

billion from more than 2,400 telecommunications carriers, and USAC will distribute approximately \$4.4 billion to program participants (See Appendices 1 and 2). In 1999, USAC billed and collected approximately \$3.9 billion, and distributed more than \$3.6 billion. The USAC collects funds from contributing telecommunications service providers in accordance with FCC regulations under rules adopted by the FCC pursuant to the Telecommunications Act of 1996. Section 54.709(a) of the Commission's rules set forth the specific method of computation for contributions to the Universal Service program.

FCC rules provide that contributions to the universal service support mechanisms shall be based on contributors' end-user interstate telecommunications revenues, using a contribution factor determined quarterly by the Commission based on information submitted by USAC (see Table Six). USAC collects revenue data twice each year from more than 5,000 service providers to meet this requirement. To accomplish this task USAC distributes more than 5,000 forms every six months to interstate telecommunications carriers. USAC then collects, verifies, and summarizes the interstate and international industry revenue reported from the past six months by the carriers. USAC collects revenue data for the first six months of the year at the beginning of September and revenue for the entire previous year at the beginning of April. The data reported in September are subtracted from the data reported in April to capture just the final six months of the year.

The Commission bases the quarterly universal service contribution factor on the ratio of total projected quarterly expenses of the universal service support mechanisms to total end-user telecommunications revenues. USAC files its projection of quarterly expenses approximately two months before the beginning of a quarter. The Commission then has opportunity to review the filing and approve, modify, or reject the filing. USAC develops the projected expenses through various methodologies unique to each support mechanism. Current projections exceed \$1.3 billion per quarter.

Thus, contributions are the product of a contributor's end-user telecommunications revenues multiplied by a quarterly contribution factor that is equal to the ratio of total projected quarterly expenses of the universal service support mechanisms to total end-user telecommunications revenues.

**Table Six: Universal Service Contribution Factors 1998-2001**

	<b>Total Industry Revenue Factor*</b>	<b>Interstate and International Revenue Factor</b>
1Q98	0.7200%	3.1900%
2Q98	0.7600%	3.1400%
3Q98	0.7500%	3.1400%
4Q98	0.7500%	3.1800%
1Q99	0.5800%	3.1800%
2Q99	0.5700%	3.0500%
3Q99	0.9900%	2.9400%
4Q99 - Oct.	1.1000%	2.8870%
4Q99 - Nov. & Dec.	-	5.8995%
1Q00	-	5.8770%
2Q00	-	5.7101%
3Q00	-	5.5360%
4Q00	-	5.6688%
1Q01	-	6.6827%

Source: USAC

\* Funding for the schools and libraries program included intrastate revenues until a 5<sup>th</sup> Circuit Court of Appeals decision in 1999 determined that intrastate revenues could not be used for federal programs.

## **C. Description of How Funds Are Disbursed**

### ***1. The High Cost Support Mechanism***

The High Cost Support Mechanism enables eligible carriers in areas with very high costs to recover some of those costs from the support mechanisms, leaving the remainder of the costs to be recovered through end-user rates and, in some cases, state universal service funds. In this manner, the High Cost Support Mechanism is intended to hold down rates and thereby preserve and advance universal telephone service. The High Cost Support Mechanism provides support to eligible telecommunications service providers to help ensure that the services offered and rates paid by Americans living in rural or remote areas for telecommunications services are reasonably comparable to the services offered and prices charged to those living in more densely populated areas. Costs in rural areas may be higher for a variety of reasons including geographic dispersion and the need for specialized equipment in order to provide basic service. Insular areas are also included because these areas face similar challenges to providing basic service and experience high costs. Some of these areas, for example, are surrounded by hundreds of miles of ocean or have unusual topography and unique weather patterns.<sup>76</sup>

<sup>76</sup> "Rural Task Force Mission and Purpose," White Paper 1, September 1999, page 14 (<http://www.wutc.wa.gov/rtf>).

To be eligible to receive support, a common carrier must be designated an eligible telecommunications carrier (ETC) by a state commission or the FCC in accordance with Subpart F of the Commission's Part 36 rules and Subpart D of its Part 54 rules. Qualified ETCs are entitled to receive funds from the High Cost Support Mechanism. As the administrator of the High Cost Support Mechanism, USAC must collect contributions, determine the amount of support that can be made available to eligible service providers, and distribute funds, all in accordance with FCC regulations. In CY 1998 and again in CY 1999, the USF distributed more than \$1.7 billion to companies who serve customers in high cost areas. For calendar year 2000 USAC projects approximately \$2.1 billion will be distributed to companies who serve customers in high cost areas.

There are five components to the High Cost Support Mechanism:

1. High Cost Loop (HCL) support deals with non-traffic sensitive "local loop costs," a term that refers to the costs of outside telephone wires, poles, and other facilities that link each telephone customer's premises to the public switched telephone network. The HCL support mechanism provides support for the cost for the "last mile" of connection for rural companies. The non-traffic sensitive costs are allocated between the state and interstate jurisdictions because all local loops can be used for making and receiving both intrastate and interstate telephone calls. Historically, a 25 percent allocation of the non-traffic sensitive cost was made to the interstate jurisdiction using the Subscriber Plant Factor (SPF). The average total cost per loop, however, varies significantly among carriers. HCL support allows rural carriers with an average total cost per loop in excess of 115 percent of the national average to have between 90 percent and 100 percent of those excess costs recovered by HCL support (after consideration of the 25 percent Gross Allocation). Non-rural carriers have transitioned to the FCC proxy cost model support system.
2. Local Switching Support (LSS) helps cover the high switching costs for companies that serve fewer than 50,000 customers. Previously a multiplication factor was used in the dial equipment minute interstate access rates (Dial Equipment Minutes, or DEM weighting) of these small carriers. The Commission eliminated that implicit subsidy in access charges and established LSS so those carriers would recover a portion of their costs through an explicit universal service mechanism.
3. Long Term Support (LTS) helps offset interstate access charges for rural and non-rural companies. LTS provides support to the members of the National Exchange Carrier Association common line pool, to allow them to charge a below-cost carrier common line access rate that is uniform for all companies in the pool. The amount of LTS that a carrier is eligible to receive is the prior year level of LTS adjusted for change in the Gross Domestic Product-Chain Price Index (GDP-CPI).
4. High Cost Model Support (HCM) is based on the forward-looking costs of providing supported services as determined by a computer generated model of non-rural carrier's telephone service area. For each state, the cost model calculates the wire center average forward-looking cost per line incurred by non-rural carriers to

provide supported services. These wire center average costs are then averaged at the statewide level to determine the statewide average forward-looking cost per line. HCM provides support to non-rural carriers in those states that have a statewide average forward-looking cost per line greater than the national benchmark, which is set at 135 percent of the national average forward-looking cost per line. A hold-harmless element provides for a phased elimination of the non-rural carrier support received under the HCL or LSS elements.

5. Interstate Access Support (IAS) helps offset interstate access charges for Price Cap companies. Like LTS, the purpose of IAS is to provide explicit support to ensure reasonably affordable interstate rates. IAS provides support to Price Cap carriers serving lines in areas where they are unable to recover their permitted revenues from the newly revised subscriber line charges. The support is fixed at an aggregate annual amount of \$650 million. IAS is targeted to the density zones that have the greatest need for it.

All High Cost Support is provided on a portable, per-line basis, and available on a competitively neutral basis to any eligible telecommunications carrier serving a supported customer, regardless of the technology used by that carrier.

## ***2. The Low Income Support Mechanism***

Following the breakup of AT&T in 1984, the federal government developed a plan to recover the high costs associated with the local telephone network in a competitive environment. At the time, it was determined that some of these costs would be recovered using a Subscriber Line Charge (SLC), which was charged to local telephone customers. Policymakers became concerned that this charge would make local service unaffordable for low-income consumers and introduced the Lifeline program to assist these consumers.<sup>77</sup> Initially, the Lifeline program offered a 50 percent reduction in monthly local service charges for customers who satisfied a means test (determined by the state commission). The program was later expanded in 1985 to cover twice the SLC, which amounts to \$7.00 per line in federal support today, not including any matching state contributions which can bring the assistance to as much as \$10.50 per bill.<sup>78</sup>

The Link-Up program followed in 1987, which provides assistance for up to half of the first \$60 of the connection fee for local service. The Link-Up program is also a means-tested program. Together, Lifeline and Link-Up comprise a \$500 million program, known

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<sup>77</sup> "Preparation for Addressing Universal Service Issues: A Review of Current Interstate Support Mechanisms," Federal Communications Commission, Common Carrier Bureau, February 1996. The report points out that FCC and Census Bureau studies later indicated that subscribership had not declined following implementation of the SLC. The program was retained, however, and the focus shifted from amelioration of the effects of a single charge to the active expansion of telephone service to low-income households.

