BRUCE HAGEN

Commissioner

Bruce Hagen, one of the three North Dakota Public Service Commissioners, is presently serving his 37th year on the North Dakota Public Service Commission. He was first appointed to the Commission in 1961 by Governor William L. Guy to fill the term of Ernest Nelson. In 1964, Hagen was elected to a six-year term on the Democratic-NPL ballot, and reelected in 1970, 1976, 1982, 1988 and 1994.

Hagen graduated in 1953 from the University of North Dakota with a Bachelor of Philosophy Degree. Hagen received his Master of Arts Degree in government and economics from the University of North Dakota in 1955, and completed an additional year of advanced study in government at the University of Wisconsin in 1955-56.

Commissioner Hagen is a member of the National Association of Regulatory Utility Commissioners (NARUC) where he served as President in 1988 and currently serves on the Executive Committee, the Committee on Communications, and the Washington Action Committee, and chairman of the Policy Subcommittee on International Communications Policy. In June 1988, Hagen was awarded by North Dakota Governor George Sinner the "North Dakota National Leadership Award for Excellence" in recognition of his position as President of NARUC. Hagen is also a member of the Mid-America Regulatory Conference (MARC) where he served as President in 1968-69.

Hagen serves as an advisor for The KMB Video Journal, representing the public side of issues before the nation. He was also a member of the Federal/State Alaska Joint Board, a joint effort between several appointed state utility commissioners and the Federal Communications Commission for the integration of rates and services of telecommunications by authorized common carriers between Alaska and the lower 48 states, and between Alaska and Hawaii. Hagen is the first and only North Dakota Public Service Comission member to serve on a FCC joint board.

In 1985, Hagen was appointed and served as Chairman of the North Dakota Commission on the 1985 Reverend Martin Luther King, Jr. Holiday. In 1985, Hagen was appointed to serve on the Western Governors' Association Economic Research Center Task Force. Mr. Hagen has also served as North Dakota's United Nations Day Chairperson in 1986 and 1987, as Chairman of the State Intermodal Transportation Team, appointed by Governor George Sinner from 1985 through 1992, and on the Marketing Development Subcommittee of Connecting North Dakota in 1992, a committee appointed by Governor Sinner to consider and make recommendations on the state's communications infrastructure to further economic development at all levels. Hagen also served as Chairman of the Cancer Society Fund Drive for State Agencies in 1994.

Hagen has testified many times before Senate and Congressional Committees, as well as government boards and commissions, regarding rail car supply, rail rates and related transportation problems, energy issues, national strip-mine legislation, and telephone issues.

Hagen is a farmer in Benson and Ramsey Counties. He is a veteran of the Korean Conflict. He has two daughters, Marin 28 and Jennifer 33.

COMMENTS BY

BRUCE HAGEN
NORTH DAKOTA PUBLIC SERVICE COMMISSION

CC DOCKET NO. 96-45 (REPORT TO CONGRESS)

PANEL

FCC'S DECISIONS REGARDING THE PERCENTAGE OF UNIVERSAL SERVICE SUPPORT PROVIDED BY FEDERAL MECHANISMS AND THE REVENUE BASE FROM WHICH SUCH SUPPORT IS DERIVED – 75/25 SPLIT

FRIDAY, MARCH 6, 1998

9:00 – 11:00 A.M.
COMMISSION HEARING ROOM
8TH FLOOR

Good Morning! My name is Bruce Hagen. I am a North Dakota Public Service Commissioner. I am here today to represent my Commission and the interests of high-cost areas such as North Dakota. I wish to thank the Federal Communications Commission for inviting me to be a part of this very important panel discussion today.

The Federal Communication Commission's proposal requires a 75/25 split of funding between the State and Federal jurisdictions. A 75/25 split will threaten the affordability in some states, including North Dakota.

The cost of Universal Service on our customers is driven by the number of high-cost customers, the range of costs and the number of low-cost customers over which to spread the burden.

North Dakota is an example of the worst case scenario. It has a large number of high-cost customers, a small number of low-cost customers, and a wide range of costs.

The monthly loop cost, as estimated by the Hatfield 5.0 Model using the North Dakota staff recommended inputs for our most thinly populated census block area in the Northwest corner of our state, is $932 per line per month, or over $11,000 per line per year.

What does the current proposed Separated Fund mean to North Dakota?

1. North Dakota's population density is 3.42 households per square mile.
2. The national population density is 29.31 households per square mile.
3. A $13.7 billion national fund would require a 8% national surcharge.
4. A $13.7 billion separated fund would required a 42% intrastate surcharge on North Dakota ratepayers for 75% (worse case scenario) of the costs and a 5% interstate surcharge for 25% of the costs.

