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

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

**AT&T COMMENTS ON HIGH-COST FNPRM**

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## SUMMARY

AT&T shows in Part I that the Commission has correctly balanced the need to support the provision of telephone service in high-cost areas while taking steps to ensure that the support system does not over-burden consumers across the nation. First, the Commission decided to replace the 25/75 federal/state jurisdictional responsibility for high-cost support with a two-step process to determine: (1) whether the forward-looking cost of serving a given area is significantly above the national average, as determined by a national cost-based benchmark, and (2) if so, whether the state has sufficient intrastate resources to provide the support needed to non-rural carriers with costs that exceed the benchmark. This two-step approach appropriately makes federal support available only to the extent that a state is unable to support its high-cost areas through its own reasonable efforts.

Second, in reaffirming that the need for support should be determined on the basis of forward-looking economic costs, the Commission ensures that the universal service support system will provide the correct signals for new competitive entry, investment and innovation and will not reward inefficiency. The Commission's decision to use a federal cost model is fair to all states and best comports with the Act's rate comparability requirements in that it measures each state's need for support on a consistent basis.

As a transition mechanism hold-harmless amounts would be provided in lieu of the amount computed by the two-step forward-looking methodology whenever the hold-harmless amount exceeds the amount indicated by the forward-looking methodology.

In Part II.A, AT&T shows that the Commission should set implementation parameters that will achieve its stated objectives of ensuring affordable and reasonably comparable rates in high-cost areas without unreasonably burdening consumers nationwide. Given its finding that current local rates are affordable, the Commission's new forward-looking high-cost support mechanism should provide incremental support only to those states where such support is necessary to maintain rate comparably among states. This should not increase explicit federal support significantly above current levels.

Accordingly, the Commission should set the cost benchmark and the revenue per-line parameters of the two-step process to yield a federal fund approximately the size of the current explicit high-cost fund. AT&T suggests that the Commission adopt a 200% cost benchmark, which is approximately two standard deviations above the national average forward-looking costs. The 115% to 150% range suggested by the Joint Board is too low because rate comparability can be achieved with a much higher benchmark.

The Commission should set a per-line dollar amount that measures the states' ability to fund universal service

needs that is broadly inclusive of all intrastate revenues that are available to cover such support and that can be readily ascertained. AT&T suggests that the Commission set this per-line dollar amount based on the intrastate retail telecommunications revenues that carriers report to USAC under the federal USF program and divide that amount by the number of residential service locations (each of which is entitled to one primary line that would be supported) in the state. The Commission should calibrate the appropriate portion of the per-line revenue available for universal service support in conjunction with the national cost benchmark such that the combination of the two parameters yields an amount of federal support approximating the current explicit high-cost fund.

As shown in Part II.B, the Commission should measure the need for federal high-cost support at the study area (rather than the wire center or unbundled network element cost zone) level. For one, "comparing costs to the benchmark at the study area level is more consistent with the [Commission's] vision of a federal mechanism for reasonable rate comparability that focuses on support flows *among* states rather than *within* states . . . ." FNPRM, para. 105. Moreover, calculation of subsidies at the wire center level would result in a larger fund because it fails to take into account the mitigating impact of low cost wire centers in the same study area.

AT&T demonstrates in Part II.C that the Commission should take steps to ensure that consumers are aware of the

high-cost support associated with their lines and benefit from the availability of such support. Carriers should be required to notify customers that the ILEC has received federal support for their line and that such support is portable to the carrier of their choice. State commissions should be required to demonstrate to the FCC that any incremental federal high-cost funding is being used to reduce local rates to achieve the Act's objective of rate comparability. Failing such a showing, the FCC should reduce interstate access charges by the residual amount.

Further, the Commission should implement the hold-harmless approach on a state-by-state (rather than a carrier-by-carrier) basis and thus afford itself the flexibility to redistribute support between study areas within the state. This approach is more consistent with the objectives of the Act in ensuring rate comparability *between* states and minimizes the size of the federal fund because increases in support for one carrier can be offset by a decrease in support for another carrier.