<sup>78</sup> McConnaughey, J., "Universal Service and the National Information Infrastructure (NII): Making the Grade on the Information Superhighway," 1999.

as the Low Income program, which is funded by contributions from interstate telecommunications companies that provide interstate services, as this has been defined by the Telecommunications Act of 1996. All states and telecommunications carriers who are receiving universal service funds are required to offer the Lifeline program to their qualifying customers. In April 2000, President Clinton and the FCC announced a plan to increase the funding of the Lifeline program to provide basic telephone service to Native Americans living on reservations for as little as \$1.00 per month.<sup>79</sup>

In 1998, nearly \$470 million in support was extended to low-income consumers, and in 1999 nearly \$480 million. In 2000 support grew based on revisions to interstate access charges for Price Cap companies and the additional support for providing discounted service to low-income consumers on Tribal Lands. Low Income support exceeded \$553 million in 2000.

There are four components to the Low Income Support Mechanism:

1. Lifeline support reimburses local service providers for providing discounted telephone charges to eligible subscribers. Lifeline support enables low-income customers to save at least \$5.25 per month and up to \$7 per month on their telephone bills. Consumers may also qualify for an additional \$3.50 per month in matching support from their state;
2. Link-Up support reimburses local service providers for providing discounted connection charges to eligible low-income consumers. Customers qualifying for Link-Up support are eligible to save up to 50 percent on installation fees (not exceeding \$30);
3. Toll Limitation Service support compensates local service providers for costs incurred in establishing the toll limitation service for the low-income subscriber. Service providers are required to offer toll limitation service at no cost to the low income consumer; and
4. PICC support reimburses interstate Presubscribed Interexchange Carrier Charges to local service providers in instances where the low-income subscriber has selected toll limitation service. PICC support ended in July 2000, coincident with an increase to the Lifeline support for Price Cap carriers.

Low Income Support will continue to grow to provide additional support to low-income customers living on reservations. The FCC's Tribal Lands order<sup>80</sup> enhances Low Income Support in the following ways:

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<sup>79</sup> "FCC Chairman Kennard and Commissioner Gloria Tristani Joined President Clinton in Announcing a Plan to Provide Local Phone Service for \$1 a Month In Indian Country," *FCC News Release*, April 17, 2000. The Release noted that the Navajo Reservation, for example, has one of the lowest telephone penetration rates—just 22 percent of households have telephone service.

<sup>80</sup> 12<sup>th</sup> Report and Order, Memorandum Opinion and Order and Second Further Notice of Proposed Rulemaking, CC Docket 96-45, FCC 00-208, (adopted June 8, 2000).

- An increase in the discount off the local phone bill that eligible low-income consumers on reservations can receive under the current federal Lifeline program of \$25. Under the new rules, carriers may receive between \$30.25 - \$32.85 per subscriber per month in USF support, depending on various factors such as state matching.
- An increase in the assistance available for the cost of initiating service provided under the current Link-Up program by \$70 to a total of \$100 per customer. This will reduce the initial connection charges and line extension costs associated with initiating phone service to income eligible customers on tribal lands.
- Broader consumer qualification criteria for Lifeline and Link-Up so that means-tested, or income-based programs in which low-income tribal members are more likely to participate in are included.

### ***3. The Rural Health Care Support Mechanism***

Health care providers located in rural areas throughout the United States are increasingly turning to advanced communications technologies to provide telehealth services to patients. The Rural Health Care Support Mechanism, created by the 1996 Act, was designed to ensure that these health care providers pay no more than their urban counterparts to use these and other advanced technologies in providing health care services to their patients.

The Rural Health Care Support Mechanism supports monthly telecommunications charges, installation charges, and long-distance Internet connection charges. Eligible rural health care providers must be either public or not-for-profit to obtain support from the support mechanism, and must be:

- Post-secondary educational institutions offering health care instruction, teaching hospitals, and medical schools;
- Community health centers or health centers providing care to migrants;
- Local health departments or agencies;
- Community mental health centers;
- Not-for-profit hospitals;
- Rural health clinics; or
- Consortia of health care providers consisting of one or more entities described above.

The burgeoning communications and information technologies now available to health care providers are streamlining the process of information sharing among health care practitioners. By making telehealth available to even the smallest and most remote health

care providers, universal service support helps to make health care efficient, effective, and comprehensive, regardless of where the health care is administered. Carriers receive support from the program to offset higher rural rates resulting in more than \$5.4 million in reduced telecommunication cost to Health Care facilities with \$4.9 million of support in 2000.

#### 4. *The Schools and Libraries Support Mechanism*

The Schools and Libraries Support Mechanism—often called the "E-rate"—was also created by the 1996 Act, and provides support for eligible schools and libraries to help offset the cost of advanced telecommunications services. Eligible schools and libraries receive discounts ranging from 20 to 90 percent on the following services:

- Telecommunications services, including local and long-distance service
- Internet access
- “Internal connection” projects such as wiring and networking schools and libraries to facilitate the use of advanced telecommunications technology.

The range of discounts available to schools and libraries corresponds to the income level of students in their community (eligibility for the federal school lunch program), and whether their location is urban or rural (See Table Seven). Income for a school or district is measured by the percentage of students eligible for the National School Lunch Program (NSLP) administered by the United States Department of Agriculture:

**Table Seven: E-Rate Discounts**

<i>If the percentage of students that qualify for the NSLP is:</i>	<i>...and the school or library is in an urban area, the E-rate discount will be:</i>	<i>...and the school or library is in a rural area, the E-rate discount will be:</i>
Less than 1%	20%	25%
1% to 19%	40%	50%
20% to 34%	50%	60%
35% to 49%	60%	70%
50% to 74%	80%	80%
75% to 100%	90%	90%

Source: USAC

Applicants must develop an approved “technology plan” outlining how advanced technologies or discounts on existing technologies will help them in their day-to-day operations or in fulfilling the goals of their organizations. Providing these connections affords students and library patrons the same access to high technology and near-instant information and resources that once could only be found at the university level. In 1999, service providers received more than \$1.355 billion in support, and in 2000 more than \$1.678 billion was provided to service providers to offset charges to schools and libraries.

**Appendix 1: Projected Disbursements To Service Provider Type 1998 – 2000**

	<b>Support Disbursed in 1998</b>	<b>Support Disbursed in 1999</b>	<b>Support Projected in 2000</b>	<b>Total Support</b>
<b>Competitive Access Provider</b>				
High Cost		534,012.00	1,793,570.00	2,327,582.00
Low Income	131,573.00	725,800.00	1,155,470.18	2,012,843.18
Schools & Libraries		13,393,414.89	18,092,452.04	31,485,866.93
Total Disbursed	131,573.00	14,653,226.89	21,041,492.22	35,826,292.11
<b>Call Center/Help Desk Provider</b>				
Schools & Libraries		5,273,515.42	5,935,873.19	11,209,388.61
Total Disbursed		5,273,515.42	5,935,873.19	11,209,388.61
<b>DATA</b>				
Schools & Libraries		1,861,679.02	1,941,707.13	3,803,386.15
Total Disbursed		1,861,679.02	1,941,707.13	3,803,386.15
<b>Internet Service Provider</b>				
Schools & Libraries		75,496,452.32	85,751,838.96	161,248,291.28
Total Disbursed		75,496,452.32	85,751,838.96	161,248,291.28
<b>Inter-Exchange Carrier</b>				
Schools & Libraries		42,880,448.58	45,607,323.01	88,487,771.59
Total Disbursed		42,880,448.58	45,607,323.01	88,487,771.59
<b>Local Exchange Carrier</b>				
High Cost	1,691,667,972.00	1,720,203,432.00	2,687,296,835.00	6,099,168,239.00
Low Income	380,493,988.00	487,254,839.00	552,087,232.36	1,419,836,059.36
Schools & Libraries		465,322,469.50	442,933,525.24	908,255,994.74
Rural Health Care		544,490.61	4,875,264.44	5,419,755.05
Total Disbursed	2,072,161,960.00	2,673,325,231.11	3,687,192,857.04	8,432,680,048.15
<b>Local Reseller</b>				
Schools & Libraries		7,055,244.53	4,835,838.60	11,891,083.13
Total Disbursed		7,055,244.53	4,835,838.60	11,891,083.13
<b>Non-competitive Provider</b>				
Schools & Libraries		690,457,309.93	799,182,926.28	1,489,640,236.21
Total Disbursed		690,457,309.93	799,182,926.28	1,489,640,236.21
<b>OSP</b>				
Schools & Libraries		37,817.52	46,189.77	84,007.29
Total Disbursed		37,817.52	46,189.77	84,007.29
<b>OTH</b>				
Schools & Libraries		24,842,195.50	36,257,809.85	61,100,005.35
Total Disbursed		24,842,195.50	36,257,809.85	61,100,005.35
<b>OTM</b>				
Schools & Libraries		12,153.76		12,153.76
Total Disbursed		12,153.76		12,153.76