The attached graph shows more explicitly the huge burden our residents would have to assume to support a $13.7 billion national fund at the proposed 75/25 split.

Our telephone companies are concerned about the burden our residents will have to carry. US WEST is concerned because its customers are uniquely impacted.

US WEST serves a unique territory because:

1. It serves the largest geographical area of any RBOC.
2. It is one of the smallest RBOCs in terms of access lines.
3. It has the fewest urban lines and the most rural lines.
4. It owns and operates more rural switches than any RBOC.
5. It has switches that serve fewer access lines than any other RBOC.

6. It has a greater percentage of its customers extreme distances from its central offices than any RBOC.
7. It has a greater percentage of its customers in ultra low-density areas than any other RBOC.

Our rural companies are concerned because the potential 42% surcharge will make telephone service for many of its customers unaffordable.

Our citizens are concerned because of the heavy load they are being asked to carry.

The problem foreseen by our State Legislative panel and by the North Dakota Public Service Commission is that, in a geographically rural state like North Dakota, city-dwellers are really going to get socked. We believe there should be just one high-cost funding mechanism, the national one, even at a slightly higher cost to people in places like New York and Los Angeles.

In a letter to the FCC, Dr. Florine P. Raitano, Past Director of the Colorado Rural Development Council stated, *"(The FCC's 75/25 split for funding the Universal Service Fund)…is a patently inequitable funding scheme that benefits the densely populated coastal states while placing an inordinate burden on the sparsely populated 'frontier' states of the west."* The North Dakota Public Service Commission agrees.

The following table compares the burden on low-cost customers in North Dakota, Washington, D.C. and New Jersey:

Density Groups (000)/per sq. mi				
Area	**Greater Than 651**	**Less Than 651**	**Total**	**0 to 5 Comparison**
D.C.	677	0	677	0
New Jersey	5,139	788	5,927	1,150 at cost in excess of $280
North Dakota	228	200	428	48,060 at cost in excess of $280

The above table shows:

1. Low-cost lines in D.C. have no high cost lines to support.
2. A high-cost line in New Jersey has 6.52 low-cost lines to support them.
3. A high-cost line in North Dakota has 1.14 low-cost line(s) to support them.
4. North Dakota, with a base of 428,000 lines, has 48,060 of those lines in very high-cost areas. In contrast, New Jersey, with a line base of 5,927,000 lines, only has 1,150 of those lines in very high-cost areas – 47,000 less lines than North Dakota. Because North Dakota high-cost customers are very high cost, the burden on the North Dakota low-cost customer is even greater.

CONCLUSION

Requiring high-cost, low-density states like North Dakota to cover 75% of the Universal Service support will not ensure the

Federal mandate for affordability of rates, nor will it ensure the Federal mandate for comparability of rates between urban and rural areas or between urban areas in low-cost states and urban areas in high-cost states.