AT&T shows in Section II.D that the Commission should address the replacement of implicit support from interstate access in the access reform proceeding and implement the replacement of those amounts in conjunction with the availability of geographically deaveraged UNE zone pricing. Implementation of the FCC's current plan to base federal high-cost support on forward-looking costs and to employ a two-step test that measures the need for support and

the state's ability to fund it, does not require interstate access reductions because the incremental funds generated by this process will be used to lower local rates. If the Commission decides to remove any identified implicit subsidies from interstate access, a dollar-for-dollar offset against interstate access charges will be necessary to avoid duplicate recovery of costs in the interstate jurisdiction.

The cost proxy model should not be used as a basis for converting the supra-competitive amounts in access rates above the forward-looking costs of access from implicit to geographically deaveraged support amounts. FNPRM, para. 135. This approach would essentially convert the excess that is in interstate access today, which is far above the amount needed to recover *both* forward-looking access costs and forward-looking universal support costs, into a permanent and unwarranted subsidy that needlessly inflates telecommunications rates to the detriment of consumers.

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**AT&T COMMENTS ON HIGH-COST FNPRM**

Pursuant to the Commission's Seventh Report & Order and Thirteenth Order on Reconsideration in CC Docket No. 96-45 and Fourth Report & Order in CC Docket No. 96-262 and Further Notice of Proposed Rulemaking ("FNPRM"), FCC 99-119, released May 28, 1999, AT&T Corp. ("AT&T") submits these comments on issues related to the implementation of the FCC's framework for establishing the forward-looking methodology for calculating federal universal service support for non-rural carriers providing service in high-cost areas of the Nation.[1]

AT&T supports the key features of the Commission's framework which, in large measure, establishes reasonable procedures to ensure that federal universal service fund ("USF") high-cost support for non-rural local exchange carriers ("LECs") will enable local rates in high-cost serving areas to remain affordable and reasonably comparable as competition develops, but that the USF will be no larger than necessary to

[1] The Commission's framework is consistent with the Joint Board's Second Recommended Decision, FCC 98J-7, released November 25, 1998, in CC Docket No. 96-45.

meet the universal service goals of the Telecommunications Act of 1996 ("Act").

## I. THE COMMISSION'S FRAMEWORK PROPERLY RECOGNIZES THE NEED TO IMPLEMENT A HIGH-COST SUPPORT MECHANISM THAT SUSTAINS UNIVERSAL SERVICE AND DOES NOT UNREASONABLY BURDEN CONSUMERS NATIONWIDE.

Consistent with the Joint Board's Second Recommended Decision, the Commission adopts a framework for federal high-cost support that will provide support for non-rural carriers' forward-looking costs that exceed both a national cost benchmark and the individual state's resources available to support those costs. "To the extent that a state's resources are deemed inadequate to maintain affordable and reasonably comparable rates [between states], the federal mechanism will provide the necessary support."[2] AT&T endorses the essential features of this plan.

First, the Commission decided to replace the 25/75 federal/state jurisdictional responsibility for high-cost support adopted in the Commission's May 8, 1997 Universal Service Order,[3] with a two-step process that would require the Commission to determine: (1) whether the forward-looking cost of serving a given areas is significantly above the national average, as determined by a national cost-based benchmark, and (2) if so, whether the state has sufficient intrastate

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[2] Seventh Report & Order, paras. 3, 48, 58, 61.

[3] Federal-State Joint Board on Universal Service, CC Docket No. 96-45, Report and Order, FCC 97-150, released May 8, 1997 ("Universal Service Order").

resources to provide the support needed to non-rural carriers with costs that exceed the benchmark.[4] This two-step approach appropriately takes into consideration the ability of a state to fund its share of universal service support. As the Commission pointed out, its "estimate of a state's ability to support reasonably comparable rates internally is intended to ensure that federal support for this purpose is no greater than necessary."[5] This will avoid over-burdening consumers nationwide, who must bear the costs of the new support system.

In quantifying the need for support, the Commission reaffirms that federal universal service support should be based on forward-looking economic costs, as opposed to the incumbent's embedded costs of providing supported services. Measuring the need for support based on forward-looking cost is necessary "to send the correct signals for investment, competitive entry, and innovation."[6] Moreover, the Commission holds that "a single, national cost model will be the most efficient way to estimate forward-looking cost levels."[7] Use of a single model will assure that each state's need for support is measured on a consistent basis.

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[4] Seventh Report & Order, para. 61.

[5] Seventh Report & Order, para. 13.

[6] Seventh Report & Order, para. 50.

[7] Seventh Report & Order, paras. 11, 50, 52; see also Universal Service Order, paras. 224 and 273.