*Appendix 1 (Con't)*

	<u>Support</u> Disbursed in 1998	<u>Support</u> Disbursed in 1999	<u>Support Projected</u> in 2000	<u>Total Support</u>
<b>OTM</b>				
Schools & Libraries		530,445.35	298,723.22	829,168.57
Total Disbursed		530,445.35	298,723.22	829,168.57
<b>Paging Company</b>				
Schools & Libraries		1,027,056.02	1,106,756.98	2,133,813.00
Total Disbursed		1,027,056.02	1,106,756.98	2,133,813.00
<b>Payphone Provider</b>				
Schools & Libraries		145,702.10	958,817.94	1,104,520.04
Total Disbursed		145,702.10	958,817.94	1,104,520.04
<b>PRE</b>				
Schools & Libraries		26,702.12	4,699.44	31,401.56
Total Disbursed		26,702.12	4,699.44	31,401.56
<b>PRIV</b>				
Schools & Libraries		20,164,148.08	23,805,400.96	43,969,549.04
Total Disbursed		20,164,148.08	23,805,400.96	43,969,549.04
<b>Satellite Carrier</b>				
Schools & Libraries		1,209,649.45	876,216.42	2,085,865.87
Total Disbursed		1,209,649.45	876,216.42	2,085,865.87
<b>SMR</b>				
Schools & Libraries		660,451.24	340,914.23	1,001,365.47
Total Disbursed		660,451.24	340,914.23	1,001,365.47
<b>TEN</b>				
Schools & Libraries		272,860.61	95,576.97	368,437.58
Total Disbursed		272,860.61	95,576.97	368,437.58
<b>Toll Referral</b>				
Schools & Libraries		5,649,130.06	4,657,499.79	10,306,629.85
Total Disbursed		5,649,130.06	4,657,499.79	10,306,629.85
<b>USDC Operations</b>				
Schools & Libraries		1,260,310.87	231,172.72	1,491,483.59
Total Disbursed		1,260,310.87	231,172.72	1,491,483.59
<b>TOTALS</b>				
High Cost	1,691,667,972.00	1,720,737,444.00	2,689,090,405.00	6,101,495,821.00
Low Income	380,625,561.00	487,980,639.00	553,242,702.55	1,421,848,902.55
Schools & Libraries	0.00	1,357,579,156.87	1,472,961,262.74	2,830,540,419.61
Rural Health Care	0.00	544,490.61	4,875,264.44	5,419,755.05
<b>Total Disbursed</b>	<b>2,072,293,533.00</b>	<b>3,566,841,730.48</b>	<b>4,720,169,634.73</b>	<b>10,359,304,898.21</b>

Source: USAC

**Appendix 2: Contributions By Service Provider Type 1998 – 2000**

	Billed in 1998	Billed in 1999	Billed in 2000	Total Billing
<b>Community Access</b>				
High Cost	9,646,030.86	17,243,053.96	32,669,715.64	59,558,800.46
Low Income	2,765,114.48	4,887,888.53	7,724,068.10	15,377,071.11
Schools & Libraries	6,498,925.59	15,854,869.74	24,820,485.81	47,174,281.14
Rural Health Care	508,901.97	32,224.00	138,503.22	679,629.19
Total Disbursed	19,418,972.90	38,018,036.23	65,352,772.77	122,789,781.90
<b>Colleague</b>				
High Cost	45,662,105.47	82,156,207.58	145,999,088.88	273,817,401.93
Low Income	13,086,860.51	23,271,692.26	34,055,639.43	70,414,192.20
Schools & Libraries	188,697,086.33	229,417,995.46	105,113,255.78	523,228,337.57
Rural Health Care	14,790,536.07	208,166.32	553,876.85	15,552,579.24
Total Disbursed	262,236,588.38	335,054,061.62	285,721,860.94	883,012,510.94
<b>DAI</b>				
High Cost	158,151.06	188,226.20	365,388.42	711,765.68
Low Income	45,282.24	53,934.12	85,833.72	185,050.08
Schools & Libraries	55,084.80	256,281.94	270,198.81	581,565.55
Rural Health Care	4,402.38	300.48	1,471.05	6,173.91
Total Disbursed	262,920.48	498,742.74	722,892.00	1,484,555.22
<b>Home Care</b>				
Total Disbursed	0.00	0.00	0.00	0.00
<b>Inter-Exchange Carrier</b>				
High Cost	1,276,448,111.61	1,230,263,318.93	1,551,217,870.94	4,057,929,301.48
Low Income	365,842,996.57	353,612,262.18	365,259,113.39	1,084,714,372.14
Schools & Libraries	483,691,787.59	703,131,073.16	1,158,535,645.42	2,345,358,506.17
Rural Health Care	37,972,692.81	1,236,565.44	6,369,308.28	45,578,566.53
Total Disbursed	2,163,955,588.58	2,288,243,219.71	3,081,381,938.03	7,533,580,746.32
<b>Local</b>				
High Cost	240,438,220.62	273,923,045.85	352,717,323.90	867,078,590.37
Low Income	68,915,439.41	78,611,324.24	83,469,707.10	230,996,470.75
Schools & Libraries	531,892,168.72	549,556,914.02	268,960,078.39	1,350,409,161.13
Rural Health Care	41,720,471.83	497,728.94	1,508,120.84	43,726,321.61
Total Disbursed	882,966,300.58	902,589,013.05	706,655,230.23	2,492,210,543.86
<b>Local IF</b>				
High Cost	1,334,654.98	2,341,461.64	2,393,009.94	6,069,126.56
Low Income	382,561.41	667,552.80	532,026.65	1,582,140.86
Schools & Libraries	1,634,685.93	2,721,388.90	1,318,923.77	5,674,998.60
Rural Health Care	127,958.14	2,404.76	9,515.42	139,878.32
Total Disbursed	3,479,860.46	5,732,808.10	4,253,475.78	13,466,144.34
<b>Non-Exchange Carrier</b>				
Total Disbursed	0.00	0.00	0.00	0.00

*Appendix 2 (Con't)*

	Billed in 1998	Billed in 1999	Billed in 2000	Total Billing
<b>OSP</b>				
High Cost	6,699,467.50	6,752,778.20	6,511,348.24	19,963,593.94
Low Income	1,920,569.57	1,920,292.58	1,525,237.82	5,366,099.97
Schools & Libraries	3,588,085.09	4,768,846.96	5,088,168.09	13,445,100.14
Rural Health Care	280,721.75	-29,227.77	31,564.20	283,058.18
Total Disbursed	12,488,843.91	13,412,689.97	13,156,318.35	39,057,852.23
<b>OTHL</b>				
High Cost	238,533.81	226,503.58	282,002.07	747,039.46
Low Income	68,381.49	64,846.25	67,529.01	200,756.75
Schools & Libraries	285,352.02	150,446.16	225,603.81	661,401.99
Rural Health Care	22,598.58	254.41	1,319.49	24,172.48
Total Disbursed	614,865.90	442,050.40	576,454.38	1,633,370.68
<b>OTLM</b>				
High Cost	3,371,827.74	4,154,627.03	2,958,367.87	10,484,822.64
Low Income	966,559.11	1,196,880.35	708,036.39	2,871,475.85
Schools & Libraries	1,047,135.03	2,166,379.52	2,407,321.72	5,620,836.27
Rural Health Care	81,952.89	4,938.14	14,549.87	101,440.90
Total Disbursed	5,467,474.77	7,522,825.04	6,088,275.85	19,078,575.66
<b>OHM</b>				
High Cost	2,537,610.12	2,490,256.07	2,642,306.22	7,670,172.41
Low Income	727,362.00	718,949.59	621,606.83	2,067,918.42
Schools & Libraries	859,949.04	1,267,659.07	1,939,149.05	4,066,757.16
Rural Health Care	67,403.52	2,176.95	10,866.27	80,446.74
Total Disbursed	4,192,324.68	4,479,041.68	5,213,928.37	13,885,294.73
<b>Paging Company</b>				
High Cost	6,902,275.78	7,482,414.89	8,906,678.29	23,291,368.96
Low Income	1,978,684.10	2,140,833.99	2,105,347.29	6,224,865.38
Schools & Libraries	16,217,611.10	18,005,039.30	6,702,800.14	40,925,450.54
Rural Health Care	1,270,500.37	7,209.51	38,991.01	1,316,700.89
Total Disbursed	26,369,071.35	27,635,497.69	17,753,816.73	71,758,385.77
<b>Psychiatric</b>				
High Cost	1,497,335.82	1,920,883.73	2,600,348.12	6,018,567.67
Low Income	429,209.07	546,980.79	608,351.09	1,584,540.95
Schools & Libraries	4,252,985.46	5,695,521.04	1,883,137.00	11,831,643.50
Rural Health Care	332,881.92	-11,517.74	10,129.46	331,493.64
Total Disbursed	6,512,412.27	8,151,867.82	5,101,965.67	19,766,245.76
<b>PRE</b>				
High Cost	9,943,054.49	14,162,233.54	16,956,175.30	41,061,463.33
Low Income	2,850,382.22	4,036,433.50	3,929,978.54	10,816,794.26
Schools & Libraries	3,106,391.08	7,992,225.22	12,717,354.64	23,815,970.94
Rural Health Care	243,089.84	-9,001.74	74,721.75	308,809.85
Total Disbursed	16,142,917.63	26,181,890.52	33,678,230.23	76,003,038.38

