

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

In the Matter of:	)	
	)	
Federal-State Joint Board on Universal Service	)	CC Docket No. 96-45
	)	
Comments on the Interim Hold-Harmless Provision	)	FCC 99J-2
	)	

**COMMENTS OF GTE**

GTE Service Corporation and its affiliated domestic telephone operating companies (collectively "GTE")<sup>1</sup> respectfully submit their Comments in response to the Joint Board's request in the above-captioned docket.<sup>2</sup> The Joint Board seeks comment on how universal service hold-harmless funding should be phased out or eliminated. As GTE has stated, hold-harmless funding is critical to ensuring that customers are not subjected to rate shock as the new federal universal service mechanism is implemented. Therefore, in determining when such funding should be phased out, the Joint Board and the Commission must allow sufficient time to ensure that the new

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<sup>1</sup> GTE Alaska, Incorporated, GTE Arkansas Incorporated, GTE California Incorporated, GTE Florida Incorporated, GTE Hawaiian Telephone Company Incorporated, The Micronesian Telecommunications Corporation, GTE Midwest Incorporated, GTE North Incorporated, GTE Northwest Incorporated, GTE South Incorporated, GTE Southwest Incorporated, Contel of Minnesota, Inc., GTE West Coast Incorporated, and Contel of the South, Inc.

<sup>2</sup> Public Notice, "Federal-State Joint Board on Universal Service Seeks Comment on the Interim Hold-Harmless Provision of the Commission's High-Cost Support Mechanism," CC Docket No. 96-45, FCC 99J-2 (rel. Nov. 3, 1999) ("Public Notice").

universal service mechanism provides adequate funding and for states to adopt intrastate universal service mechanisms that account for new levels of rural and non-rural federal funding.

**I. HOLD-HARMLESS FUNDING MUST BE CONTINUED UNTIL THE POTENTIAL FOR CONSUMER RATE SHOCK IS ELIMINATED.**

In the Ninth Report & Order and Eighteenth Order on Reconsideration, the Commission concluded that a “hold-harmless provision was necessary to prevent substantial reductions of federal support and any rate shock that may occur when the new federal mechanism goes into effect.”<sup>3</sup> Specifically, the Commission chose a carrier-by-carrier approach for hold-harmless funding “to ensure that no sudden or undue disruption in consumer rates occurs during the transition to the new federal high-cost support mechanism based on forward-looking economic costs.”<sup>4</sup> The Joint Board now requests “comment on schedules and procedures for phasing out or eliminating the interim hold-harmless provision of the Commission’s new forward-looking high-cost support mechanism for non-rural carriers.”<sup>5</sup>

In response to the directives of the 1996 Act, the Commission has substantially revamped the universal service support mechanism for non-rural carriers. The Commission has developed a cost proxy model to estimate costs, which will generate

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<sup>3</sup> *Federal-State Joint Board on Universal Service* (Ninth Report & Order and Eighteenth Order on Reconsideration) CC Docket No. 96-45, ¶ 77, FCC 99-306 (rel. Nov. 2, 1999) (“Ninth R&O”).

<sup>4</sup> Ninth R&O, ¶ 79.

<sup>5</sup> Public Notice at 1-2.

results using national average inputs. To distribute support among states for the purpose of establishing reasonably comparable prices for local service, the Commission has adopted a state-wide averaging approach and a national benchmark of 135 percent. These fundamental changes are untested, and it will take several years until the full effects are made clear.<sup>6</sup> Therefore, the Joint Board and the Commission must ensure that the hold-harmless policy is not prematurely ended, causing the precise problems of rate shock and disruption that both the Joint Board and the Commission are seeking to avoid.