In determining whether the costs of a given carrier exceed the national average, the Commission will use a "national, cost-based benchmark set at a percentage of the national average forward-looking cost of providing the supported services as the first step in determining the amount of support to be provided. That is, federal mechanisms will support areas with per-line costs in excess of this benchmark unless . . . an objective indicator of state resources reveals that the state possesses the ability to achieve reasonable rate comparability in the state without federal support."[8] As the Commission explained, by "providing support for costs in any state that exceed a benchmark level, the . . . methodology ensures that the cost levels net of support that must be recovered through intrastate rates -- and by analogy, its assumed rate levels -- must substantially exceed the national average."[9]

As to the second step, states' ability to provide for their own universal service needs will be evaluated based on the assumption that each line within the state is capable of bearing an intrastate support burden equal to a fixed dollar value assessment.[10] Thus, the "state's ability to achieve reasonable rate comparability will be estimated by multiplying a dollar figure by the number of lines served by non-rural

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[8] Seventh Report & Order, para. 11.

[9] Seventh Report & Order, para. 33.

[10] Seventh Report & Order, paras. 11 and 13.

carriers in the state."[11] As the Commission explained, this methodology does not require the states to set up their own state universal service support funds nor does it entitle carriers to recover any particular amount of support from new or explicit state mechanisms.[12]

At the same time, to ensure that the "transition to a revised federal support mechanism does not cause sharp or sudden reductions in the level of support" the Commission adopts a hold-harmless principle as a transitional mechanism to be reviewed no later than January 1, 2003.[13] Hold-harmless amounts would be provided in lieu of the amount computed by the two-step forward-looking methodology whenever the hold-harmless amount exceeds the amount indicated by the forward-looking methodology.[14] Any increase in support above the hold-harmless level is limited to those areas where incremental federal support as determined by the two-step process is required to maintain reasonably comparable rates among states. However, incumbent LECs would not be held harmless for reductions in their federal high-cost support that result from competitive

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[11] Seventh Report & Order, para. 66.

[12] Id.

[13] Seventh Report & Order, para. 14.

[14] Seventh Report & Order, para. 68.

losses to new entrants capturing the incumbent LEC's customers.[15]

In short, properly implemented, the Commission's "plan [as outlined above] can enable reasonably comparable rates if the combination of state and federal support can keep the net cost differences (after receipt of universal service support) between high and low cost areas within reasonable bounds."[16]

## II. THE COMMISSION SHOULD SET IMPLEMENTATION PARAMETERS THAT WILL ACHIEVE ITS STATED OBJECTIVES OF ENSURING AFFORDABLE AND REASONABLY COMPARABLE RATES IN HIGH-COST AREAS WITHOUT BURDENING CONSUMERS NATIONWIDE.

The Commission and the Joint Board have expressly found that, under the current high-cost support structure which reflects a combination of explicit federal support and implicit support within the states, rates for local service are generally affordable as evidenced by the high rates of subscribership in the United States.[17] As a result, the Commission's new forward-looking high-cost mechanism should provide incremental support only to those states where an

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[15] Seventh Report & Order, para. 74.

[16] Second Recommended Decision, para. 50.

[17] Seventh Report & Order, paras. 36-38 (citations omitted). The Commission also indicated that it will initiate a separate proceeding in July 1999 to determine the need for federal support for unserved and underserved areas. See FCC News, "Commission Takes Action to Reform Universal Service Support for Non-Rural Carriers Providing Service in High-Cost Areas," May 27, 1999; see also Seventh Report & Order, para. 43.

increase in federal support is necessary to maintain rate comparability among states.[18] Consistent with the Joint Board's recommendation, the Commission "should not increase the amount of explicit federal support significantly from current explicit levels."[19]

Accordingly, the Commission should establish a relatively high national cost benchmark above which federal high-cost support would be available; it should determine the need for high-cost support at the study area level; it should specify that such support will be made available for primary residential lines only;[20] and it should set a per-line dollar amount to measure the states' ability to fund universal service needs taking into account all intrastate retail revenues available to cover the need for such support. The latter should be set in conjunction with the national cost benchmark such that the outcome of the two-step process yields an explicit federal support fund that is not significantly greater than the current explicit high-cost mechanism.

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[18] Seventh Report & Order, para. 30.