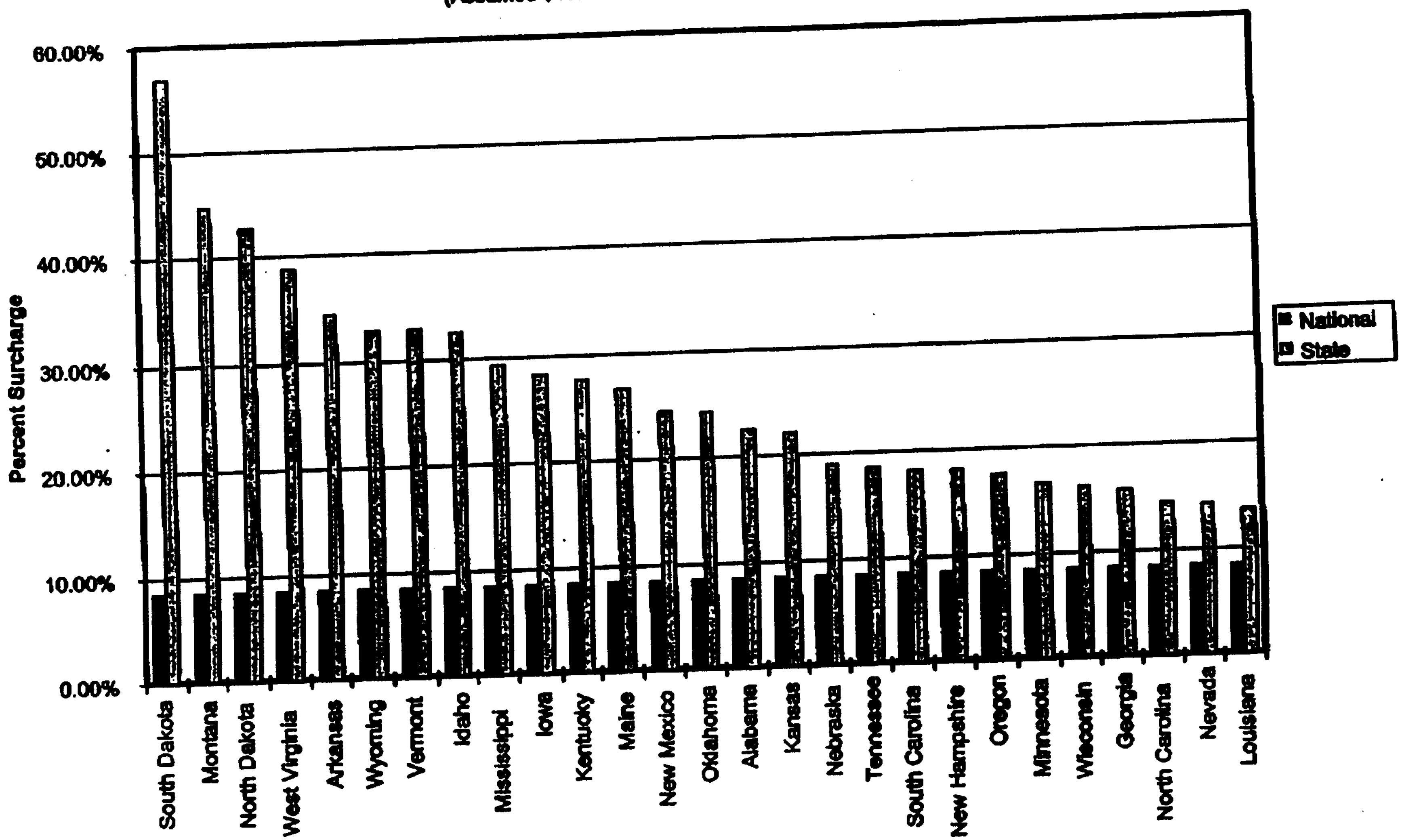
Because the nation, as a whole, benefits when everyone can afford telephone service, everyone should share in the responsibility of ensuring that affordability.

A viable national telecommunications network is in everyone's interest, and, therefore, should be maintained only with a fully-funded national high-cost fund.

Thank you!

