

Ameritech Proposal

**biography of presenter
executive summary of proposal
written testimony**

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Thomas J. Reiman is senior vice president of public policy for Ameritech, responsible for developing and responding to the company's long-term policy issues.

A worldwide leader in making communications easy, Ameritech serves millions of customers in 50 states and 40 countries. Ameritech provides a full range of communications services - including local and long distance telephone, cellular, paging, security monitoring, cable TV, electronic commerce, on-line services and more. One of the world's 100 largest companies, Ameritech has 69,000 employees, 1 million share owners and \$24 billion in assets.

Reiman was appointed to his current position in October 1997 after serving as Ameritech's senior vice president of state and government affairs. Prior to that, he was president of product management, responsible for a product development organization made up of teams in each Ameritech business unit. He also served as president and chief executive officer of Ameritech Indiana for two years. Previous positions at Ameritech include: vice president-sales and service; vice president-marketing and secretary to the company, and vice president-general counsel. Before joining Ameritech Indiana in 1986, he held various legal department assignments - including Ameritech vice president and associate general counsel and Ameritech Michigan attorney. He began his career in AT&T's legal department.

Reiman is a member of the board of directors of Anicom, Inc. and Evanston Northwestern Healthcare. He is on the board of trustees of the University of Indianapolis and a member of the Columbia Institute for Tele-Information's advisory board, the Brookings Council President's Circle, and the Metropolitan Planning Council's board of governors.

AMERITECH PRESENTATION

FEDERAL COMMUNICATIONS COMMISSION

EN BANC HEARING

ON

PROPOSALS TO REVISE METHODOLOGY FOR

DETERMINING UNIVERSAL SERVICE SUPPORT

JUNE 8, 1998

Good morning, my name is Tom Reiman, and I am Senior Vice President of Public Policy at Ameritech. With me is Dick Kolb, director of Universal Service at Ameritech, and our subject matter expert.

I am mindful of the thousands of pages of incredibly complex comments, plans, studies and formulas that have been filed with this Commission on the subject of Universal Service and the High Cost Fund. I will try not to add to the complexity.

Ameritech's message is actually quite simple this morning:

Stay the course with a smaller fund, continuing the pressure on the states to carry their share of the burden. Contrary to much of the rhetoric flowing around Washington on this topic, the Commission's original proposal of a 25/75% jurisdictional split, funded by interstate revenues, is the best plan currently before the Commission. It maintains the current Federal level of responsibility while allowing the states to come forward with their own innovative approaches for their share of the total solution.

Fourteen (14) years ago, as Associate General Counsel for the newly created Ameritech, I spent months here in Washington negotiating, debating and arguing with Bert Halprin, then Chief of the Common Carrier Bureau, on what the first Federal Access Charges should look like. Guess what, the issues weren't much different then than they are today: making implicit subsidies explicit; recovering subsidies in a competitively neutral

manner; minimizing rate increases to end-users; and, keeping telephone service affordable and universally available.

Underlying the debate, then and now, are four basic tenets:

- Subsidies and free market competition are natural enemies;
- Subsidies should be collected in a competitively neutral manner (and there is no truly competitively neutral manner as long as they are collected by one or more of the competitors);
- End-user customer rate increases are politically unpopular, and,
- It's the public policy of this nation to keep telephone service affordable.

Now, how does this history and these factors apply to Universal Service, and the High Cost Fund in particular?

Well, let me answer it this way. If we were starting with a clean sheet of paper, we would not design the system we have today that this Commission and the state commissions are trying so hard to make work.

I submit that this Commission would create a plan designed to deliver a set of desired results:

- Affordable local service (and, by the way, studies show that affordable toll rates are also integral to high subscribership levels).
- Robust competition in all markets.

- Increased infrastructure investment leading to new and innovative services.

Competition and investment are driven by economically rational pricing. Simply stated: local rates must at least cover their costs.

Once local rates are set to cover costs, then affordable service is maintained by targeting subsidies only to customers who can't afford to pay the full rate. (As an aside, Ameritech strongly believes that both the collection and distribution of those subsidies should be done by the government, outside of telecom service pricing. It's a tax – treat it like a tax.)

We would not design a system that subsidizes 60-70% of the cost of telephone service of an Ameritech officer's Beaver Creek, Colorado condominium.

We would not design a system that subsidizes rates that have been kept far below any rational definition of reasonable (like \$5/mo. where the state-wide average is closer to \$12).

However, we don't have a clean sheet of paper. We have a huge and complex system in place. But this Commission and the state commissions should keep these desired results firmly in mind, and all decisions should drive the system closer to, not farther away from the desired results.

Using this model, it's clear, I submit, that this Commission is on the right track staying with its current proposal, based on a 25-75% jurisdictional split, funded on the basis of interstate revenues.

Not only is this consistent with the historical separations formula, but – more importantly, it keeps in place the incentive for the states to fix their part of the problem which is setting economically rational local rates. Expanding the Federal Fund to cover more of the subsidy is a move in the wrong direction. It sends the wrong message. It does not move closer to the desired results.

As Chairman Kennard said, “The vast bulk of universal service support today is generated and spent within the boundaries of each state. This means that the real key to subsidy reform is state rather than federal action...unless states act promptly to reform intrastate implicit subsidies, both incumbent and new entrants will be hobbled competitively.”

Ameritech has worked hard on lowering its costs. Some of our state commissions are national leaders in moving towards economically rationale local rates. As a result, Ameritech is the only RBOC that receives no high cost support today. Don't punish our customers for our leadership position by asking them to substantially increase the amount of subsidy they send out of state.

Let's not move backwards. Don't use the Federal High Cost Fund as a quick and easy fix to local rate imbalances suffered by nationwide local

carriers. Challenge the industry and the policy makers in the states to fix local prices so that residential competition can flourish. Then build on that base to refine the system so that subsidies only go to those who truly can't afford to pay cost-based rates. This is what is happening around the world as other nations – in Europe, Canada, Mexico, New Zealand and the Philippines, among others – tackle this issue. Let's not fall behind. To quote from the ads for the current movie *Godzilla*: "Size does matter." Only with subsidies, I submit, smaller is better.