[19] Seventh Report & Order, para. 16 (emphasis added).

[20] Federal-State Joint Board on Universal Service, First Recommended Decision, 12 FCC Rcd 87, para. 89 (1996); Cf. Universal Service Order, paras. 65-70, 96.

### A. The Commission Should Set The Cost Benchmark And The Revenue Per-Line Parameters Of The Two-Step Process To Yield A Federal Fund Approximately The Size Of The Current Explicit Federal High-Cost Support Mechanism.

Under the Commission's plan, forward-looking cost estimates for a given area would be compared against a single national cost benchmark in order to determine whether the area has costs that are significantly above the national average. The FNPRM (para. 97) seeks comment on whether the national benchmark should fall within the 115% to 150% range recommended by the Joint Board.

The Joint Board's range is clearly too low because rate comparability can be achieved with a much higher cost benchmark. AT&T recommends that the Commission adopt a 200% cost benchmark, which represents approximately two standard deviations above the national average per-line forward-looking cost, as a basis for determining entitlement to federal support. To the extent that this benchmark would not result in federal high-cost support for some areas that now receive it, the hold-harmless mechanism will ensure that the state receives no less than the amount it had previously obtained.

The Commission also requests comment on how the fixed per-line dollar amount that is used to measure the state's ability to support high-cost areas should be established. FNPRM, para. 111. The Commission should set a per-line dollar amount that measures the states' ability to fund universal service needs that is broadly inclusive of all intrastate revenues that are available to cover such support and that can

be readily ascertained.[21] AT&T suggests that the Commission set this per-line dollar amount based on the intrastate retail telecommunications revenues that carriers report to USAC under the federal USF program and divide that amount by the number of residential service locations (each of which is entitled to one primary line that would be supported) in the state. This approach properly takes into account all available intrastate revenues available for support and limits support to primary residential lines thereby (i) maximizing the in-state revenues available to provide the needed support, (ii) limiting the number of supported lines to those needed to assure universal service, and (iii) properly constraining the size of the federal fund.

The Commission should identify a portion of this per-line dollar amount as the basis for meeting the state's obligations for providing universal service.[22] The Commission

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[21] The Commission seeks comments on whether $2 per line which represents six percent of the $31 residential revenue benchmark suggested in the Universal Service Order, is an appropriate fixed dollar per line amount. FNPRM, para. 111. Assuming the Commission adopts AT&T's proposed 200% cost benchmark, the $2 per line state support amount is appropriate. Notwithstanding the appropriateness of the $2 figure in this scenario, the $31 revenue benchmark does not take into account all of a state's resources to address its universal service needs. For example, it does not take into account any revenues from toll services, nor any contribution from business services. In fact, as discussed in n.22 below, there is more than $60 per line available from state sources.

[22] The latest USAC submission shows that over $125 billion of intrastate end user revenues are available for universal service support, or approximately $60 per USF loop per month. See Letter, dated April 28, 1999, from Robert Haga,

(footnote continued on following page)

should calibrate the appropriate portion of the per-line revenue available for universal service support in conjunction with the national cost benchmark such that the combination of the two parameters yields an amount of federal support approximating the current explicit high-cost fund. The accompanying Attachment depicts the size of the federal fund applying a range of these two parameters to the FCC's Synthesis Model using the FCC's suggested inputs from the Cost Proxy FNPRM,[23] under a hold-harmless view.[24] Naturally, any changes

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Secretary & Treasurer, USAC to Ms. Magalie Roman Salas, Secretary, FCC, re: Federal Universal Service Programs Fund Size Projections and Contribution Base for Third Quarter 1999. From the USAC report, AT&T determined the intrastate end-user revenue amount of $125 billion by taking the difference between the total intrastate, interstate and international end-user revenue base and the interstate and international end-user revenue base times an annualization factor of two. AT&T then divided this amount by the 173,871,000 USF loops reported in the USAC attachment, resulting in $59.99 per USF loop per month of intrastate end-user revenue.

[23] Federal-State Joint Board on Universal Service and Forward-Looking Mechanism for High Cost Support for Non-Rural LECs, CC Docket Nos. 96-45 and 97-160, Further Notice of Proposed Rulemaking, FCC 99-120, released May 28, 1999.