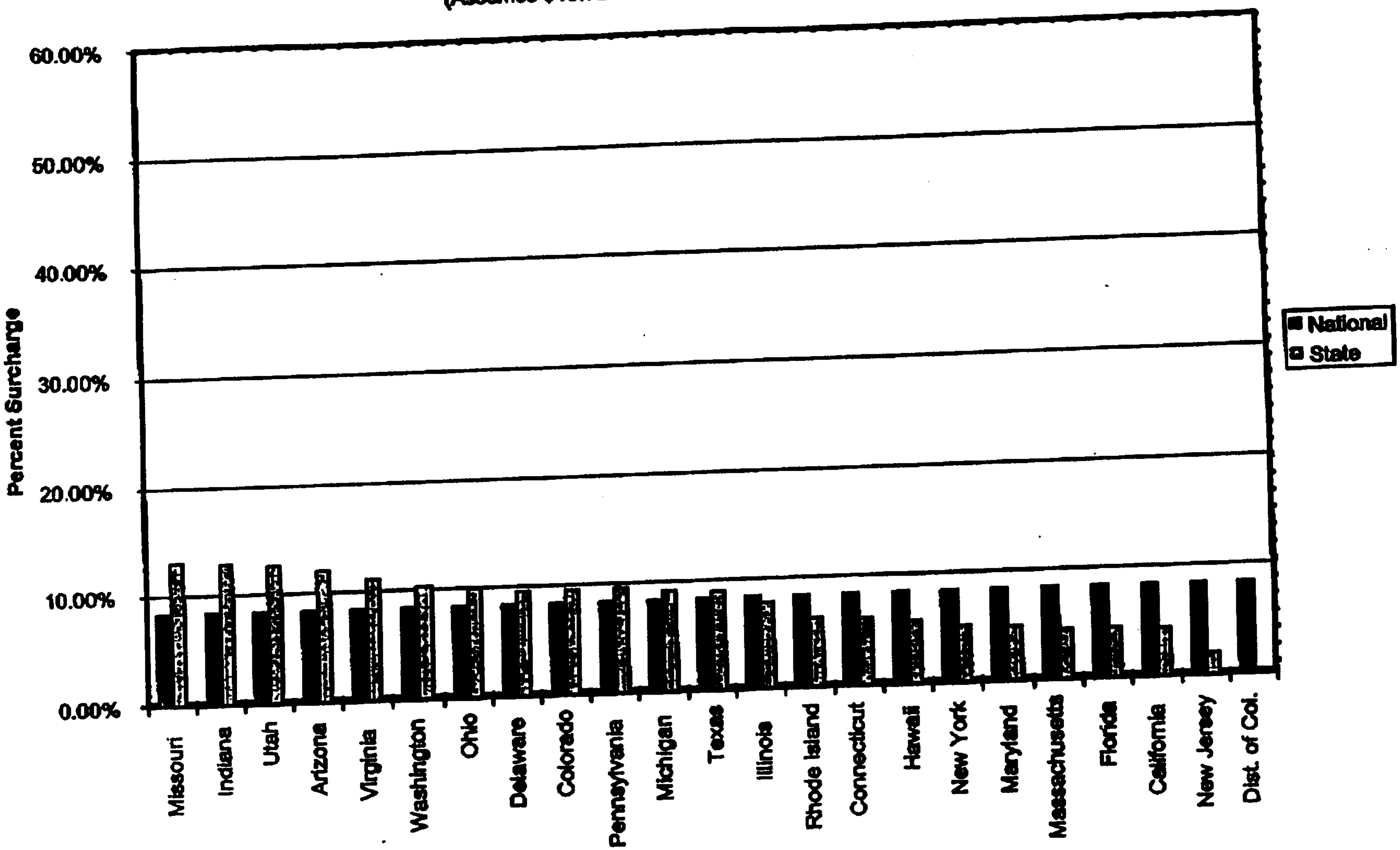
State vs. National Fund (1 of 2)

(Assumes $13.7B Fund - BCPM @ $30)



State vs. National Fund (2 of 2)

(Assumes $13.7B Fund - BCPM @ $30)



Marlene L. Johnson, Chairperson, 626-5110, Democrat, born June 22, 1947, in Washington, D.C.; Boston University (BA), University of Chicago (JD), Staff Attorney for Office of Vice-President and General Counsel for IBM (1973-74), General Partner of Commercial Real Estate Development (1974-76), Law Clerk for Office of General Counsel of Commodities Futures Trading Commission (1976), Staff Attorney for Committee on Government Operations (1977) and Legal Counsel for Committee on Finance and Revenue (1977-79) for D.C. City Council, Deputy Legal Counsel to D.C. Mayor (1979-81); Chief Hearing Officer for D.C. Office of Employee Appeals (1981-83), Chairperson of D.C. Temporary Commission on Pay Equity and Training (1988-91), Chairperson of D.C. Alcoholic Beverage Control Board (1984-91), Chief of Staff and Director of Operations for General Election Campaign of Carol Moseley Braun (1993); private law practice (1981-95), assumed Commissionership December 4, 1995, confirmed as Chairperson March 6, 1996, current term ends June 30, 1999.

Thomas L. Welch, Chairman
Maine Public Utilities Commission

Thomas L. Welch was appointed Chairman of the Maine Public Utilities Commission in May of 1993. Prior to joining the Commission Tom was Chief Deputy Attorney General in the Pennsylvania Office of Attorney General, was a General Attorney for Bell Atlantic and Bell of Pennsylvania, and practiced law in San Francisco. Tom has also been Assistant Professor of Law at Villanova University School of Law and Adjunct Professor of Law at Dickinson School of Law.

Tom graduated from Stanford University in 1972 and Harvard Law School in 1975.

Remarks of Thomas L. Welch, Chairman of the Maine Public Utilities Commission
March 6, 1998

Chairman Kennard, members of the Commission:

Good Morning.

As Chairman Kennard recently stated, there is no fundamental inconsistency between the Act's dual objectives of preserving and enhancing universal service, and of creating effective competition in all telecommunications markets. Competition will ensure that this country remains at the forefront of innovation and capital formation; universal service will ensure that the benefits of competition are realized by all our citizens.

For universal service to be achieved in fully competitive markets, however, the current framework for assisting high cost areas of the country is inadequate and should be replaced. Moreover, I believe that the proposal contained in the Commission's May 8, 1997 order -- generally referred to as the 25/75 approach -- fails to address the fact that, without sufficient direct support for basic rates, the rates for customers in some areas will be neither affordable nor reasonably comparable to the rates available in urban areas.

