

ORIGINAL

W. Scott Randolph
Director - Regulatory Matters



GTE Service Corporation

1850 M Street, NW
Suite 1200
Washington, DC 20036
202 463-5293
202 463-5239 fax
srandolph@dcoffice.gte.com

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FEDERAL COMMUNICATIONS COMMISSION
OFFICE OF THE SECRETARY

Ms. Magalie R. Salas
Secretary
Federal Communications Commission
445 Twelfth Street, S.W.
Washington, DC 20554

EX PARTE OR LATE FILED

**Ex Parte: Universal Service – CC Docket No. 96-45 and Forward-Looking Mechanism
for Non-Rural LECs – CC Docket No. 97-160**

Dear Ms. Salas,

On Thursday, October 14, 1999, Dennis Weller and I, representing GTE, met with Rebecca Beynon of the office of Commissioner Furchtgott-Roth. Separately, Dennis Weller, Fred Moacdieh, and I met with Linda Kinney of the office of Commissioner Ness, Sarah Whitesell of the office of Commissioner Tristani and Kyle Dixon of the office of Commissioner Powell. We discussed the various policy considerations of the federal universal service high cost fund for non-rural companies, the use of a cost model to determine universal service costs, and the need for the Commission to address implicit universal service support inherent in interstate access charges. The attached material was used in the discussions.

Pursuant to Section 1.1206(a)(1) of the Commission's rules, and original and one copy of this letter are being submitted to the Office of the Secretary. Please associate this notification with the record in the proceeding indicated above.

If you have any questions regarding this matter, please call me at (202) 463-5293.

Sincerely,

W. Scott Randolph
Director - Regulatory Matters

cc: Rebecca Beynon
Kyle Dixon
Linda Kinney
Sarah Whitesell

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UNIVERSAL SERVICE

GTE *Ex Parte*

October 14, 1999

- I. It is the FCC's Ultimate Responsibility to Assure Achievement of the Objectives of Section 254:
 - Specific, predictable and sufficient federal and state mechanisms to preserve and advance universal service.
 - GTE recognizes FCC's focus on "reasonable comparability". This will work if:
 - States do their job, and
 - Fund provides states with sufficient resources.
 - A fund capped at current levels will not provide sufficient resources to comply with Section 254.
 - Combined with "hold harmless", no additional funds to allocate for high-cost areas. For nonrural companies, fund is actually smaller today than it was when Act was passed.
 - If Congress thought current fund was sufficient, why did it write Section 254?
 - The "wait and see" approach becomes a self fulfilling prophecy:

"Competition does not develop because we do not correct the price signals, and we do not correct the price signals because competition does not develop."
- II. Even to maintain reasonable comparability, some increase in current fund is necessary.
 - Even with low cost estimates, and even with FCC calculation, fund size for "reasonable comparability" would be about \$1.6 Billion.
 - If fund parameters are set to force fund to current size, result is a "mutant" – most funding goes to just two states.
 - GTE has presented two compromise solutions – about \$700 million, with or without "state effort".
 - Fund should treat large and small companies the same – benchmarks, funding levels.
 - Funding should be targeted – at least to zones within study areas.
 - Limit use of "state effort" parameter.

- III. If the federal high cost fund on 1/1/00 remains at roughly the same level, the FCC must insure the following:
- Do no harm – hold harmless must be implemented on a per carrier basis.
 - Re-evaluate whether federal funding levels are sufficient *on an annual basis – based on whether states do their jobs.*
- IV. As condition for federal funding, an ETC should offer an affordable service:
- Give effect to 5th Circuit order on “bundling”.
 - State should certify that ETC offers at least one package that:
 - Meets definition of basic service,
 - Is offered at rate no higher than state-determined “affordable” level.
- V. FCC cannot “declare victory”.
- FCC has handed issue of intrastate subsidies to state PUCs – they must take the handoff.
 - FCC must address subsidies in interstate access:
 - CALLs proposal is the solution.