*Appendix 2 (Con't)*

	Billed in 1998	Billed in 1999	Billed in 2000	Total Billing
<b>PRV</b>				
High Cost	1,551,828.60	2,253,212.83	3,702,515.59	7,507,557.02
Low Income	444,979.56	640,450.23	901,551.76	1,986,981.55
Schools & Libraries	590,688.06	1,283,858.05	2,803,332.11	4,677,878.22
Rural Health Care	46,078.62	9,948.54	14,112.45	70,139.61
Total Disbursed	2,633,574.84	4,187,469.65	7,421,511.91	14,242,556.40
<b>SAMILLI</b>				
High Cost	2,528,416.25	2,131,538.46	2,400,257.00	7,060,211.71
Low Income	724,979.21	610,018.89	552,507.37	1,887,505.47
Schools & Libraries	725,503.64	1,167,801.12	1,890,663.95	3,783,968.71
Rural Health Care	56,550.41	-3,170.97	8,730.02	62,109.46
Total Disbursed	4,035,449.51	3,906,187.50	4,852,158.34	12,793,795.35
<b>SMR</b>				
High Cost	129,527.22	127,877.55	201,119.88	458,524.65
Low Income	37,118.67	36,476.82	47,038.98	120,634.47
Schools & Libraries	414,896.85	617,417.75	145,982.04	1,178,296.64
Rural Health Care	32,485.50	475.78	780.12	33,741.40
Total Disbursed	614,028.24	782,247.90	394,921.02	1,791,197.16
<b>TEN</b>				
High Cost	1,206,665.97	1,072,021.17	969,946.05	3,248,633.19
Low Income	345,856.62	308,014.29	231,402.39	885,273.30
Schools & Libraries	603,330.72	823,306.82	764,712.54	2,191,350.08
Rural Health Care	47,351.52	926.76	4,406.34	52,684.62
Total Disbursed	2,203,204.83	2,204,269.04	1,970,467.32	6,377,941.19
<b>UNASSIGNED</b>				
High Cost	88,488,587.34	98,583,398.08	117,010,670.39	304,082,655.81
Low Income	25,364,016.09	28,194,560.72	27,430,235.33	80,988,812.14
Schools & Libraries	38,457,402.46	64,940,371.06	87,990,415.98	191,388,189.50
Rural Health Care	3,018,031.34	43,248.21	466,498.24	3,527,777.79
Total Disbursed	155,328,037.23	191,761,578.07	232,897,819.94	579,987,435.24
<b>No Description</b>				
Total Disbursed	0.00	0.00	0.00	0.00
<b>TOTALS</b>				
High Cost	1,698,782,405.24	1,747,473,059.29	2,250,504,132.74	5,696,759,597.27
Low Income	486,896,352.33	501,519,392.13	529,855,211.19	1,518,270,955.65
Schools & Libraries	1,282,619,069.51	1,609,817,395.29	1,683,577,229.05	4,576,013,693.85
Rural Health Care	100,624,609.46	1,993,650.02	9,257,464.88	111,875,724.36
Total Disbursed	3,568,922,436.54	3,860,803,496.73	4,473,194,037.86	11,902,919,971.13

## ***Glossary of Acronyms for Appendices 1 and 2***

**TEN** Shared Tenant Service Provider - manages or owns a multi-tenant location that provides telecommunications services or facilities to the tenants for a fee.

**PAY** Payphone Service Provider - provides customers access to telephone networks through pay telephone equipment, special teleconference rooms, etc. Payphone service providers are also referred to as pay telephone aggregators.

**PRIV** Private Service Providers - offers telecommunications to others for a fee. This would include a company that offers excess capacity on a private system that is used primarily for internal purposes.

**LEC** Incumbent LEC - provides local exchange service. An incumbent local exchange carrier (ILEC) generally is a carrier that was at one time franchised as a monopoly service provider.

**CAP CAP/CLEC** (Competitive Access Provider/Competitive Local Exchange Carrier) - competes with incumbent LEC's to provide local exchange services or telecommunications services that link customers with interexchange facilities, local exchange networks, or other customers.

**LRES** Local reseller - provides local exchange or fixed telecommunications services by reselling services of other carriers.

**CEL** Cellular/PCS/SMR (Cellular, Personal Communications Service and Specialized Mobile Radio service providers) - primarily provides wireless telecommunications services (wireless telephony). This category includes the provision of wireless telephony by resale. An SMR provider would select this category if it primarily provides wireless telephony rather than dispatch or other mobile services.

**PAG** Paging and Messaging - provide wireless paging or wireless messaging services. This category includes the provision of paging and messaging services by resale.

**DAT** Wireless Data - provides mobile or fixed wireless data services using wireless technology. This category includes the provision of wireless data services by resale.

**IXC** IXC (Interexchange Carrier) - provides long distance telecommunications services substantially through switches or circuits that it owns or leases.

**TRES** Toll Reseller - provides long distance telecommunications services primarily by reselling the long distance telecommunications services of other carriers.

**OSP** OSP (Operator Service Provider) - companies other than incumbent LEC's that serve customers needing the assistance of an operator to complete calls, or needing alternate billing arrangements.

**SAT** Satellite - provides satellite space segment or earth stations that are used for telecommunications service.

**PRE** Pre-paid Card - provides pre-paid calling card services by selling pre-paid calling cards to the public or to retailers. Pre-paid card providers typically resell the toll service of other carriers and determine the price of the service by setting the price of the card and controlling the number of minutes that the card can be for.

**SMR** SMR (dispatch) (Specialized Mobile Radio service provider) - primarily provides dispatch and mobile services other than wireless telephony.

**OTHL** Other Local - telecommunication companies that provide local service and do not conform to one of the above categories.

**OTHM** Other Mobile - telecommunication companies that provide mobile service and do not conform to one of the above categories.

**OTHT** Other Toll - telecommunication companies that provide toll service and do not conform to one of the above categories.

**ISP** Internet Service Provider - providers of access to the Internet.

**NTP** Non-traditional Provider - if you are a company that does not provide telecommunication services.

**Appendix 3: Per Line USF Recovery Analysis**  
*An Illustrative Example Using 1999 Lines*

	Number of Lines (Millions)	Charge per Line per Month (\$0.75)	Charge per Line per Month (\$1.00)	Charge per Line per Month (\$1.25)
<b>A. Residential Subscribers – Wireline</b>				
Primary and Non-Primary	109.672	\$0.75	\$1.00	\$1.25
Lifeline (exempt from charge)	5.558	\$0.00	\$0.00	\$0.00
<b>B. Business Subscribers – Wireline</b>				
Single Line	4.325	\$0.75	\$1.00	\$1.25
Multi Line	<b>54.923</b>	<b>\$2.75</b>	<b>\$2.31</b>	<b>\$1.86</b>
Special Access*	<b>53.234</b>	<b>\$2.75</b>	<b>\$2.31</b>	<b>\$1.86</b>
<b>C. Residential Subscribers – Wireless</b>				
Cellular, PCS, Hybrid	52.887	\$0.75	\$1.00	\$1.25
Pagers	6.853	\$0.25	\$0.25	\$0.25
<b>D. Business Subscribers – Wireless</b>				
Cellular, PCS, Hybrid	24.517	\$0.75	\$1.00	\$1.25
Pagers	34.682	\$0.25	\$0.25	\$0.25
Industry Annual USF Obligation	\$5,415.2	1st Qr 2001 Annualized	1st Qr 2001 Annualized	1st Qr 2001 Annualized
Residential/Small Business Share		<b>34.1%</b> <b>\$1,847,200</b>	<b>44.7%</b> <b>\$2,421,400</b>	<b>55.3%</b> <b>\$2,995.6</b>
Business (Non-Single Line) Share		<b>65.9%</b> <b>\$3,568,000</b>	<b>55.3%</b> <b>\$2,993,800</b>	<b>4.7%</b> <b>\$42,419.6</b>

\*Voice-grade equivalents account for digital circuits on a traditional access line basis.

**Note:** This analysis provides a general estimate of the business subscribers' multi-line and special access per line charges based on fixed charges of all other lines. To be more accurate, the analysis would need to be refined to incorporate estimated 2001 lines, Centrex/PBX equivalency for multi-line business, and digital/analog equivalency for other lines.