[24] The results in the Attachment are based on the Study Area Excel file released by the Common Carrier Bureau on June 16, 1999 with two modifications. See Public Notice (Corrected Version), DA 99-1165, "Common Carrier Bureau Releases Preliminary Results Using Proposed Input Values in the Forward-Looking Cost Model for Universal Service." First, AT&T added to the worksheets the ability to calculate state support (the second parameter of the two-step USF process) using revenue per *primary* line, in place of revenue per switched line. In addition, AT&T updated the amounts in the "Current Support" column, which apparently were based on First Quarter 1999 USAC projections, to reflect the amounts used by USAC in its Third Quarter 1999 Fund Size Projection.

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to either the model platform or inputs would require a re-evaluation of the two parameters.

As depicted on the accompanying Attachment, the greater the threshold of the national cost benchmark, the less of a state's internal resources (revenue per line) is required to maintain federal support that is roughly comparable to the current explicit high-cost fund. Indeed, at a 200% cost benchmark, the Commission needs to establish only a $1 per primary line threshold, or less than two percent of available state revenues, before supplemental federal support would be required.[25] In addition, because of the relative costs in the FCC's Synthesis Model, if the Commission were to establish a national cost benchmark between 115% and 150% of the nationwide study area average, as recommended by the Joint Board, only one state would receive supplemental federal support if the Commission were to hold true to its objective of approximating the current explicit high cost fund. Thus, the Commission should look to establish 200% as the level of the national cost benchmark, which would reduce the state revenue per primary

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This reduces the hold harmless provision for the affected non-rural LEC study areas to $77 million. (This does not include support for the non-rural LEC study areas in Alaska and Puerto Rico, for which forward-looking costs using the FCC Synthesis Model have not been developed.) Accordingly, AT&T recommends that capping the federal high-cost fund for these study areas at $100 million is consistent with the Commission's objectives.

[25] See n.22. $1 per primary line represents less than two percent of the available $60 per line.

line support threshold and increase the opportunity for other states to receive incremental federal support.

### B. The Commission Should Measure The Need For Federal High-Cost Support By Averaging Service Costs At The Study Area Level.

The Commission seeks further comment on whether "the federal support mechanism should calculate support levels by comparing the forward-looking costs of providing the supported services to the benchmark at either (1) the wire center level; (2) the unbundled network element (UNE) cost zone level; or (3) the study area level." FNPRM, para. 102.

The Commission should measure the need for high-cost support at the study area level. For one, "comparing costs to the benchmark at the study area level is more consistent with the [Commission's] vision of a federal mechanism for reasonable rate comparability that focuses on support flows *among* states rather than *within* states . . . ."[26] FNPRM, para. 105. Any calculation of support for levels of disaggregation greater than the study area would contravene the Commission's intent to limit federal support to that which is necessary to maintain reasonably comparable rates *among* states. Both wire center and UNE zone level measurement of costs would result in some federal support replacing support that currently flows *within* a

[26] As the Commission found, "the methodology should rely primarily on states to achieve reasonably comparable rates within their borders, while providing support for above-average costs to the extent that such costs prevent the state from enabling reasonable comparability of rates." Seventh Report & Order, para. 48.

state with the FCC thereby impinging on state ratemaking responsibility.

Study-area level calculation of the need for support is critical for other reasons. Most fundamentally, calculation of subsidies at the wire center level would result in a larger fund because it fails to take into account the mitigating impact of low cost wire centers in the same study area. Because of this fact, providing support on a wire center basis would dramatically enlarge the size of the existing federal high-cost mechanisms for non-rural LECs. Dramatically increasing incremental federal support to the states, prior to investigating the replacement of implicit support from interstate access charges, would entirely unnecessarily jeopardize political support for the USF program.

The Commission seeks comment on whether the distribution of federal high-cost support should be targeted to specific wire centers that triggered the need for support. FNPRM, para. 113. Once the federal high-cost support is determined at the study area level, the Commission may consider geographically distributing the support to the UNE zone, but should not do so until forward-looking cost-based UNE loops are available which is when such deaveraging may become necessary.[27] In any service area in which federal high-cost

[27] See Implementation of the Local Competition Provision of the Telecommunications Act of 1996, Deaveraged Rate Zones for Unbundled Network Elements, CC Docket No. 96-98, FCC 99-86, released May 7, 1999 (staying UNE deaveraging requirements until six months after the Commission issues an order in

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support is to be distributed, carriers receiving support should, however, be required to demonstrate that they are meeting the service quality standards that are inherent in quantifying the need for support.