**II. CARRIERS SHOULD CONTINUE TO RECEIVE HOLD-HARMLESS SUPPORT UNTIL STATES HAVE HAD SUFFICIENT TIME TO IMPLEMENT INTRASTATE UNIVERSAL SERVICE MECHANISMS.**

In addition to possible shortfalls from the federal plan, numerous states have delayed implementing intrastate universal service mechanisms pending the Commission's completion of the new federal universal service plan. For example, the North Carolina General Assembly determined that the state Utilities Commission did not have to adopt a universal service mechanism until July 1, 2001 to allow sufficient time for the federal plan to be implemented.<sup>7</sup> Similarly, the South Carolina Public

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<sup>6</sup> Throughout the universal service proceedings, GTE and other carriers have consistently expressed the concern that the cost model and inputs adopted by the Commission do not accurately reflect the costs of providing local service. For example, GTE believes that the cost model does not reflect the way in which telephone networks are constructed and fails to represent accurately the network of any carrier, that the use of national average inputs will understate or overstate the costs of providing universal service for each carrier, and that the recently adopted method for distributing federal support does not direct funds to the appropriate states.

<sup>7</sup> *An Act To Extend the Time for the North Carolina Utilities Commission To Adopt Final Rules Regarding Universal Service*, 1999 N.C. Sess. Laws 112 (amending N.C. Gen. (Continued...))

Service Commission delayed action in its state universal service proceeding because it believed “that the decisions to be made by the FCC could have a direct effect on the size and funding of the SCUSF [South Carolina Universal Service Fund]. The proceeding is hereby postponed until some time after the FCC issues its decision.”<sup>8</sup>

The Joint Board has recognized that “section 254 does not alter the states’ responsibility for intrastate universal service” and that “the primary role of each state is to enable reasonable comparability within its borders.”<sup>9</sup> In order for states to carry out their responsibilities, state commissions must study the effects of the new federal universal service plan once it is implemented. Then, states will require additional time to develop intrastate universal service plans to ensure that the new federal plan does not result in rate shock or residential rates that are not reasonably comparable within the state. Hold-harmless support must be continued until states have had adequate time to implement sufficient intrastate support to make up for any decreases in funding that will occur when the hold-harmless policy is discontinued.

In providing states with enough time to establish intrastate universal service plans, the Joint Board and the Commission must also consider that rural carriers will continue under their existing universal service mechanism until at least January 1, 2001. States will have difficulty devising and implementing state plans until the federal

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(...Continued)  
Stat. § 62-110(f1) (1999)).

<sup>8</sup> *Proceeding to Establish Guidelines for an Intrastate Universal Service Fund*, Order No. 1999-221 at 2, Docket No. 97-239-C (Public Service Commission of South Carolina Order Granting Postponement) (Mar. 26, 1999).

<sup>9</sup> Ninth R&O, ¶ 38 (footnote omitted).

universal service mechanism for rural areas is adopted, and states can fully account for the federal universal service funds that will be available in each state for both rural and non-rural companies. In particular, states will need to know rural and non-rural area funding to ensure that the intrastate mechanism can maintain reasonably comparable rates within the state. Thus, hold-harmless funds will be needed until at least one year after the Commission adopts a universal service mechanism for rural companies. However, before discontinuing hold-harmless funding, the Commission should look at the intrastate mechanisms developed by states and confirm that its conclusions regarding states' ability to provide sufficient intrastate funding are correct. If it turns out that the new federal mechanism leaves states without the funding necessary to allow comparable rates within a state, the Commission should reexamine its universal service mechanism prior to ending hold-harmless funding so as to avoid exacerbating state difficulties.

### **III. CONCLUSION**

The Commission has adopted extensive changes to the universal service support mechanism for non-rural states. The Joint Board recommended that the Commission implement a hold-harmless funding provision to prevent consumer rate shock as the new federal plan is implemented. To ensure that rate shock and disruption do not occur, GTE urges the Commission to continue hold-harmless funding until it is shown that the new federal mechanism is providing sufficient funding and the states have had adequate time to develop intrastate universal service mechanisms to compensate for any shortfalls in federal support.

Respectfully submitted,

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## CERTIFICATE OF SERVICE

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