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

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| **In the Matter of** | **)** | |
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| **Federal-State Joint Board on Universal Service** | **)** **)** | **CC Docket No. 96-45** |
| | **)** | |
| **Access Charge Reform** | **)** | **CC Docket No. 96-262** |

**COMMENTS OF CINCINNATI BELL TELEPHONE COMPANY**

## I. INTRODUCTION

Cincinnati Bell Telephone Company ("CBT"), an independent local exchange carrier, submits the following comments in response to the Commission's Further Notice of Proposed Rulemaking ("FNPRM")[1] in the above-captioned proceedings. In this FNPRM the Commission seeks comment on implementation issues associated with the federal high cost support mechanism for non-rural local exchange carriers. This includes methodology issues such as the specific level of the cost benchmark, the area over which costs should be averaged, and the precise amount of the state per-line responsibility.

## II. THE FEDERAL HIGH COST SUPPORT MECHANISM SHOULD NOT CREATE A SIGNIFICANTLY LARGER HIGH COST FUND

CBT agrees with the FCC and the Joint Board that the level of high cost support that ultimately results from these proceedings should not be significantly larger than the level of funding that currently exists today. In fact, CBT advocates limiting the federal

[1] Seventh Report and Order and Thirteenth Order on Reconsideration in CC Docket No. 96-45 Fourth Report and Order in CC Docket No. 96-262 and Further Notice of Proposed Rulemaking, FCC 99-119, released May 28, 1999.

high cost fund to its current level.   CBT's analysis concludes that the larger the fund becomes, the greater CBT's contribution, which, in turn, increases CBT's access charges for purposes of recovery.  As CBT's access charges increase, CBT becomes less competitive and more vulnerable to the threat of carrier bypass.  Such an outcome would be an inappropriate and unintended result of the universal service support process, a result which the Commission must guard against.

In addition, adopting the current fund size as a ceiling for the amount of high cost support is the simplest approach in light of the Commission's decision not to significantly increase the fund.  Further, establishing the fund's ceiling at the current level has the benefit of ensuring that sufficient funds are available to support high cost areas, without increasing the burden on consumers.  Maintaining the fund at its current level also avoids the overly complex and arbitrary selection of cost model inputs and makes the determination of methodology variables moot.

Should the Commission decide to adopt the pragmatic approach of setting the fund at its current level, the hold harmless provision should apply on a carrier by carrier basis at the current support amount.  In effect, this would initially establish the amount of each carrier's support at their current levels and would ensure that no carrier is adversely impacted due to adverse shifts in support.  Given that support is provided on a carrier by carrier basis today, this approach would be easier and less administratively burdensome than a newly developed state by state process.

## III. TO THE EXTENT THE COMMISSION MUST ADDRESS THE FNPRM'S METHODOLOGY ISSUES THE SIZE OF THE FUND SHOULD BE CONTROLLED

Maintaining the fund at its current level avoids the complexities, uncertainties, and lack of precision inherent in the Commission's cost model and related methodology issues. To the extent the Commission decides that the fund will not be established at its current level and the methodology issues cannot be ignored, CBT advocates adopting methodology variables that will control the high cost support fund size to keep it at or near its existing level. Considering the protection offered by the hold harmless provision, the Commission can afford to select variables that constrain the fund.

The Commission seeks comment on the specific cost benchmark that should be adopted and whether the benchmark should fall within the Joint Board's recommended range of 115-150%. Based on CBT's analysis of the revised spreadsheet for estimating universal service support[2], the current level of non-rural carrier support is approximately $220 million. By modifying the spreadsheet's assumptions for the benchmark level, the size of the fund changes substantially. For instance, assuming a 115% benchmark on a wire center basis at a $2 per line state support, the fund increases to almost $2.6 billion, a burden that is almost twelve times greater than the current support amount. A 150% benchmark produces a $1.3 billion fund. While this is still significant at nearly six times the current level it is only half the amount produced by a 115% benchmark. Adopting a step function of support at various percentages, as described in the FNPRM, further reduces the fund size. Given that the 150% benchmark and step function benchmarks restrain the fund size, these benchmark levels should be adopted.

Should the Commission adopt a benchmark less than 150% of cost, CBT recommends a transition to 150% in order to reduce the fund over time. A three year

[2] "Common Carrier Bureau Releases Revised Spreadsheet For Estimating Universal Service Support Using Proposed Input Values In The Forward-Looking Cost Model", FCC Public Notice, Released July 2, 1999.

transition would provide carriers sufficient time to prepare for the reduced support amounts while the overall fund size decreases. Such a phase-in would mitigate significant one time support changes.

The Commission also seeks comment on the area over which costs should be averaged. Averaging costs over a study area produces a smaller fund size than by averaging costs on a wire center basis. Using the aforementioned spreadsheet, a $345 million national support level is produced using the $2 per line state support with a 150% of cost benchmark on a study area basis. On a wire center basis this increases to $1.3 billion and does not take into consideration the support-subsidy offsets that would occur under the study area approach. Because of its minimizing impact on the fund size, averaging costs on a study area basis should be adopted.

## IV. CONCLUSION

CBT agrees with the Commission's decision that the federal high cost fund should not be significantly larger than what it is currently. In fact, to support this concept and to help simplify matters, CBT proposes that the high cost fund be maintained at its current level. This represents a reasonable balance between simplification and adequate support. If this approach is rejected, the Commission should take steps to ensure that the fund size does not increase to an unreasonable level. CBT believes that one way to accomplish this is to select certain methodology variables that will restrain the fund size. Such an approach has few drawbacks in light of the hold harmless provision.

Respectfully submitted,
Cincinnati Bell Telephone Company

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