*Appendix 3 (Con't)*

<b>Type of Lines:</b>	<b>Number of Lines: (In Millions)</b>	<b>Data Source:</b>
Residential Switched Access Lines	<b>115.230</b>	Table 4.10, SOCC released August 11, 2000 [ Total Residential]
Residential -- LIFELINE	<b>5.558</b>	Table 2.19, SOCC released August 11, 2000 [ Residence Lifeline]
Residential -- Non-Lifeline	<b>109.672</b>	Derived
Household with Telephone	<b>99.100</b>	Table 5.2, SOCC released August 11, 2000 [ Household with Telephones as of November 1999]
Business Switched Access Lines	<b>57.446</b>	Table 4.10, SOCC released August 11, 2000 [ Total Business ]
Single Business Lines	<b>4.325</b>	Table 2.19, SOCC released August 11, 2000 [ Business Single Line]
Business Multi Line	<b>53.121</b>	Derived
Business Multi Line plus Payphone	<b>54.923</b>	Payphone= 1.803 M, from Table 4.10 of SOCC, August 11, 2000
Special Access Lines	<b>53.234</b>	Table 4.10, SOCC released August 11, 2000 [ Total Special Access Lines ]
Cellular, PCS, and Hybrid Wireless Subscribers -- TOTAL	<b>77.404</b>	Table 6, US Cellular, PCS, and Hybrid Consumer & Business Subscribers; US Wireless Services and Devices Market Assessment, 1999-2004, IDC [www.idc.com]
-- CONSUMER	<b>52.887</b>	
-- BUSINESS	<b>24.517</b>	
Paging Subscribers -- TOTAL	<b>41.535</b>	Table 19, US Consumer & Business Paging Subscribers; US Wireless Services and Devices Market Assessment, 1999-2004, IDC [www.idc.com]
-- CONSUMER	<b>6.853</b>	
-- BUSINESS	<b>34.682</b>	

**Appendix 4: How Change in the Contribution Base Impacts USF Factors**

*An Illustrative Example Using Historical Data*

<b>1st Quarter 2001 Program Costs (\$ millions):</b>	
Schools, Libraries, and RHC	\$ 528.550
High Cost and Low Income*	\$ 825.245
All Programs	\$ 1,353.795
<b>Year 1999 Contribution Base (\$ millions):</b>	
Intrastate- All Filers	\$ 135,903
Interstate and International	\$ 79,861
Intrastate, Interstate, and International	\$ 215,764
Uncollectibles to adjust contribution bases	1%
<b>Projected Contribution Factors Using 1999 Contribution Base and 2001 Program Costs – All Programs on Same Base</b>	
All Programs on Interstate & International Contribution Base	<b>6.85%</b>
All Programs on Intrastate, Interstate, and International Contribution Base	<b>2.54%</b>

\* Includes CALLS Access USF Fund

**Note:** This analysis uses a 1999 contribution base, as it was prepared before the 2000 contribution base figures were available. Using Year 2000 figures would alter the results slightly.

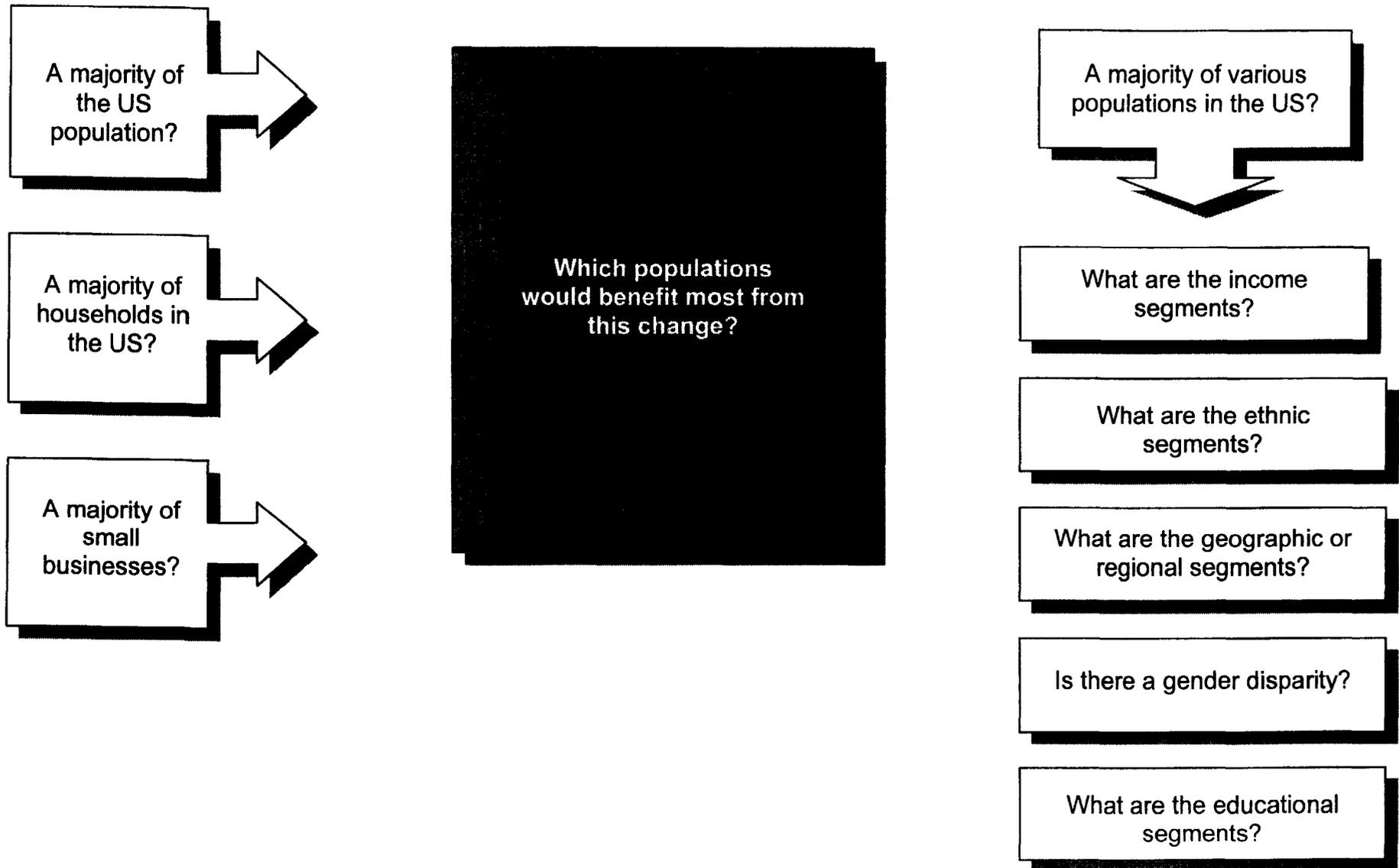
## ***Appendix 5: Supported Services Flow Chart***

**T**here is no doubt that advanced services—broadband—are in great demand by certain segments of the population. Of relevance to the Universal Service program and the FCC is whether or not advanced services are desired as much by a substantial majority of the population, including residential users. More importantly, the FCC must determine whether or not advanced services should be considered “essential” services. CECA has concluded that, at this time, there is not enough evidence to indicate that the majority of Americans consider broadband to be an essential service. Historically, clean water, heat in the winter, safe electricity, and basic telephone services are among those considered essential ingredients for societal health, safety, or economic development. It is still too early to determine if advanced services should be viewed in the same way.

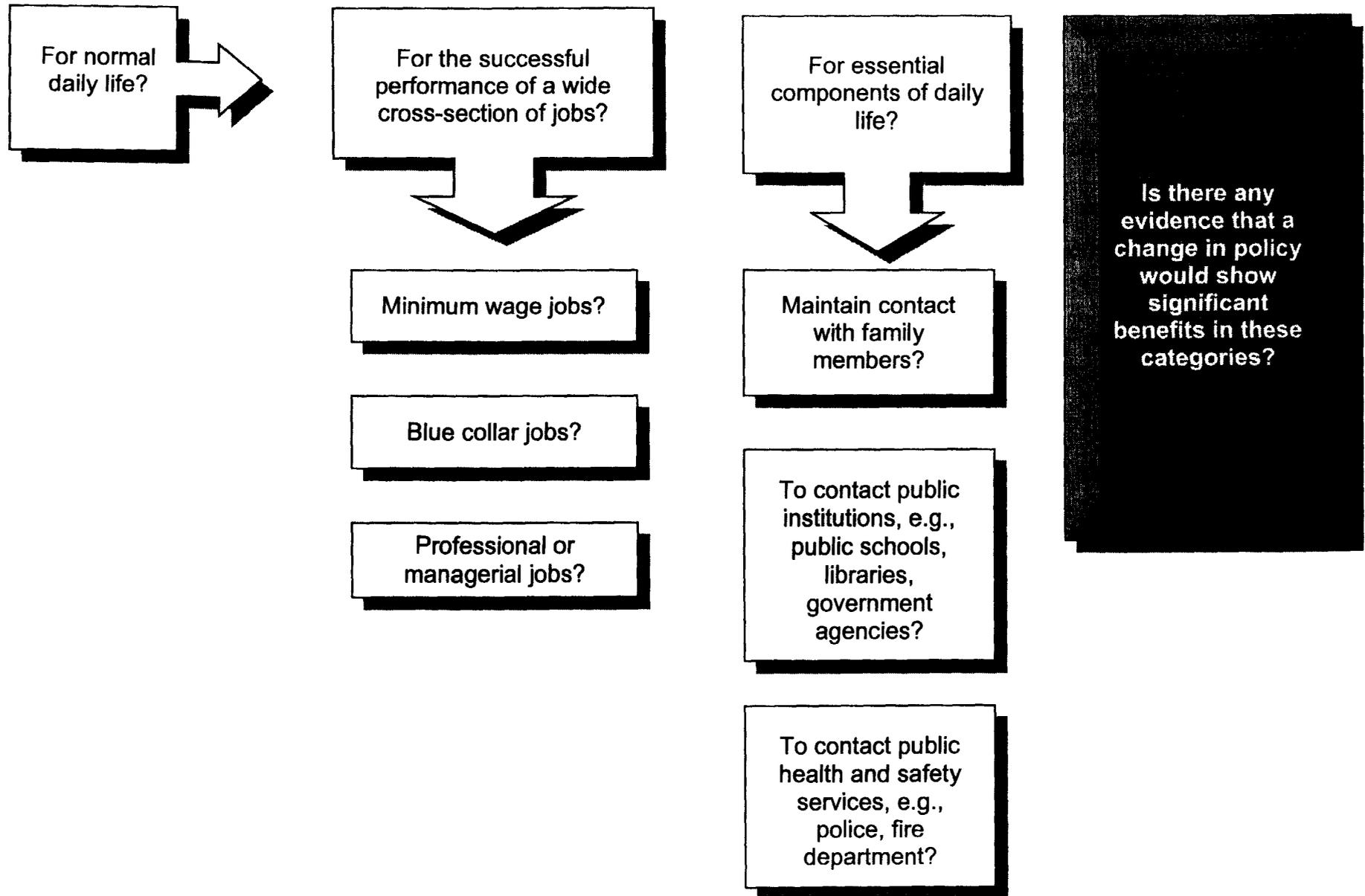
However, CECA strongly supports the provisions in the 1996 Act that mandate a continuous review of the timely deployment of advanced services, and an ongoing assessment of the role played by advanced services so that at the appropriate time, these services can be justifiably included in the definition of supportable services.