Let me describe both the nature of the problem and the outlines of a possible solution.

There are many states where the number of customers served in high cost areas is so large, relative to the number of customers served in low cost areas, that if left entirely to its own resources a state would have to impose enormous surcharges on its low-cost customers to bring its high cost customers within hailing distance of either comparability or affordability.

A comparison of two states, California and Vermont, illustrates the problem. In both states, the cost per line, measured on a forward looking basis, is roughly the same for each density zone. For example, where the density is from 5 to 100 customers per square mile, the costs in both California and Vermont are a bit over $40 per line. Where the density is over 10,000 customers per square mile, the costs for both states are around $10. But there is no similarity between California and Vermont when you measure the proportion of lines within each density category. In California, fewer than 5% of the lines are in the 5 to 100 density zone; in Vermont, about 30% are in such sparsely populated areas. On the other hand, in California more than 30% of customers live in areas where there are more than 10,000 line per square mile; Vermont has only about 5% of its customers in such typically low cost areas. Unlike California, Vermont simply does not have enough low cost lines to offset the higher cost lines and reach a balance that is consistent with the Act.

The existing system for distributing support to high cost areas cannot reasonably coexist with a competitive market because, among other things, the amount of support available to an entrant, or to an incumbent, would depend upon the characteristics of the incumbent -- for example, whether it serves more or fewer than 200,000 lines. In the old days of implicit subsidies, it may have been expedient to differentiate among carriers based upon their size: where subsidies must be explicit and portable, such distinctions are untenable.

The 25/75 approach likewise falls short. First, by directing support to reducing interstate access rates, the proposal fails to provide any federal support at all for local rates for customers living in high cost areas: that obligation would fall entirely to the states. Second, because this approach would fund only 25% of the need, states with a disproportionate number of customers who live in high cost areas will simply be unable to meet their burden without vastly distorting the rates that must be charged to customers in their relatively few low cost areas.

There is, however, another way. Chairman Kennard has articulated the purpose of a federal high cost fund as a "safety net." I suggest that net should come into play where states cannot, by virtue of their geographic characteristics and the distribution of their populations, generate for themselves enough support to ensure that all their citizens enjoy basic telecommunications services at rates that satisfy the Act's standards for affordability and comparability.

Put another way, the amount of federal support available to any state would be limited to the amount needed by that state **that exceeds the amount that the state can raise from within its own borders by balancing its own low and high cost areas.** The amount of federal support thus would assume that each state has "taken care of its own." This approach expressly recognizes that the universal service obligation of the Act is appropriately shared by the state commissions and the FCC.

The proposal accompanying these remarks (a slightly revised version of an *ex parte* submission filed on February 10 by the commissions of Maine, New York and Vermont) outlines an approach that may serve as a useful model for reform of the high cost fund. The proposal grew from efforts by state commissioners representing a broad range of interests to see if we could find common ground. We recognized that any sound approach should be consistent with the needs of competition, provide sufficient support to satisfy the comparable rate standard of the Act, and would necessarily involve significant compromise by all of us. While we continue to work to refine the proposal, I believe that it represents a fair and balanced model that could serve effectively as we move into the uncharted waters of local competition.

We do not have the time this morning for a full recitation of the proposal. In broad outline, federal support would be given only where a state's average costs, measured by the lesser of embedded or forward looking costs, exceeded the national average. The proposal also includes provisions to ensure that carriers and their customers who receive support under the existing system are not placed at a disadvantage. We estimate the proposal would result in only a modest increase in the overall level of high cost funding, and thus, in our view, would keep the fund at a level that does not impede the growth of competition.

The states, including Maine and its rural counterparts, are committed to opening our markets and bringing the benefits of competition promised by the Act to our citizens. We are just as committed to finding a way to be sure that the telecommunications needs of our citizens who live in areas that are costly to serve are met at affordable rates that are comparable to the rates available to their more concentrated brethren. I encourage you to consider the approach I have outlined today.

Thank you for the opportunity to meet with you this morning.

Bell Atlantic

THOMAS J. TAUKE
Senior Vice President - Government Relations
Bell Atlantic Corporation

Thomas J. Tauke is Senior Vice President - Government Relations for Bell Atlantic Corporation. He identifies issues of strategic importance to Bell Atlantic and coordinates efforts by the corporation to influence public policy on these issues. Mr. Tauke also is responsible for directing the activities of Bell Atlantic's Washington office, which includes overseeing corporate relationships with the U.S. Congress, the Federal Communications Commission and other agencies of the U.S. Government, trade and professional associations and advocacy groups.

