Bell South Proposal

biography of presenter
executive summary of proposal
written testimony

Ernest L. Bush

Biographical Sketch

Ernest Bush, Assistant Vice President - Regulatory Policy and Planning, BellSouth Telecommunications. Ernest began his telephone career in Macon, Georgia with Southern Bell in 1970 after graduating from the Georgia Institute of Technology, Atlanta, Georgia with a degree in Industrial Management. Ernest has held a number of positions within the Southern Bell Comptrollers department in Macon and Atlanta including operations and methods staff assignments. From March 1977 to January 1980 Ernest worked for AT&T in New Jersey in the Comptrollers Operations-CRIS (Customer Records Information System) department. Ernest returned to Southern Bell in February 1980 working in the CRIS group in Atlanta, Georgia. In April 1985 he was appointed Director-Federal Regulatory for BellSouth in the company's Washington office. Ernest returned to Atlanta in January, 1990 as Assistant Vice President-Regulatory, BellSouth Services. On October 1, 1991 he became Assistant Vice President-Regulatory Policy and Planning. He is currently responsible for the provision of staff support for regulatory policy and planning activities for BellSouth Telecommunications.

Overview of BellSouth's Federal High Cost Universal Service Funding Proposal

Overview: **BellSouth**'s proposal is focused on replacing the implicit support that exists today in **Interstate** access rates with an explicit and sustainable funding mechanism. The states would still be responsible for setting up explicit and sustainable state funds to deal with any implicit support that remains after the federal fund is implemented.

Specifics of BellSouth's Plan:

1. Identify the economic cost of providing universal service for areas no larger than wire centers through use of a reasonable cost proxy model. This allows identification of the full amount of implicit subsidy currently built into rates.

2. Identify the amount of implicit and explicit support that is currently being funded within the interstate jurisdiction. These amounts would include any existing support mechanisms (the current High Cost Fund, DEM weighting, and Long-Term Support), and implicit support built into switched access rates (which is calculated by state and by company based on the sum of Carrier Common Line revenues and Presubscribed Interexchange Carrier Charges (PICCs)).

3. Calculate all federal support on a per line basis by wire center. This amount can be calculated based on the results of the cost proxy model. For example, if the total support in a given state for a given company is $50 million (based on economic cost), and the federal amount of support is $22 million (calculated pursuant to step 2), then the per line results from the cost proxy model can be multiplied by 44% ($22M/$50M) to arrive at the federal support per line in a given wire center. The per line level of support is portable to any eligible carrier.

4. Carriers should first use net revenues from the new fund to offset support that will be lost from the existing mechanisms. Then, any additional net support should be applied to CCL, multi-line business PICCs and finally residential and single-line business PICCs. The bottom line is that the total of the revenue reductions should be equal to the net amount of funding received from the federal high cost fund.

Other **Points:**

1. The states would be responsible for making explicit any implicit support that remains after the federal fund is implemented. The states would thus need to compare the state's view of the economic cost of providing the supported services to the maximum price that can be charged for the supported services, and provide explicit funding or rate rebalancing to deal with any implicit support not taken care of by the federal fund.

