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FEDERAL COMMUNICATIONS COMMISSION
OFFICE OF THE SECRETARY

BEFORE THE
Federal Communications Commission
WASHINGTON, DC 20554

In the Matter of	)	
	)	
Federal-State Joint Board on Universal Service	)	CC Docket No. 96-45
	)	
Forward-Looking Mechanism for High Cost Support for Non-Rural LECs	)	CC Docket No. 97-160

REPLY OF U S WEST, INC.

U S WEST, Inc. ("U S WEST"), by its attorneys, hereby submits the following reply to an issue addressed in AT&T Corporation's ("AT&T") Opposition to Petitions for Reconsideration of the Commission's *Fifth Report and Order* adopting the platform for a proxy cost model for high cost universal service support.[1] Specifically, U S WEST urges the Commission to grant Bell Atlantic's request for clarification that any proxy cost model adopted for universal service purposes is not to be used for any purpose *other* than determining universal service support for non-rural carriers.[2] As discussed below, the Commission's proxy platform is simply not usable for purposes such as pricing unbundled network elements and access service.[3]

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1 *Federal-State Joint Board on Universal Service; Forward Looking Mechanism for High Cost Support for Non-Rural LECs*, CC Docket Nos. 96-45 and 97-160, *Fifth Report and Order*, FCC 98-279 (rel. October 28, 1998) 63 Fed. Reg. 63993 ("*Fifth Report and Order*").

2 Opposition of AT&T Corp. to Petitions for Reconsideration and Clarification, filed January 15, 1999, at 17.

3 Petition for Reconsideration of Bell Atlantic, filed December 18,1998, at 12-14; *see also* GTE's Comments in Support of Other Petitions for Reconsideration, filed January 15, 1999, at 2-4.

INTRODUCTION

At the outset, U S WEST emphasizes that this reply goes solely to the question of whether the proxy platform adopted in the *Fifth Report and Order* should be used for purposes *other* than universal service funding. U S WEST does not challenge the use of the platform for universal service funding. Indeed, U S WEST has been actively assisting Commission staff in improving the synthesis model.[4] U S WEST personnel have been engaged in a continuing review of draft versions of the synthesis model and have offered recommendations to Commission staff as to improvements and revisions that should be made to the model.

U S WEST has taken this active role to enable the Commission to resolve this important universal service funding issue expeditiously. Full implementation of the new universal service support mechanisms is scheduled to take effect for non-rural carriers on July 1, 1999.[5] In U S WEST's view, maintenance of this Commission-announced implementation deadline is critical for addressing existing implicit subsidy concerns and a great deal remains to accomplish in these few remaining months. Therefore, U S WEST urges the Commission promptly to resolve the final issues associated with its proxy cost model so that the full universal service support mechanisms may be implemented in a rational and timely manner.

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4 While U S WEST does not believe that the Commission's proxy platform as it currently exists is suitable for universal service purposes, it is confident that with revisions the model can be improved sufficiently to use as a tool in the administration of a federal universal service fund.

5 *Federal-State Joint Board on Universal Service*, 12 FCC Rcd 8776, 8888 ¶ 199 (1997).

ARGUMENT

As AT&T acknowledges, the *Fifth Report and Order* does not propose or evaluate a proxy cost model for any purpose other than universal service.[6] Further, the Commission itself implies that the proxy platform adopted in the *Fifth Report and Order* would be inappropriate for purposes other than universal service. For example, the Commission notes that the switching module of the selected proxy platform is less important for universal service purposes "where cost differences are caused by differing loop lengths" than it would be in "a cost model for determining unbundled network element switching and transport costs."[7] Further, while the Commission rejected the HAI Model, it determined that the model's less accurate switching model was sufficient *for universal service purposes*.[8] Conversely, the Commission rejected the BCPM model's more detailed and accurate switching model as being overly complex for universal service purposes.[9] Thus, contrary to AT&T's position, there is a strong basis for the Commission to clarify that the proxy platform is not useful for purposes other than universal service funding.

Further simple logic dictates that the Commission's proxy platform cannot be used to determine the rate for unbundled network elements or access services. As Bell Atlantic points out, the proxy platform excludes costs associated with providing "vertical features,

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6 AT&T Opposition at 17; *see also Fifth Report and Order* at ¶ 12 ("the selection of the synthesis platform is based solely on our evaluation of its performance for determining non-rural carriers' forward-looking costs for universal service purposes. We have not evaluated it for any other purpose").

7 *Fifth Report and Order* at ¶ 75.

8 *Id.* at ¶ 78.

9 *Id.*

advanced services such as digital subscriber line services or integrated services, digital network services, data transmission, or investments for future growth."[10] In short, the proxy platform does not include significant costs that must be considered in pricing unbundled network elements or access services.

Moreover, the proxy platform is intentionally constructed to design a hypothetical network to support lines that provide only universal service, but does not reflect the incumbent carriers' specific forward-looking costs for providing unbundled network elements or access services. In essence, it represents hypothetical costs of constructing a brand new network to provide basic residential and business telephone service to 100 percent of current demand. As GTE points out, however, the Commission has defined an unbundled network element loop to include:

> a transmission facility between a distribution frame, or its equivalent in an incumbent LEC central office, and the network interface at the customer premises. This definition includes, for example, two-wire and four-wire loops that are conditioned to transmit the digital signals needed to provide services such as ISDN, ADSL, HDSL, and DS-1 level signals.[11]

This definition goes far beyond the basic elements considered in the Commission's proxy platform. Thus, insofar as the proxy platform does not reflect incumbent local exchange carriers' or new entrants' actual forward-looking costs, utilizing that model for unbundled network elements and access services would neither allow local exchange carriers a reasonable

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[10] Bell Atlantic Petition at 12.

[11] GTE Comments at 3 (quoting *Implementation of the Local Competition Provisions in the Telecommunications Act of 1996; Interconnection Between Local Exchange Carriers and Commercial Mobile Radio Service Providers*, 11 FCC Rcd 15499 ¶ 380 (1996)).

opportunity to recover their costs of providing access services nor accurately reflect the costs an incumbent local exchange carrier incurs to provide unbundled network elements.

AT&T seeks to marginalize these concerns by suggesting that adopting alternative input values for network element purposes and to reflect the costs of ISDN cards and other advanced services would resolve the problem.[12] AT&T is wrong — the problem is not merely a question of input values. The Commission's proxy platform is not sophisticated enough to identify the discrete feature costs necessary for pricing unbundled network elements and access services. Moreover, the Commission intentionally chose this less sophisticated model specifically for "universal service purposes."[13]

CONCLUSION

For the reasons set forth above, in Bell Atlantic's Petition for Reconsideration, and in GTE's supporting comments, U S WEST submits that the Commission should clarify that

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[12] AT&T Opposition at 17 n.19.

[13] *Fifth Report and Order* at ¶ 78.

the model selected may not be used for other purposes, particularly pricing unbundled network elements and access services.

Respectfully submitted,

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January 28, 1999

CERTIFICATE OF SERVICE

I, Shelia L. Smith, do hereby certify that on this 28th day of January, 1999, I have caused a copy of the foregoing **REPLY OF U S WEST, INC.** to be served, via first class United States mail, postage prepaid, upon the persons listed on the attached service list.

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