For the past two decades Mr. Tauke has been a leading voice in the nation for telecommunications reform. His lobbying efforts were instrumental in achieving consensus throughout the business and government communities on the need for reform legislation. He successfully led the former NYNEX through the legislative and regulatory efforts associated with the Telecommunications Act of 1996 and he was directly involved in every major telecommunications legislative battle in Congress in the 1980s.

Before joining NYNEX in 1991, Mr. Tauke was a Member of Congress, representing Iowa's Second Congressional District in the United States House of Representatives from January 1979 to January 1991. During his congressional service he was a member of the Telecommunications Subcommittee. He also served on the Energy and Commerce, Education and Labor and Small Business Committees, as well as the Select Committee on Aging. He served on the Pepper Commission on Comprehensive Health Care, the Infant Mortality Commission and the Biomedical Ethics Board.

Mr. Tauke served as a member of the Iowa General Assembly from January 1975 to January 1979. From 1977 to 1979 he was a partner in the law firm of Curnan, Fitzsimmons, Schilling and Tauke in Dubuque, Iowa. Before joining Bell Atlantic, Mr. Tauke was president and chief executive officer of Home Technology Systems, Inc., a small business based in Iowa and specializing in personal emergency systems. He currently serves as chairman of the HTS board.

Mr. Tauke is a member of the Board of Directors of the United States Telephone Association, where he also chairs the Government Relations Committee and is a member of the Internal Finance Committee and the Governance Task Group; chairman of the board of The Washington Center for Internships and Academic Seminars; a trustee of the Herbert Hoover President Library; a member of the Corporate Advisory Council for the U.S. Chamber of Commerce; serves on the School of Public Affairs' Board of Visitors at the University of Maryland at College Park; a member of the Active Board of Trustees of The United States Capitol Historical Society; the Board of Directors of The Business Industry Political Action Committee; the Board of Regents of Loras College in Dubuque, Iowa; and a member of the Board of Directors of Meridian International Center.

He received a bachelor of arts degree from Loras College in 1972 and a juris doctorate from the University of Iowa College of Law in 1974. He and his wife, Beverly, and their two children, Joseph and Elizabeth, maintain residences in Burke, Virginia, and Dubuque, Iowa.

January 1998

Rural Task Force
Professional Qualifications for Nominee

Nominee:	**Joan Mandeville** **Assistant Manager**
Contact Information:	Blackfoot Telephone Cooperative, Inc. 1221 N. Russell Street Missoula, MT 59802-1898 Phone: (406)541-5300 Fax: (406)541-5333 E-Mail: jmandeville@blackfoot.net
Employment History:	1982 - 1989 Montana Public Service Commission 1989 - 1997 Montana Telephone Association 1997 - Present Blackfoot Telephone Cooperative
Nominee Category:	Incumbent Local Exchange Carriers (ILECs) serving rural areas with annual operating revenues of $40 million or less.
Professional Qualifications:	Bachelor's Degree in Accounting from Carroll College, 1980. Current non-practicing Certified Public Accountant Certificate. Fifteen years' experience in the telecommunications industry.
Regulatory Experience:	While working for the Montana Public Service Commission, Ms. Mandeville was a member of a small team that developed all technical telecommunications issues and produced recommendations to the Commissions on all regulatory matters necessary to establish carrier access charges, to implement the divestiture of AT&T, and to implement other pricing and policy changes. Ms. Mandeville was responsible for all of the regulatory work for the Montana Telephone Association. She frequently testified as an expert witness before the Montana Commission. In her present position, Ms. Mandeville is responsible for the regulatory work of Blackfoot Telephone Cooperative and its subsidiaries, Clark Fork Telecommunications (an ILEC) and Montana Wireless (a CLEC).
Background - Policy Issues:	Ms. Mandeville has a broad background in telecommunications policy issues. She had primary responsibility in the revenue requirement bureau for all telecommunications policy issues. Additionally, she facilitated the Commission's Task Force on

Interconnection Issues for Small Companies. Her work with the Montana Telephone Association included representing Montana's independent telephone companies in a wide variety of policy forums including Montana Commission proceedings, the state legislature, the Governor's Blue Ribbon Telecommunications Task Force, and testifying before a Congressional sub-committee concerning universal service issues. Ms. Mandeville prepared several sets of comments to the Federal Communications Commission on universal service proceedings and assisted in writing Montana's universal service statutes.

