Variable Support/Variable Benchmark Options

biography of presenter
executive summary of proposal
written testimony

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Mr. Wendling has been a member of the Staff of the Colorado Public Utilities Commission for 16 years and now serves in the capacity of the Supervising Professional Engineer. Mr. Wendling received his Bachelor of Science Degree in Electrical Engineering, Masters of Electrical Engineering, and Master of Business Administration from the University of Colorado, Boulder. He is a registered Professional Engineer in the State of Colorado.

Mr. Wendling has testified on numerous occasions before the Colorado Commission and Colorado State Courts as an expert witness. His testimony has addressed utility operating practices, and engineering issues, including outside plant construction. Since 1983, he has been involved primarily in telecommunications matters brought before the Colorado Commission. His work includes performing and advocating cost-of-service studies for telecommunications services.

Since 1990, Mr. Wendling has served as the lead Staff member in designing, advising and administering the Colorado High Cost Fund.

Talking Points: USF
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Variable Benchmark Option

Under the variable benchmark option, the federal high cost program would supply 100% funding support to areas served by non-rural LECs whose costs to serve an area exceed a benchmark that varies from state to state. The cost would be determined by using a forward-looking economic cost proxy model. Conceptually, the benchmark would vary based on a measure that reflects a state's ability to internally support and fund universal service requirements. States that have a relatively low ability to internally support universal service would have a relatively low benchmark, while states that have a relatively high ability to internally support universal service would have a relatively high benchmark.

The variable benchmark would be based on two principal components: (1) the state's forward-looking economic cost as determined by the cost proxy model; and (2) the state's ability to internally fund its universal service requirements. This option contemplates that the first component would require the use of a forward-looking cost model for determining costs on a relatively small geographic basis. Creation of a state high cost fund is neither required nor precluded under this option. Non-rural Eligible Telecommunications Carriers would be reimbursed directly by the federal high cost fund administrator for customers served within the high cost area. This approach would ensure that all of the very highest cost areas throughout the nation are supported through the federal program.

Incorporating the second component - a state's ability to fund its universal service requirements internally - into a variable benchmark would be a two-step process. First, a factor must be selected that serves to differentiate among states that will get more versus less support. Second, that factor must be

used to vary the benchmark over the range of benchmarks to be considered. As an example, "State A" might have a large revenue base that would require less support, and its benchmark for the federal fund might be $75, while "State B" might require more support, and would have a federal funding benchmark of $40. The factor used to differentiate among the states must be based on independent, publicly available data. Such a factor might recognize the ratio of intrastate revenues to total revenues; the ratio of intrastate traffic volumes to total traffic volumes; the degree of variability of cost throughout the state; the ratio of lines located in urban and rural areas of the state; the state's ability to keep local rates within a reasonable range, a measure of local competition in the state, or some combination of these or other measures. Other parties may provide different logical and relevant choices for the factor to be used in this option, and the FCC should consider all reasonable alternatives.

Because the FCC has not yet chosen the most appropriate forward-looking cost model or its inputs, this option is presented on a conceptual basis at this time. It is meaningless to calculate a total fund size or a state-by-state distribution of support resulting from use of this option without resolving the cost model platform issues, choice of inputs, geographical support area and the factor(s) for varying the benchmark. Because of the wide range of options, however, it is clear that this option could be designed to provide a wide range of support amounts while reasonably controlling the size of the federal fund.

Variable Support Option

Under this option, the support amount for each non-rural Eligible Telecommunications Carrier would be computed as the

difference between the cost of serving an area and a nation-wide benchmark; however, the federal percentage of high cost funding would vary from state to state. In contrast to the plan adopted in the FCC's May 8, 1997 order in which the payment of federal support remains a constant 25% in all states, under this option the percentage of federal support provided will vary depending on the state's ability to internally support universal service. States that have a relatively low ability to internally support and fund universal service will have a relatively high percentage of support provided through the federal program, while states that have a greater ability to internally support universal service will receive a lower percentage of federal support.

Like the variable benchmark option, this option would reflect the state's ability to fund its universal service requirements internally. This option contemplates the use of a forward-looking cost model for determining the amount of support on a relatively small geographic basis. However, contrasted with the variable benchmark option, the variable support option would utilize a single benchmark for all states. Variability would occur in the percentage of the federal contribution to the support of the high cost areas for each state. This variability would be based on a factor that would yield a range of funding percentages. As with the variable benchmark option, any factor used for this purpose should be based on independent, publicly available data. The factor for varying the federal support percentage might include the ratio of intrastate revenues to total revenues; the ratio of intrastate traffic volumes to total traffic volumes; the degree of variability of cost throughout the state; the ratio of lines located in urban and rural areas of the state; the state's ability to keep local rates within a reasonable range, a measure of local competition in the state, or some combination of these or other

measures. Other parties may provide different logical and relevant choices for the factor to be used in this option, and the FCC should consider all reasonable alternatives.

Because the FCC has not yet chosen the most appropriate forward-looking cost model or its inputs, this option is presented on a conceptual basis at this time. It is meaningless to calculate a total fund size or a state-by-state distribution of support resulting from use of this option without resolving many issues, including the choice of the cost model platform, choice of inputs, geographical support area and the factor(s) to be used for varying the federal support amount. Because of the wide range of options, however, it is clear that this option could be designed to provide a wide range of support amounts while reasonably controlling the size of the federal fund.

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