CECA submits this flow chart of questions that are relevant to making this determination. The flow chart represents a relevant cross-section of factors that should be examined, although is not intended to be a comprehensive or exhaustive list of questions that administrators will deploy. Given that the final determination will ultimately be based upon a subjective analysis of the net social benefits of adding advanced services, this chart is offered as a tool for examination of the more objective components.

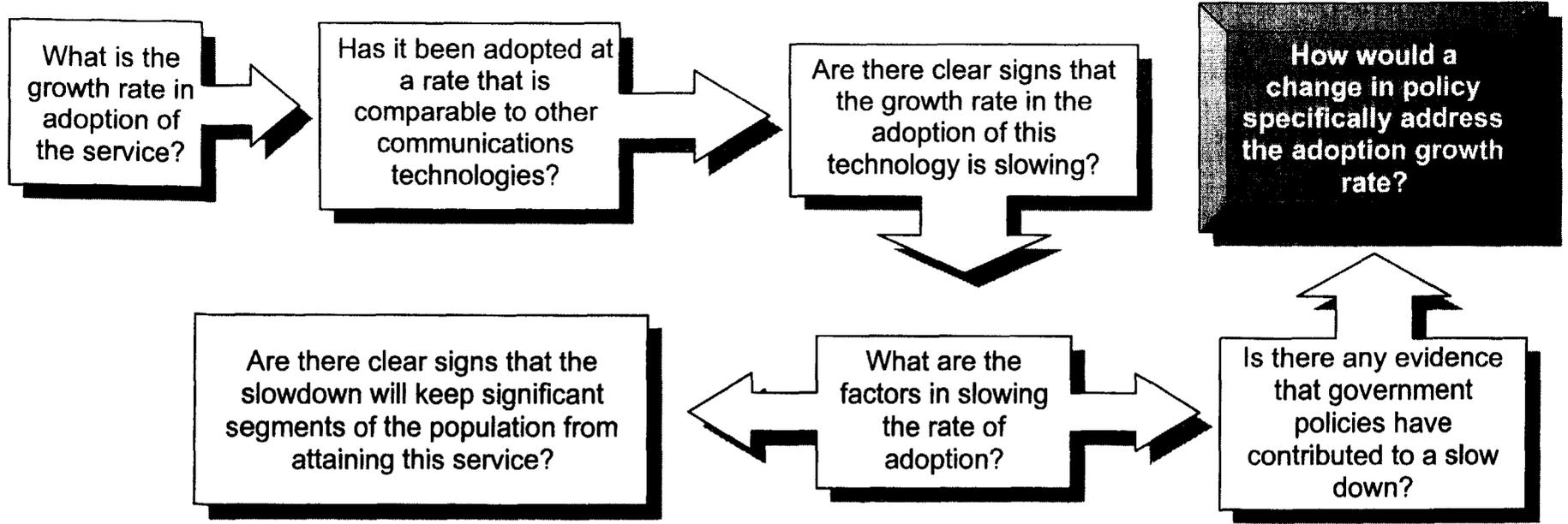
## 1. TARGET POPULATION: Is it being used by...



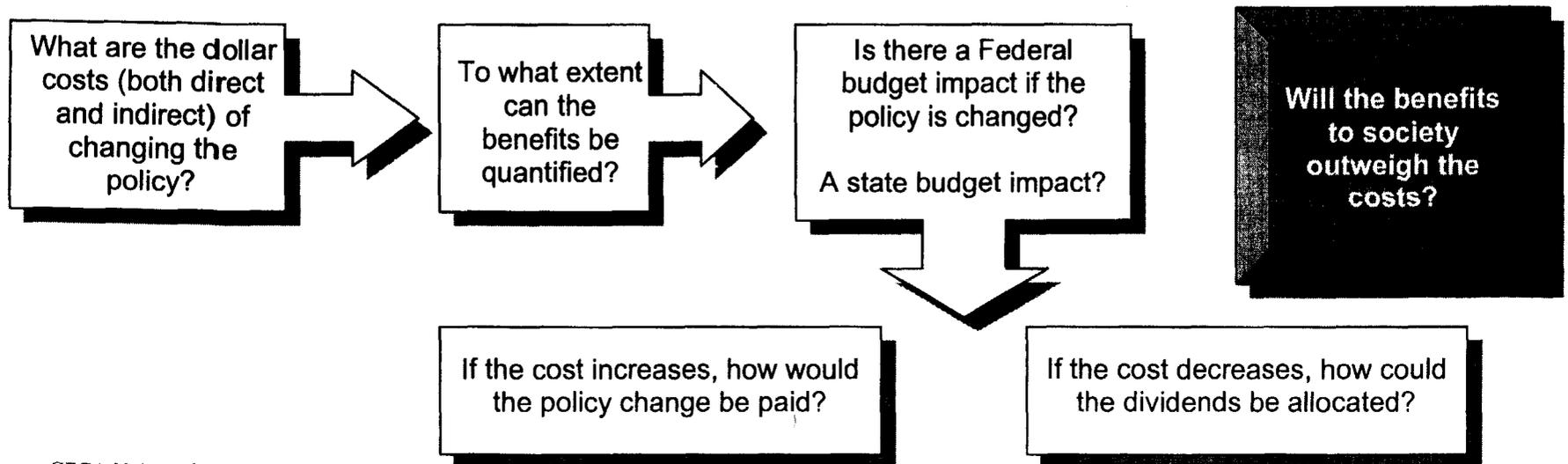
## 2. HOW ESSENTIAL ARE THE SERVICES? Is this Service Necessary or Critical...