Background - Economics:

Ms. Mandeville's work at the Montana Commission included a variety of proceedings that addressed pricing issues. These proceedings included establishment of carrier access charges for all local exchange companies and other pricing issues for large local exchange companies. Parties engaged in vigorous debate about long run incremental costing methodology and reconciliation between the outcome of LRIC studies and total revenue requirements.

Ms. Mandeville administered Montana's carrier access charge pool for small companies during her tenure at the Montana Telephone Association. This work included preparing all regulatory filings and testifying on a variety of pricing issues.

Background - Engineering:

Ms. Mandeville's responsibilities for regulation and pricing issues requires ongoing familiarity and education in basic telecommunications network operations. She has attended a variety of seminars and short courses on telecommunications technology. If nominated, Ms. Mandeville will work closely with Blackfoot Telephone's engineering department which is managed by a Professional Engineer with over 25 years of telecommunications experience.

Representation of a Variety of Economic, Social, and Geographic Interests:

Ms. Mandeville has a substantial history of working closely with all of Montana's telecommunications industry participants. Her work with the Montana Telephone Association established a reasonably detailed knowledge about all of Montana's small companies. These companies face a wide variety of challenges, diverse geographical characteristics and diverse local economies. Additionally, several of Montana's rural companies, including Blackfoot Telephone, serve Native American Reservations.

STATEMENT OF JOAN MANDEVILLE
TO THE FEDERAL COMMUNICATIONS COMMISSION
MARCH 6, 1998

EN BANC IN CONNECTION WITH THE REPORT TO CONGRESS
ON UNIVERSAL SERVICE

Good Morning Chairman Kennard, members of Commission. My name is Joan Mandeville. I am the Assistant Manager for Blackfoot Telephone Cooperative, headquartered in Missoula, Montana. My presentation today is offered on behalf of the Rural Telephone Coalition, which is comprised of the National Telephone Cooperative Association (NTCA), Organization for the Promotion and Advancement of Small Telecommunications Companies (OPASTCO) and the National Rural Telecom Association (NRTA).

Blackfoot Telephone and its subsidiary Clark Fork Telecommunications serve approximately 14,500 access lines in the rural areas of Western Montana. We are one of the more densely populated rural systems in Montana serving about 4 customers per mile of line or about 2 customers per square mile of area served. Some of Montana's other rural systems serve less than one customer per mile of line and average less than one-half customer per square mile. It costs a lot more to service low-density areas, and Montana has very few lower cost areas to share the highest costs for these low-density areas.

I appreciate this opportunity to appear before you today and discuss a universal service issue of great importance to this nation's rural telecommunications customers. I certainly appreciated the Chairman's statement to NARUC that universal service is the most important issue facing the Commission this year. The issue before us today is the

FCC's decision to calculate how much support is necessary to achieve the federally defined universal services and spread only one quarter of those costs nationwide. Montana customers would have to pick up the rest of the tab for implementing the nation's universal service mandate in Montana. The issues discussed today have a direct and critical bearing on whether rural customers in my state will receive telecommunications services that are "reasonably comparable" in the rates and quality to those available in more urban areas of the country.

"Sufficient" federal support to achieve reasonable nationwide urban and rural parity is one of the key requirements in the Telecommunications Act of 1996. Preserving and advancing universal service is not only the clear intent of Congress but also a critical component of the economic and social health of our nation's rural areas. Funding only 25% would cut the federal responsibility for rural service from its current level. The 25% basic allocation factor in the Part 36 rules for unseparated loop costs, excludes the high cost support provided now by the USF, DEM weighting and Long Term Support. With all of these factors considered, rural systems now receive far in excess of 25% of their total costs from the interstate jurisdiction. Thus, the Commission's perception that 25% would keep the federal contribution at its previous level is not even accurate let alone sufficient to meet the requirements of the Act.

In its invitation to the RTC, the FCC specifically asked for a company representative, and I am not a lawyer. However, the RTC lawyers tell me that the Commission is mistaken in deciding that the Act mandates <u>states</u> to restructure intrastate rates and federal support cannot be conditioned on states' restructuring rates or creating intrastate universal service funds.