### C. The Commission Should Take Steps To Ensure That Consumers Are Aware Of The High-Cost Support And Benefit From The Availability Of Such Support.

There are several things the Commission should do to ensure that consumers receive the full benefit of federal high-cost support. First, carriers should be required to notify their customers that the ILEC has received federal support for their line and that such support is portable to the carrier of the customer's choice.[28] FNPRM, para. 114. Second, state regulatory commissions should be required to demonstrate to the FCC that to the extent that carriers within the state have received incremental high-cost support amounts under the new federal forward-looking support mechanism that these funds are being used to reduce local rates in order to achieve the

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CC Docket No. 96-45 finalizing, and ordering implementation of, high cost universal service support for non-rural LECs under Section 254 of the 1996 Act).

[28] The Commission should make the portability provision more effective and eliminate the competitive disadvantage CLECs face by minimizing the lag between the dates *all* eligible telecommunications carriers report their lines to USAC for distribution of federal high-cost support and the actual distribution of that support. See Western Wireless Corporation Petition for Clarification or Rulemaking, filed October 15, 1998, at 5-7; Public Notice, CC Docket No. 96-45, DA 98-2138, released November 3, 1998.

Act's objective of rate comparability. If a state fails to make this showing, the FCC should reduce interstate access charges by the residual amount.[29]

Third, the FCC should implement the hold-harmless approach on a state-by-state (rather than a carrier-by-carrier) basis and thus afford itself the flexibility to redistribute support between study areas within the state. FNPRM, para. 119. This approach is more consistent with the objectives of the Act in ensuring rate comparability *between* states. In addition, as the Commission acknowledges, state-by-state implementation of the hold-harmless provision minimizes the size of the federal fund because increases in support for one carrier can be offset by a decrease in support for another carrier. FNPRM, para. 118. By contrast, a carrier-by-carrier hold-harmless approach ensures that no carrier receives less than it does today, a result which can only inflate the size of the federal fund. FNPRM, para. 119.

Assuming the FCC adopts a state-by-state hold-harmless approach and in the event that the total hold-harmless amount is insufficient to allow each carrier that currently receives high-cost support to be "held-harmless," the FCC (rather than the state commissions) should allocate the support to carriers *pro rata* based on their relative reductions

[29] This reduction in interstate access rates is necessary to avoid over-recovery because the ILEC would be obtaining increased federal support without applying that support toward local rate reductions.

in support. FNPRM, paras. 120-21. This will result in uniformity in implementation between the various states.

To ensure competitive neutrality, a new entrant that wins the customer must get whatever level of support the ILEC had received for that line, including the hold-harmless amount. FNPRM, para. 122. It is the customer, not the carrier, that "owns" the subsidy and has the right to "port" it from one service provider to another.[30]

### D. The Commission Should Address The Replacement Of Implicit Support From Interstate Access In The Access Reform Proceeding.

Finally, the FNPRM (paras. 128-35) raises questions as to how interstate access rates should be reduced once implicit subsidies in access are identified and made explicit. The Commission recognizes the importance of linking the issues of federal high-cost support and replacement of implicit support from interstate access charges; both are necessary for

[30] Although AT&T has no serious objection to the hold-harmless approach, as AT&T has previously shown, the major non-rural local exchange carriers (namely, the BOCs, GTE and SNET) should not receive any payments under the USF high-cost program because these carriers have not undertaken to open their local markets to competition as contemplated by the 1996 Telecommunications Act and generally have sufficient funds to support their own high-cost needs. See J. Lubin, AT&T, Presentation to CC Docket No. 96-45 Universal Service En Banc on 25/75 Federal/State Responsibility for High-Cost Support, March 6, 1998; AT&T Comments on Proposed Methods for Determining High-Cost Support, filed May 15, 1998, in CC Docket Nos. 96-45 and 97-160, at 4-7. In no event should the Commission, under the guise of a "hold-harmless" approach, guarantee to these carriers greater support than that required by measuring the need for such support on a forward-looking economic cost basis at the study area level.

