing.

CONCLUSION

GVNW points out in these reply comments areas for consideration and concurrence. To establish a minimum local usage would be a "daunting task" and one that, from the rural LEC perspective, has the potential to be harmful to its customers. Should the Commission establish a local usage level to be included in the basic service package, it is crucial there be consistency in cost and service that is provided. An accurate weighing of the technological differences between wireline and wireless carriers is essential if a minimum local usage is established. Competitive neutrality should be met without holding the ILECs hostage.

Respectfully submitted
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