

1 **Q. Please turn to the first part of your testimony. Could you summarize the universal**  
2 **service provisions contained in the Telecommunications Act of 1996?**

3 A. The Telecommunications Act of 1996 ("1996 Federal Act") became law on February 8,  
4 1996. The 1996 Federal Act explicitly recognized the need for federal and state support to  
5 "preserve and advance universal service" [47 U.S.C. § 254(b)]. The 1996 Federal act  
6 provides in 47 U.S.C. § 254(I) that the FCC and the states "should ensure that universal  
7 service is available at rates that are just, reasonable, and affordable." 47 U.S.C. § 254(k)  
8 prohibits telecommunications carriers from subsidizing competitive services with revenues  
9 from non-competitive services. It requires states to:

10  
11 establish any necessary cost allocation rules, accounting safeguards,  
12 and guidelines to ensure that services included in the definition of  
13 universal service bear no more than a reasonable share of the joint  
14 and common costs of facilities used to provide those services.  
15

16 On March 8, 1996, the FCC appointed a Federal-State Joint Board on Universal Service.  
17 The 1996 Federal Act directs the Federal-State Joint Board and the FCC to base the  
18 preservation of universal service on six general principles, and allows the Board and FCC to  
19 consider additional principles that are determined to be "necessary and appropriate for the  
20 protection of the public interest, convenience, and necessity" and consistent with the  
21 Telecom Act [47 U.S.C. § 254(b)]. The six general principles are:

22  
23 *Quality and rates.* Quality services should be available at affordable rates

24  
25 *Access to advanced services.* Access to advanced telecommunications and information  
26 services should be provided in all regions of the nation.  
27

1           *Access in rural and high-cost areas.* Consumers in every region should have access to  
2           telecommunications and information services at costs reasonably comparable to rates  
3           charged in urban areas.

4  
5           *Equitable and nondiscriminatory contributions by providers to the preservation and*  
6           *advancement of Universal Service.* All providers of telecommunications services should  
7           make contributions to Universal Service.

8  
9           *Specific and predictable support mechanisms.* There should be specific, predictable, and  
10          sufficient federal and state mechanisms to preserve and advance Universal Service.

11  
12          *Access to advanced telecommunications services for schools, health care facilities,*  
13          *and libraries.* Elementary and secondary schools and classrooms, health care providers,  
14          and libraries should have access to advanced telecommunications services.

15  
16          The Act also authorizes states to adopt regulations that are not inconsistent with the FCC's  
17          rules to preserve and advance universal service [47 U.S.C. § 254(f)]. Section 254(f) also  
18          provides:

19  
20                   Every telecommunications carrier that provides intrastate  
21                   telecommunications services shall contribute, on an equitable and  
22                   nondiscriminatory basis, in a manner determined by the State to the  
23                   preservation and advancement of universal service in that State. A  
24                   State may adopt regulations to provide for additional definitions and  
25                   standards to preserve and advance universal service within that  
26                   State only to the extent that such regulations adopt additional  
27                   specific, predictable, and sufficient mechanisms to support such  
28                   definitions or standards that do not rely on or burden Federal  
29                   universal service support mechanisms.

1     **Q.     What has the FCC concluded regarding federal and state responsibility for funding**  
2     **high cost service?**

3     A.     Initially, in its May 8, 1997 Universal Service Order, the FCC planned to support the  
4     federal portion of high costs, and it concluded "that the federal share of the difference  
5     between a carrier's forward looking economic cost of providing supported services and the  
6     national benchmark will be 25 percent" [¶ 269]. The FCC noted that 25 percent is the  
7     current interstate allocation factor applied to loop costs in the Part 36 separations process,  
8     and reasoned that since loop costs are the predominant cost that varies between high cost  
9     and non-high cost areas, this factor best approximates the interstate portion of universal  
10    service costs [Id.].

11

12    **Q.     Did the Joint Board agree with the FCC's conclusion regarding this method for**  
13    **dividing federal and state responsibility for high cost support?**

14    A.     No. On November 23, 1998, in lieu of the 25/75 split, the Joint Board recommended a  
15    two-step process for non-rural carriers to qualify for universal service support: First, a  
16    carrier's study-area, forward-looking cost of providing the supported services must exceed  
17    the nationwide weighted average cost per line; and, second, "the state's ability to support its  
18    own universal services needs should be determined." [Second Recommended Decision, CC  
19    Docket No. 96-45, § IV(D)] The Joint Board recommended that "Federal support should  
20    be provided only for costs that exceed both of these thresholds." [Id.]

1

2 **Q. On October 21, 1999 the FCC approved two orders concerning universal service.**  
3 **Would you briefly summarize the content of those orders, as they relate to the**  
4 **issues in this proceeding?**

5 A. Yes. The FCC concluded that “the primary role of federal high-cost support is to enable  
6 reasonably comparable rates among states, while the primary role of each state is to ensure  
7 reasonably comparable rates within its borders.” [FCC News Release, October 21, 1999,  
8 p. 3.] The FCC adopted a new methodology for calculating federal high cost support for  
9 non-rural carriers and it adopted a set of national input values for use with the FCC model.  
10 [Ninth Report and Order (“Methodology Order”) and Tenth Report & Order (“Inputs  
11 Order”), May 27, 1999, CC Docket No. 96-45]. The Methodology Order includes the  
12 following provisions:

13

- 14 (1) The FCC’s cost model, applied to non-rural carriers, will be used to estimate  
15 forward-looking costs of supported services.
- 16
- 17 (2) A state’s average cost per line for such carriers will be compared to a national cost  
18 benchmark, set at 135% of the national average forward-looking cost per line;
- 19
- 20 (3) In states with average costs above the benchmark, support will be provided based  
21 on this cost difference. The magnitude of this support reflects the continued level of  
22 support provided by interstate access charges.
- 23
- 24 (4) Given the requirement of a statewide average cost per line, the state share  
25 requirement contained in the May 28, 1999, high-cost order has been eliminated.

26

- 1           (5)     An “interim hold-harmless provision” ensures that a carrier’s per-line support under  
2           the new mechanism will not fall short of the current support level; however, in order  
3           for a carrier to receive more than its current level of support, the state must file with  
4           the FCC appropriate compliance with section 254(e) of the 1996 Act.  
5           Furthermore, absent such certification, all federal support to a state’s non-rural  
6           carriers will end as of January 1, 2001.
- 7
- 8           (6)     Support per line, including interim hold-harmless support, will be portable “among  
9           all eligible telecommunications carriers.”
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