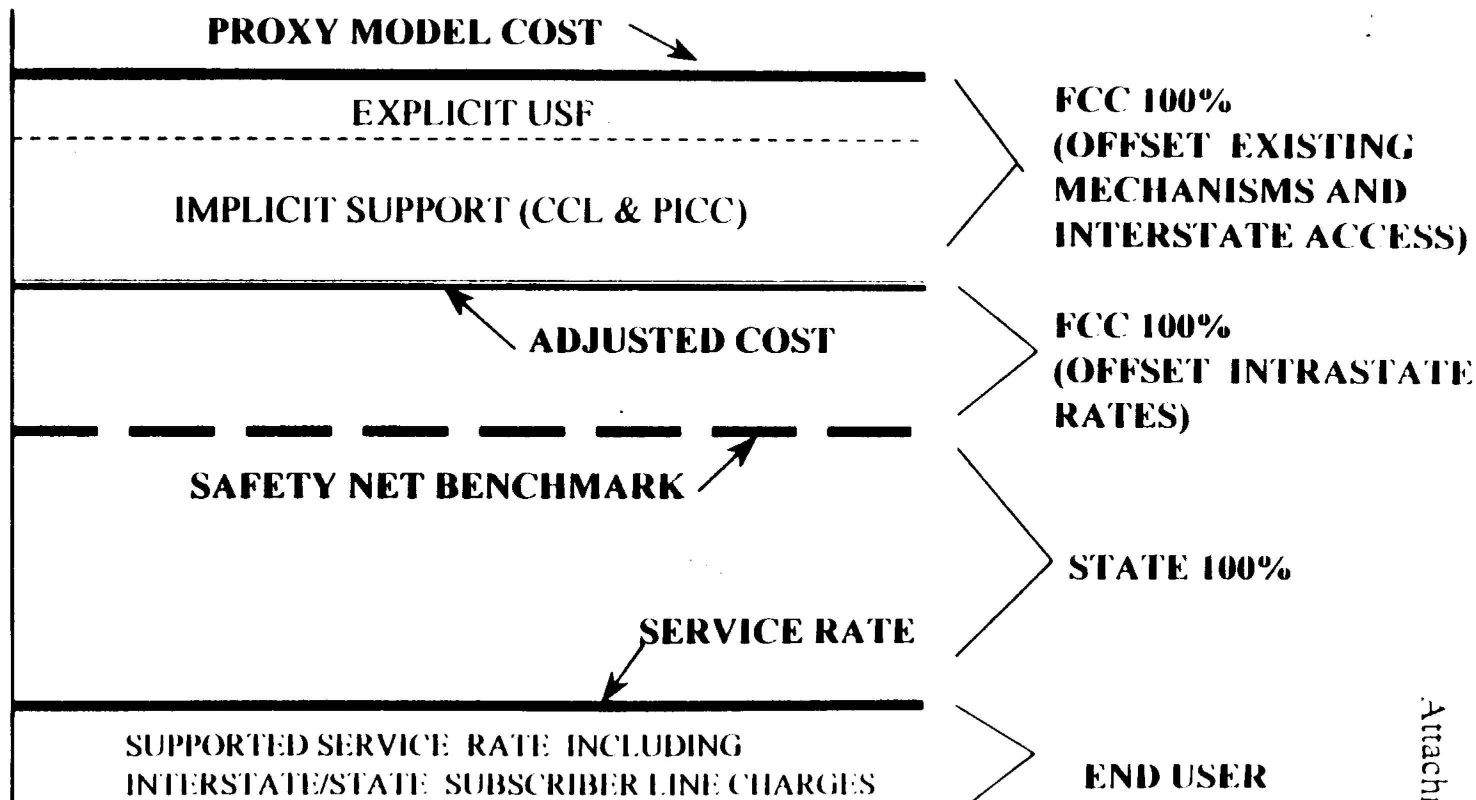
2. The Federal fund should be supported by all providers based on an assessment against both intrastate and interstate revenues received from endusers. Both interstate and intrastate retail revenues should be assessed because it will become increasingly difficult to tell these revenues apart.

3. The Federal fund should be implemented on 1/1/99 as planned. Nothing in this proposal would make that date unattainable.

4. For rural LECs, support from the new fund should be equal to the amount of support previously provided by the NECA Universal Service Fund, DEM Weighting and LTS.

5. Since local exchange carriers will also have to pay into the fund, some kind of PICC charge will likely remain even after implementation of the new universal service fund to allow LECs an opportunity to recover their assessment.