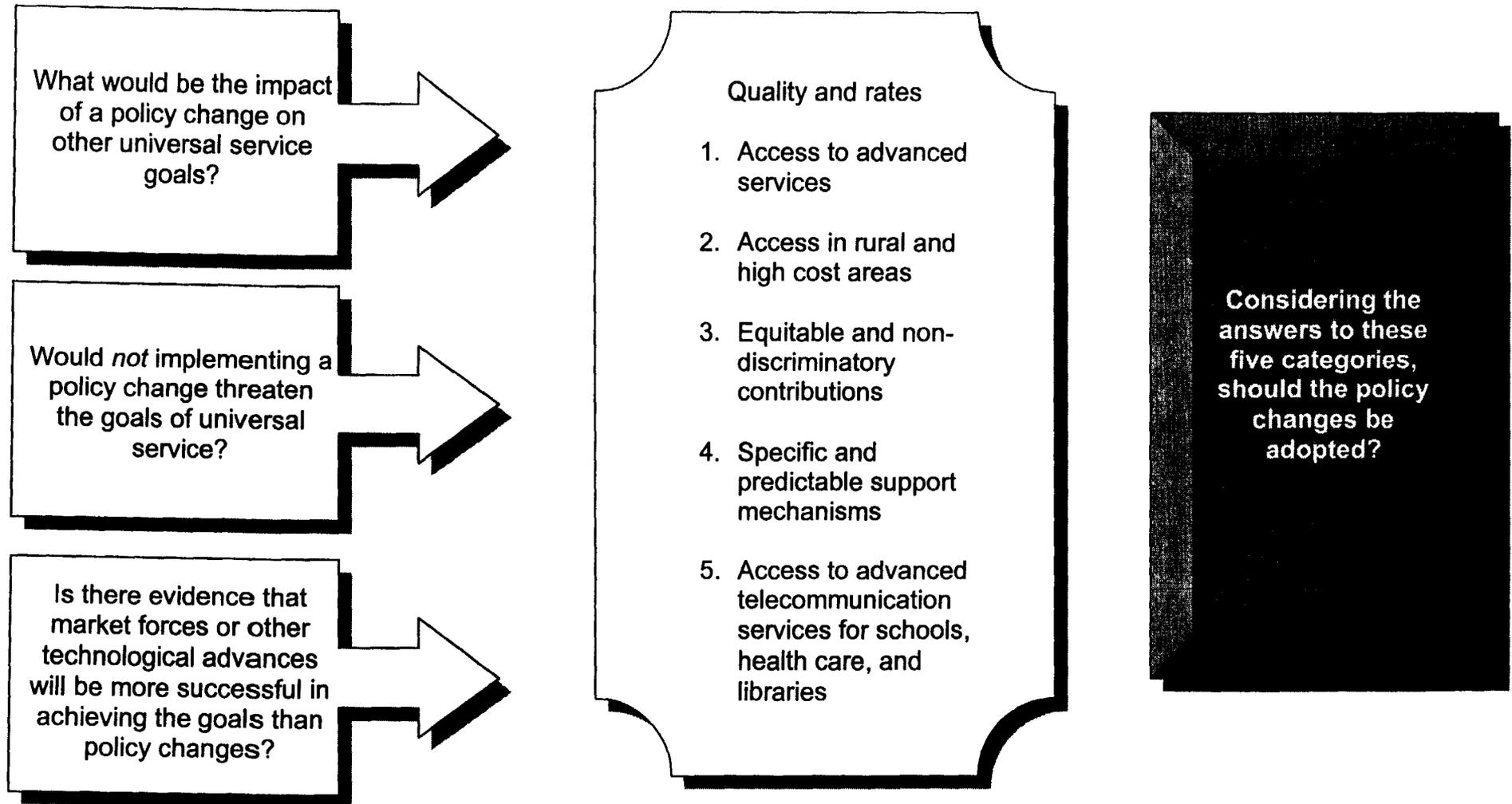
### 3. GROWTH RATE OF THE SERVICE



### 4. COSTS AND BENEFITS OF SERVICE



## 5. IMPACT OF POLICY CHANGES



## ***Appendix 6: Relevant Universal Service Statutes***

### **SEC. 254. UNIVERSAL SERVICE**

#### **(a) PROCEDURES TO REVIEW UNIVERSAL SERVICE REQUIREMENTS-**

(1) **FEDERAL-STATE JOINT BOARD ON UNIVERSAL SERVICE-** Within one month after the date of enactment of the Telecommunications Act of 1996 , the Commission shall institute and refer to a Federal-State Joint Board under section 410(c) a proceeding to recommend changes to any of its regulations in order to implement sections 214(e) and this section, including the definition of the services that are supported by Federal universal service support mechanisms and a specific timetable for completion of such recommendations. In addition to the members of the Joint Board required under section 410(c), one member of such Joint Board shall be a State-appointed utility consumer advocate nominated by a national organization of State utility consumer advocates. The Joint Board shall, after notice and opportunity for public comment, make its recommendations to the Commission 9 months after the date of enactment of the Telecommunications Act of 1996 .

(2) **COMMISSION ACTION-** The Commission shall initiate a single proceeding to implement the recommendations from the Joint Board required by paragraph (1) and shall complete such proceeding within 15 months after the date of enactment of the Telecommunications Act of 1996 . The rules established by such proceeding shall include a definition of the services that are supported by Federal universal service support mechanisms and a specific timetable for implementation. Thereafter, the Commission shall complete any proceeding to implement subsequent recommendations from any Joint Board on universal service within one year after receiving such recommendations.

(b) **UNIVERSAL SERVICE PRINCIPLES-** The Joint Board and the Commission shall base policies for the preservation and advancement of universal service on the following principles:

(1) **QUALITY AND RATES-** Quality services should be available at just, reasonable, and affordable rates.

(2) **ACCESS TO ADVANCED SERVICES-** Access to advanced telecommunications and information services should be provided in all regions of the Nation.

(3) **ACCESS IN RURAL AND HIGH COST AREAS-** Consumers in all regions of the Nation, including low-income consumers and those in rural, insular, and high cost areas, should have access to telecommunications and information services, including interexchange services and advanced telecommunications and information services, that are reasonably comparable to those services provided in urban areas and that are available at rates that are reasonably comparable to rates charged for similar services in urban areas.

(4) **EQUITABLE AND NONDISCRIMINATORY CONTRIBUTIONS-** All providers of telecommunications services should make an equitable and nondiscriminatory contribution to the preservation and advancement of universal service.

(5) **SPECIFIC AND PREDICTABLE SUPPORT MECHANISMS-** There should be specific, predictable and sufficient Federal and State mechanisms to preserve and advance universal service.

(6) **ACCESS TO ADVANCED TELECOMMUNICATIONS SERVICES FOR SCHOOLS, HEALTH CARE, AND LIBRARIES-** Elementary and secondary schools and classrooms, health care providers, and libraries should have access to advanced telecommunications services as described in subsection (h).

(7) **ADDITIONAL PRINCIPLES-** Such other principles as the Joint Board and the Commission determine are necessary and appropriate for the protection of the public interest, convenience, and necessity and are consistent with this Act .

(c) **DEFINITION-**

(1) **IN GENERAL-** Universal service is an evolving level of telecommunications services that the Commission shall establish periodically under this section, taking into account advances in telecommunications and information technologies and services. The Joint Board in recommending, and the Commission in establishing, the definition of the services that are supported by Federal universal service support mechanisms shall consider the extent to which such telecommunications services—

(A) are essential to education, public health, or public safety;

(B) have, through the operation of market choices by customers, been subscribed to by a substantial majority of residential customers;

(C) are being deployed in public telecommunications networks by telecommunications carriers; and

(D) are consistent with the public interest, convenience, and necessity.

(2) **ALTERATIONS AND MODIFICATIONS-** The Joint Board may, from time to time, recommend to the Commission modifications in the definition of the services that are supported by Federal universal service support mechanisms.

(3) **SPECIAL SERVICES-** In addition to the services included in the definition of universal service under paragraph (1), the Commission may designate additional services for such support mechanisms for schools, libraries, and health care providers for the purposes of subsection (h).

(d) **TELECOMMUNICATIONS CARRIER CONTRIBUTION-** Every telecommunications carrier that provides interstate telecommunications services shall contribute, on an equitable and nondiscriminatory basis, to the specific, predictable, and sufficient mechanisms established by the Commission to preserve and advance universal service. The Commission may exempt a carrier or class of carriers from this requirement if the carrier's telecommunications activities are limited to such an extent that the level of such carrier's contribution to the preservation and advancement of universal service would be de minimis. Any other provider of interstate telecommunications may be required to contribute to the preservation and advancement of universal service if the public interest so requires.

(e) **UNIVERSAL SERVICE SUPPORT-** After the date on which Commission regulations implementing this section take effect, only an eligible telecommunications carrier designated under

section 214(e) shall be eligible to receive specific Federal universal service support. A carrier that receives such support shall use that support only for the provision, maintenance, and upgrading of facilities and services for which the support is intended. Any such support should be explicit and sufficient to achieve the purposes of this section.

(f) STATE AUTHORITY- A State may adopt regulations not inconsistent with the Commission's rules to preserve and advance universal service. Every telecommunications carrier that provides intrastate telecommunications services shall contribute, on an equitable and nondiscriminatory basis, in a manner determined by the State to the preservation and advancement of universal service in that State. A State may adopt regulations to provide for additional definitions and standards to preserve and advance universal service within that State only to the extent that such regulations adopt additional specific, predictable, and sufficient mechanisms to support such definitions or standards that do not rely on or burden Federal universal service support mechanisms.

(g) INTEREXCHANGE AND INTERSTATE SERVICES- Within 6 months after the date of enactment of the Telecommunications Act of 1996 , the Commission shall adopt rules to require that the rates charged by providers of interexchange telecommunications services to subscribers in rural and high cost areas shall be no higher than the rates charged by each such provider to its subscribers in urban areas. Such rules shall also require that a provider of interstate interexchange telecommunications services shall provide such services to its subscribers in each State at rates no higher than the rates charged to its subscribers in any other State.

(h) TELECOMMUNICATIONS SERVICES FOR CERTAIN PROVIDERS-

(1) IN GENERAL-

(A) HEALTH CARE PROVIDERS FOR RURAL AREAS- A telecommunications carrier shall, upon receiving a bona fide request, provide telecommunications services which are necessary for the provision of health care services in a State, including instruction relating to such services, to any public or nonprofit health care provider that serves persons who reside in rural areas in that State at rates that are reasonably comparable to rates charged for similar services in urban areas in that State. A telecommunications carrier providing service under this paragraph shall be entitled to have an amount equal to the difference, if any, between the rates for services provided to health care providers for rural areas in a State and the rates for similar services provided to other customers in comparable rural areas in that State treated as a service obligation as a part of its obligation to participate in the mechanisms to preserve and advance universal service.