determining the full amount of explicit federal support. However, implementation of the FCC's current plan to base federal high-cost support on forwarding-looking costs and to employ a two-step test that measures the need for support and a state's ability to fund it, does not require interstate access reductions because the incremental funds generated by this process will be used to lower local rates. FNPRM, para. 123. If the Commission decides to remove any identified implicit subsidies from interstate access, a dollar-for-dollar offset against interstate access charges will be necessary to avoid duplicate recovery of costs in the interstate jurisdiction. This should be addressed in the access reform proceeding and implemented in conjunction with the availability of geographically deaveraged UNE zone pricing as an incentive for states to deaverage UNE pricing.[31]

It bears emphasizing, however, that the cost proxy model should not be used as a basis for converting the supra-competitive amounts in access rates above the forward-looking costs of access from implicit to geographically deaveraged support amounts. FNPRM, para. 135. This approach would essentially convert the excess that is in interstate access today, which is far above the amount needed to recover *both* forward-looking access costs and forward-looking universal

[31] The Commission noted that it intends to make support for universal service that is implicit in interstate access explicit by taking action in the fall of 1999. Seventh Report & Order, para. 43.

support costs, into a permanent and unwarranted subsidy that needlessly inflates telecommunications rates to the detriment of consumers.

Rather, the Commission should use the proxy model to determine the *level* of implicit support inherent in interstate access charges. Similar to its use in determining the forward-looking costs of universal service, the proxy model can be used to determine 25% of the forward-looking costs of the loop and port for each UNE zone,[32] which can then be compared with a subscriber line charge ("SLC") cap. To the extent forward-looking costs exceed the SLC cap, the difference is the implicit support that is inherent in carrier access payments which can be replaced by an increment to the explicit federal high-cost fund. Any additional amount in access charges above this level constitutes excess profits to the LEC, has nothing to do with Section 254, and should <u>not</u> be included in an explicit fund. This method of determining the implicit support is consistent with the Commission's intent to base explicit support on forward-looking costs.

[32] 25% corresponds to the interstate assignment of common line costs.

## CONCLUSION

For the reasons and in the manner stated above, the Commission should implement the forward-looking federal high-cost support mechanism.

Respectfully submitted,

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ATTACHMENT

# FEDERAL HIGH-COST SUPPORT MECHANISM USING COMBINATIONS OF TWO-STEP PROCESS UNDER HOLD HARMLESS VIEW AT STATE LEVEL AND CAPPING FUND AT $100 MILLION

**($ in Millions)**

| | National Cost Benchmark Based on Study Area Costs | | | | |
|---|---|---|---|---|---|
| **State Resources/ Revenue per Primary Line** | **115%** | **135%** | **150%** | **175%** | **200%** |
| **$1.00** | | | | | 86.4[1] |
| **$1.50** | | | | 91.6[2] | **77.0** |
| **$1.75** | | | | 78.2[3] | " |
| **$2.00** | | | | **77.0** | " |
| **$5.00** | | | 96.7 | " | " |
| **$6.00** | | | 85.6 | " | " |
| **$7.00** | | | **77.0** | " | " |
| **$8.00** | | 97.7 | " | " | " |
| **$9.00** | | 86.6 | " | " | " |
| **$10.00** | | **77.0** | " | " | " |
| **$12.00** | 99.1 | " | " | " | " |
| **$13.00** | 88.0 | " | " | " | " |
| **$14.00** | **77.0** | " | " | " | " |

***Expalanatory Notes:***

-AT&T capped the new High-Cost Fund at $100 million, consistent with the FCC's view that the fund should not significantly exceed the size of the current federal fund, which is $77.0 million.

-The $77.0 million in each column represents the hold harmless amount.

-Under the columns with cost benchmarks of 115%, 135% and 150%, only Mississippi would get incremental support from the cost proxy model exceeding the hold harmless view.

1 Reflects incremental support from cost proxy model exceeding hold harmless view for Minnesota and Missouri.

2 Reflects incremental support from cost proxy model exceeding hold harmless view for Minnesota, Mississippi, Missouri and Wisconsin.

3 Reflects incremental support from cost proxy model exceeding hold harmless view for Minnesota.

## CERTIFICATE OF SERVICE

I, Laura V. Nigro, do hereby certify that on this 23rd day of July, 1999, a copy of the foregoing "AT&T Comments on High-Cost FNPRM" was served via U.S. first class mail, postage prepaid, to the parties on the attached Service List.

/s/ Laura V. Nigro
Laura V. Nigro

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