POSSIBLE COMPROMISE SOLUTION FOR FEDERAL USF



SUMMARY OF BELLSOUTH'S UNIVERSAL SERVICE PROPOSAL
FCC EN BANC MEETING
Ernest L. Bush, Assistant Vice President, Federal Regulatory
June 8, 1998

In response to the Public Notice released April 15, 1998 by the Common Carrier Bureau, BellSouth submitted its proposal for a methodology for sizing the federal universal service fund on April 27, 1998. Since the FCC's adoption of its"25/75 interstate/intrastate" plan in its May 7, 1997 Order, numerous commenting parties, including states, Congress, and industry participants, have expressed concern that the FCC's methodology will result in a federal support mechanism that is insufficient to cover all of the existing support, implicit and explicit, received today. BellSouth believes that its proposal, set forth below, resolves many of the concerns raised by the FCC's plan. BellSouth's methodology would establish the minimum size federal fund necessary to assure that current implicit and explicit levels of federal support for universal service are maintained. At the same time, nothing in BellSouth's methodology would preclude the Commission from identifying circumstances under which the Commission would provide states with additional federal support.

Similar to the FCC's proposed four-step methodology, BellSouth's methodology begins with determining the cost of universal service for areas no larger than wire centers based upon a reasonable economic cost model. In the second step, the current state-specific implicit support that is included in interstate access charges is determined. The loop-related access charges whose cost recovery has been assigned to the interexchange carriers, rather than the end users—the carrier common line charges and the presubscribed interexchange carrier charges—contain the implicit support for universal service. In step three, these amounts would be deducted from the total universal service costs derived from the model with the residual being the universal service support responsibility of the states.

The size of the federal high cost fund would be the implicit support identified in step two and the amounts associated with the existing explicit mechanisms which include the interstate high cost loop fund, dial equipment weighting, Long-Term Support, and Lifeline and Link-Up programs. BellSouth's proposal is visually depicted in the attached Exhibit 1. Support would be calculated on a per line basis in a given wire center and would be portable to any eligible carrier.

BellSouth's methodology provides an efficient means to achieve the Commission's objective that the states receive from the federal fund at least the same level of support that they are receiving from current implicit and explicit mechanisms. An integral part of building a sufficient universal service support program is the states' responsibility for creating explicit and sustainable state funds to replace any implicit support that remains after the federal fund is implemented. Each state would thus need to compare the state's view of the economic cost of providing the supported services to the maximum price that can be charged for the supported services, and provide explicit funding or rate rebalancing to deal with any implicit support not taken care of by the federal fund.

The federal USF should be supported by all providers based on an assessment against both intrastate and interstate revenues received from end users. Local exchange carriers could recover their contributions to the USF through a per line charge on the interexchange carrier similar to the PICC. The federal USF would be implemented, as planned, on January 1, 1999. BellSouth's proposal would apply to non-rural companies; rural carriers would continue to receive the amount of support currently provided.