(B) EDUCATIONAL PROVIDERS AND LIBRARIES- All telecommunications carriers serving a geographic area shall, upon a bona fide request for any of its services that are within the definition of universal service under subsection (c)(3), provide such services to elementary schools, secondary schools, and libraries for educational purposes at rates less than the amounts charged for similar services to other parties. The discount shall be an amount that the Commission, with respect to interstate services, and the States, with respect to intrastate services, determine is appropriate and necessary to ensure affordable access to and use of such services by such entities. A telecommunications carrier providing service under this paragraph shall—

(i) have an amount equal to the amount of the discount treated as an offset to its obligation to contribute to the mechanisms to preserve and advance universal service, or

(ii) notwithstanding the provisions of subsection (e) of this section, receive reimbursement utilizing the support mechanisms to preserve and advance universal service.

(2) **ADVANCED SERVICES-** The Commission shall establish competitively neutral rules—

(A) to enhance, to the extent technically feasible and economically reasonable, access to advanced telecommunications and information services for all public and nonprofit elementary and secondary school classrooms, health care providers, and libraries; and

(B) to define the circumstances under which a telecommunications carrier may be required to connect its network to such public institutional telecommunications users.

(3) **TERMS AND CONDITIONS-** Telecommunications services and network capacity provided to a public institutional telecommunications user under this subsection may not be sold, resold, or otherwise transferred by such user in consideration for money or any other thing of value.

(4) **ELIGIBILITY OF USERS-** No entity listed in this subsection shall be entitled to preferential rates or treatment as required by this subsection, if such entity operates as a for-profit business, is a school described in paragraph (5)(A) with an endowment of more than \$50,000,000, or is a library not eligible for participation in State-based plans for funds under title III of the Library Services and Construction Act (20 U.S.C. 335c et seq.).

(5) **DEFINITIONS-** For purposes of this subsection:

(A) **ELEMENTARY AND SECONDARY SCHOOLS-** The term 'elementary and secondary schools' means elementary schools and secondary schools, as defined in paragraphs (14) and (25), respectively, of section 14101 of the Elementary and Secondary Education Act of 1965 (20 U.S.C. 8801).

(B) **HEALTH CARE PROVIDER-** The term 'health care provider' means—

- (i) post-secondary educational institutions offering health care instruction, teaching hospitals, and medical schools;
- (ii) community health centers or health centers providing health care to migrants;
- (iii) local health departments or agencies;
- (iv) community mental health centers;
- (v) not-for-profit hospitals;
- (vi) rural health clinics; and
- (vii) consortia of health care providers consisting of one or more entities described in clauses (i) through (vi).

(C) **PUBLIC INSTITUTIONAL TELECOMMUNICATIONS USER-** The term 'public institutional telecommunications user' means an elementary or secondary school, a library, or a health care provider as those terms are defined in this paragraph.

(i) **CONSUMER PROTECTION-** The Commission and the States should ensure that universal service is available at rates that are just, reasonable, and affordable.

(j) **LIFELINE ASSISTANCE-** Nothing in this section shall affect the collection, distribution, or administration of the Lifeline Assistance Program provided for by the Commission under regulations set forth in section 69.117 of title 47, Code of Federal Regulations, and other related sections of such title.

(k) **SUBSIDY OF COMPETITIVE SERVICES PROHIBITED-** A telecommunications carrier may not use services that are not competitive to subsidize services that are subject to competition. The Commission, with respect to interstate services, and the States, with respect to intrastate services, shall establish any necessary cost allocation rules, accounting safeguards, and guidelines to ensure that services included in the definition of universal service bear no more than a reasonable share of the joint and common costs of facilities used to provide those services.

## **SEC. 706. ADVANCED TELECOMMUNICATIONS INCENTIVES**

(a) **IN GENERAL-** The Commission and each State commission with regulatory jurisdiction over telecommunications services shall encourage the deployment on a reasonable and timely basis of advanced telecommunications capability to all Americans (including, in particular, elementary and secondary schools and classrooms) by utilizing, in a manner consistent with the public interest, convenience, and necessity, price cap regulation, regulatory forbearance, measures that promote competition in the local telecommunications market, or other regulating methods that remove barriers to infrastructure investment.

(b) **INQUIRY-** The Commission shall, within 30 months after the date of enactment of this Act, and regularly thereafter, initiate a notice of inquiry concerning the availability of advanced telecommunications capability to all Americans (including, in particular, elementary and secondary schools and classrooms) and shall complete the inquiry within 180 days after its initiation. In the inquiry, the Commission shall determine whether advanced telecommunications capability is being deployed to all Americans in a reasonable and timely fashion. If the Commission's determination is negative, it shall take immediate action to accelerate deployment of such capability by removing barriers to infrastructure investment and by promoting competition in the telecommunications market.

(c) **DEFINITIONS-** For purposes of this subsection:

(1) **ADVANCED TELECOMMUNICATIONS CAPABILITY-** The term 'advanced telecommunications capability' is defined, without regard to any transmission media or technology, as high-speed, switched, broadband telecommunications capability that enables users to originate and receive high-quality voice, data, graphics, and video telecommunications using any technology.

(2) **ELEMENTARY AND SECONDARY SCHOOLS-** The term 'elementary and secondary schools' means elementary and secondary schools, as defined in paragraphs (14) and (25), respectively, of section 14101 of the Elementary and Secondary Education Act of 1965 (20 U.S.C. 8801).

## **SEC. 102. ELIGIBLE TELECOMMUNICATIONS CARRIERS**

(a) IN GENERAL- Section 214 (47 U.S.C. 214) is amended by adding at the end thereof the following new subsection:

(e) PROVISION OF UNIVERSAL SERVICE-

(1) ELIGIBLE TELECOMMUNICATIONS CARRIERS- A common carrier designated as an eligible telecommunications carrier under paragraph (2) or (3) shall be eligible to receive universal service support in accordance with section 254 and shall, throughout the service area for which the designation is received—

(A) offer the services that are supported by Federal universal service support mechanisms under section 254(c), either using its own facilities or a combination of its own facilities and resale of another carrier's services (including the services offered by another eligible telecommunications carrier); and

(B) advertise the availability of such services and the charges therefor using media of general distribution.

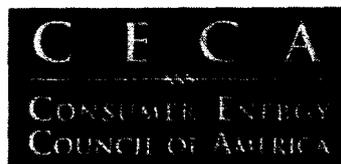
(2) DESIGNATION OF ELIGIBLE TELECOMMUNICATIONS CARRIERS- A State commission shall upon its own motion or upon request designate a common carrier that meets the requirements of paragraph (1) as an eligible telecommunications carrier for a service area designated by the State commission. Upon request and consistent with the public interest, convenience, and necessity, the State commission may, in the case of an area served by a rural telephone company, and shall, in the case of all other areas, designate more than one common carrier as an eligible telecommunications carrier for a service area designated by the State commission, so long as each additional requesting carrier meets the requirements of paragraph (1). Before designating an additional eligible telecommunications carrier for an area served by a rural telephone company, the State commission shall find that the designation is in the public interest.

(3) DESIGNATION OF ELIGIBLE TELECOMMUNICATIONS CARRIERS FOR UNSERVED AREAS- If no common carrier will provide the services that are supported by Federal universal service support mechanisms under section 254(c) to an unserved community or any portion thereof that requests such service, the Commission, with respect to interstate services, or a State commission, with respect to intrastate services, shall determine which common carrier or carriers are best able to provide such service to the requesting unserved community or portion thereof and shall order such carrier or carriers to provide such service for that unserved community or portion thereof. Any carrier or carriers ordered to provide such service under this paragraph shall meet the requirements of paragraph (1) and shall be designated as an eligible telecommunications carrier for that community or portion thereof.

(4) RELINQUISHMENT OF UNIVERSAL SERVICE- A State commission shall permit an eligible telecommunications carrier to relinquish its designation as such a carrier in any area served by more than one eligible telecommunications carrier. An eligible telecommunications carrier that seeks to relinquish its eligible telecommunications carrier

designation for an area served by more than one eligible telecommunications carrier shall give advance notice to the State commission of such relinquishment. Prior to permitting a telecommunications carrier designated as an eligible telecommunications carrier to cease providing universal service in an area served by more than one eligible telecommunications carrier, the State commission shall require the remaining eligible telecommunications carrier or carriers to ensure that all customers served by the relinquishing carrier will continue to be served, and shall require sufficient notice to permit the purchase or construction of adequate facilities by any remaining eligible telecommunications carrier. The State commission shall establish a time, not to exceed one year after the State commission approves such relinquishment under this paragraph, within which such purchase or construction shall be completed.

(5) SERVICE AREA DEFINED- The term 'service area' means a geographic area established by a State commission for the purpose of determining universal service obligations and support mechanisms. In the case of an area served by a rural telephone company, 'service area' means such company's 'study area' unless and until the Commission and the States, after taking into account recommendations of a Federal-State Joint Board instituted under section 410(c), establish a different definition of service area for such company.'



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