

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

In the Matter of)
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Federal-State Joint Board on) CC Docket No. 96-45
Universal Service)
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COMMENTS
OF THE IOWA UTILITIES BOARD

The Iowa Utilities Board (IUB) submits the following comments addressing the Federal Communications Commission's (FCC) May 28, 1999, Further Notice of Proposed Rulemaking, requesting comment on proposals on the methodology for determining universal service support.

Summary

The IUB is concerned that some of the FCC conclusions and proposed methods to calculate support will not adequately provide for universal service as required by the Telecommunications Act of 1996 (96 Act). The IUB has particular concerns about how federal universal service funding is calculated, how a state's ability to support its own high-cost areas is measured, and how support is distributed among states. The IUB makes the following recommendations:

- Costs should be averaged over UNE zones or a smaller geographic area such as wirecenters. Any calculation of support using a larger area would not provide for sufficient funding as required under the Act.

- States should not be required to support an additional amount above the proposed benchmark. Such a requirement force states to fund high-cost areas that should be supported by the federal fund.
- Wireless lines should not be considered in measuring a state's ability to support high-cost areas. Unless a state has a state universal service fund, there is no mechanism for a state commission to use wireless revenues for the internal funding of high-cost support.
- Hold-Harmless is inconsistent with a forward-looking methodology. This provision would only maintain current funding inefficiencies instead of promoting the efficient provision of service.

Costs should be averaged over UNE zones or a smaller geographical area such as wirecenters.

The FCC asks for further comment on whether the federal support mechanism should calculate support levels by comparing the forward-looking costs at either (1) the wire center level; (2) the unbundled network element cost zone level; or (3) the study area level.¹

As the IUB has stated in past comments,² the goal of universal service in the '96 Act is to assure that consumers in rural and high-cost areas have access to high quality basic and advanced telecommunications services that are comparable in both offerings and rates to those services offered in urban areas. To achieve that goal, support must be specifically targeted to rural and high-cost areas. If those areas are averaged with urban areas, support is diluted and the goal is less achievable. Therefore, costs should be calculated at a level below the study area level.

The IUB supports calculating support on a more granular level such as a wire center or UNE zone level. Clearly the 96 Act required the FCC to develop a "new" universal service fund designed to provide support in a competitive environment. The

¹ May 28, 1999, *Seventh Report and Order*, CC Docket No. 96-45, ¶ 102.

past monopolistic practice of calculating support on a study-wide area does not meet the goal of providing sufficient targeted support to high cost areas. As the FCC recognized in paragraph 103, competition will result in the downward pressure on rates of urban, business, and other low-cost subscribers. Support calculated at the wire center area would ensure support is provided specifically to the areas that are most in need of support. The FCC also recognized that support calculated at the wire center level would encourage efficient competitive entry in all areas, not just urban or other low-cost areas. Id. The IUB urges the FCC adopt rules that determine support at more granular levels than a study area.

Sufficient federal funding is required by the Act.³ In the Board's view, any approach designed to limit the size of the fund is unlikely to provide "sufficient" funding as required by the Act. However, if the FCC decides it must limit the size of the fund, it should not do so by calculating support on a study area basis. Instead it should either provide a uniform percentage of the calculated support level. Either of these methods would allow for targeted support in high cost areas.

States should not be required to support an additional amount above the proposed benchmark.

The FCC seeks comment on the set dollar amount that should be used to define a state's responsibility for its universal service needs.⁴

The federal fund should support all costs over a benchmark and there should not be an additional amount that a state is required to support over a benchmark. The FCC

² December 23, 1998, Comments of the Iowa Utilities Board, CC Docket No. 96-45, page 2.

³ U.S.C. 47 ¶ 254(e)

⁴ May 28, 1999, *Seventh Report and Order*, CC Docket No. 96-45, ¶ 111.

proposes placing the burden to support high cost areas on the states with two mechanisms. First, a cost benchmark set at some level above the nation-wide average would assess responsibility for the recovery of the cost above the nation-wide average to the state. Second, a dollar amount assigned to the states as a state responsibility would place an additional obligation on the state. While the FCC repeatedly states that it does not mandate a state fund, clearly its proposed practices, if adopted, would shift the responsibility given to the FCC in the 96 Act (to provide a sufficient fund) from the FCC to the states.

Wireless lines should not be considered in measuring a state’s ability to support high-cost areas.

The FCC seeks comment on whether wireless lines should be included in the calculation of a state’s ability to support universal service.⁵

The inclusion of wireless revenues in a state’s ability to support high-cost areas is contrary to the FCC’s own conclusion that states are not required to establish a state universal service fund.⁶ Wireless carriers do not provide implicit support to high cost areas. States do not regulate the rates of wireless carriers and thus states would have no mechanism to compensate for this inclusion other than with a state universal service fund. The result of this provision would be an unstated mandate by the FCC that each state have a universal service fund.

Hold-Harmless is inconsistent with a forward-looking methodology.

⁵ ¶ 112.

⁶ ¶ 45.

The FCC concluded that a hold-harmless provision should be implemented to prevent substantial reductions in federal support and requests further comment on a method for implementation.⁷

The FCC should not continue current funding inefficiencies through a hold-harmless provision. Current funding is based on actual cost which is contrary to the FCC's decision to use a forward-looking cost mechanism and undermines the goal of efficiently targeted support. The purpose of using a forward-looking model is to provide support to efficient companies providing service in high-cost areas, not to reward inefficient companies.

Not only does this provision continue to fund inefficiencies, but it also contributes to a larger fund than necessary. As high cost areas are identified through a forward-looking cost mechanism, some of the areas will require increased support and other areas will require new support. If current support is guaranteed, an increased fund size is mathematically inescapable.

The FCC indicates that it is concerned about rate shock to customers in areas where funding is currently provided and where a forward-looking model would reduce or eliminate current support. The IUB would not oppose a transition or phase-in of support from the current support levels to the support levels calculated by a forward-looking model. However, companies should not be guaranteed current support indefinitely.

⁷ ¶¶ 68 and 117.

Conclusion

Therefore, the IUB requests that the FCC reject the use of a study area to calculate support levels and adopt a more granular approach, reject the approach of requiring a state to internally fund amounts above a benchmark, not consider wireless lines in calculating a state's ability to support universal service, and not maintain a hold-harmless provision to perpetuate current funding levels.

Respectfully submitted,

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