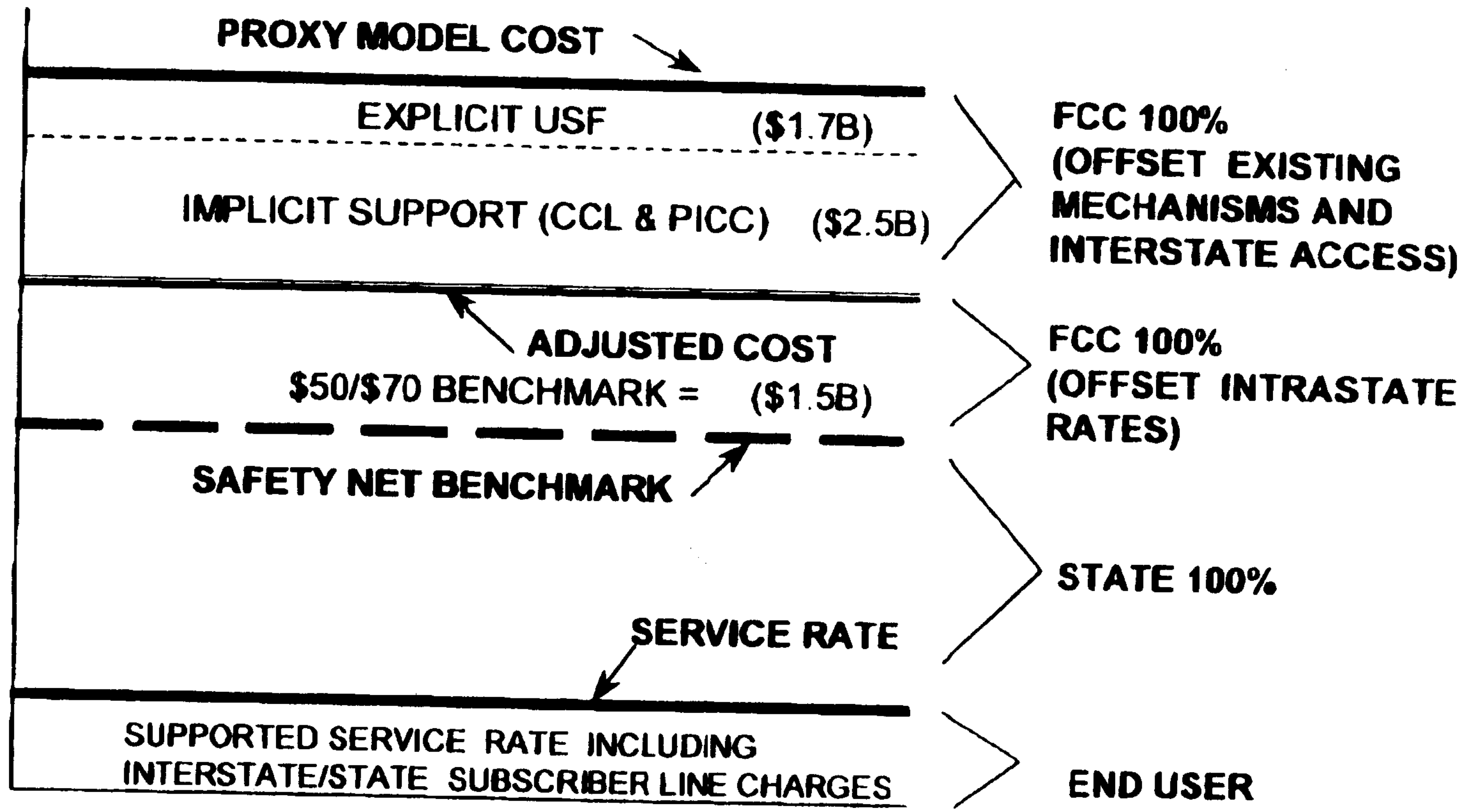
As previously discussed, BellSouth believes that this proposal is the minimum necessary to assure that the federal fund continues to provide an amount equal to the current implicit and explicit support provided today in the interstate arena. In an effort to address additional concerns of a number of parties, BellSouth proposed a compromise solution in its May 15 Comments in this proceeding. In addition to the minimum USF outlined above, BellSouth recognizes the valid concern of some states that they will be unable to support a state USF that places the majority of the funding burden on the intrastate jurisdiction. Therefore, BellSouth incorporated into its proposal a "safety net" benchmark that would shift the burden of support in those states with high costs to the interstate USF above the "safety net" benchmark.

This benchmark would be compared to an adjusted per line cost that accounts for the support already provided by the federal USF. Any amount above the safety net benchmark would be fully supported by the federal USF. This approach is similar to that proposed by US West. In the attached Exhibit 1, BellSouth's calculations are based upon a $50 benchmark for residential lines and a $70 benchmark for single line business lines. As shown in the Exhibit 1, the additional funding requirement would be approximately $1.5 billion.

Thus, BellSouth's methodology provides for adequate federal universal service support. The Commission has already acknowledged that the new, explicit federal USF should assure each state the same level of support that the state receives from existing interstate implicit and explicit mechanisms. At the same time, the state commissions have made a compelling case that the federal fund should provide additional support to the states to assist them in reducing intrastate implicit support. BellSouth's compromise solution would meet all of these objectives.

EXHIBIT 1

BELLSOUTH COMPROMISE SOLUTION FOR FEDERAL USF



FEDERAL FUND WOULD APPROXIMATE $5.7B