The Commission's implementation of a universal service mechanism must take into account the characteristics and needs of rural areas. However, I would like to review some of Montana's characteristics to help demonstrate the problems presented by shifting huge burdens for federal rural support mechanisms back to the states. Montana has a population of less than 900,000. This population is spread over a huge geographic area resulting in an average density of 6 persons per square mile. The whole state has approximately 350,000 households. Out of 56 counties only 6 have populations of over 50,000 and these six account for less than one-half of our total population. We have no large urban centers. There are only 12 Montana commercial companies that employ over 500 people. Eighty-eight percent (88%) of Montana's businesses have fewer than 20 employees. Congress did not intend to raise rates in states like Montana, but the Commission's decisions would leave no alternative.

We are asking you to use this opportunity to take a hard look at the decisions made since February 8, 1996, to craft a new federal universal service regime. Without considerable revisions, the mechanisms being established cannot achieve the universal service mandates of the Act. The decisions made to-date will result in very substantial local rate increases. They will also leave states to deal with a majority of the impacts created by future federal access reform and the full burden of any future state carrier access charge reforms.

Today, prior to any access charge reform for non-price cap companies, Montana's small companies receive approximately $44,000,000 in federal universal service funds including Long Term Support and DEM weighting. Based on the total number of telecommunications customers in Montana, this equates to roughly $7.50 per month per access line or a 15% surcharge on intrastate revenues. If only 25% of this amount is funded by a federal mechanism, Montana would be forced to increase rates statewide by $5.60 per line per month. Of course, if the federal portion is used to offset interstate carrier access rates instead of local rates, the effective increase in Montana would equate to the entire $7.50 per month. In sharp contrast, if the federal mechanism would recover 100% of the current funding level, Montana would only place a burden of about 2¢ per month on the nation's collective access lines.

It is uncertain whether an intrastate mechanism in Montana could be created to offset the amount necessary to fund the remaining 75% of the amount needed to sustain universal service. If an intrastate mechanism is not created, the local rates of individual small company customers will increase by anywhere from $6 to $93 per line per month. Montana's Senator Burns did not intend the legislation he helped to design and enact to injure his own state's ratepayers this way.

The impact of shifting the majority of responsibility for universal service to the states will also create a large disincentive for state access reform. If Montana's local customers have already shouldered a large local rate increase from the change to a 25% federal funding mechanism, it will become very difficult to rely on a combination of increases in local rates and a state universal service fund for state carrier access reform. Montana's small companies have worked for some years to decrease carrier access rates to per minute levels that are at or below the interstate NECA rates. This similarity in rates seems to be consistent with the intentions of the Telecommunications Act, including toll rate averaging. It also decreases the incentives for interexchange carriers to "rate shop" between state and interstate access charges.

I think everyone here today, undoubtedly including all of you and the FCC staff members would agree that devising a "sufficient" federal support mechanism that will achieve all of the goals of the Telecommunications Act is very complex. As we go through this process, I believe it will benefit the entire industry to seek comprehensive coordinated solutions. Our support mechanisms and jurisdictional allocations must be compatible so that separations reform does not create new problems. A support mechanism that only recovers interstate costs or is only funded on interstate revenues can only work if the separations rules continue to allocate enough costs for interstate recovery.

I would like to turn discuss briefly to the revenue based from which support is derived, the second issue contained in your notice of this meeting. It is unfortunate that many providers using new technologies and offering service through alternative networks do not see the value in a ubiquitous telecommunications network that gives citizens in every area of our nation similar access to telecommunications services and therefore similar access to a wide array of business and personal resources. I believe this lack of vision, based on short-term self-interest, is not in the best interest of our nation or its telecommunications industry. Users in high cost areas rely heavily on telecommunications. They also bring value to the entire telecommunications network. And while many new technologies begin in urban areas, future revenue potential exists in rural areas.

It is consistent with the intention of the Telecommunications Act, within the Joint Board's authority, and the best long-term solution to universal service support, to allocate contributions among all providers of telecommunications services on the basis of total unseparated revenues, consistent with the use of unseparated costs and service revenues in the benchmark calculations. The Commission should make the revenue base that supports universal service as broad as to prevent arbitrage and "gaming" the system.

The Rural Telephone Coalition urges the Commission to accept its responsibility to provide full funding for the federal universal service mechanism. Without a sufficient and predictable federal support mechanism the FCC will not be able to meet the urban/rural comparability mandate of the Act. The Commission should also include both the interstate and intrastate end-user revenues to divide the funding contributions among carriers that provide interstate service.

BIOGRAPHY

JOEL E. LUBIN

AT&T Government Affairs

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Joel E. Lubin is Regulatory Vice President in the Law and Public Policy Organization at AT&T. He is responsible for developing public policy at the Federal and State levels. In particular, he formulates regulatory policies associated with access issues, universal service, local exchange competition and LEC regulation.

Prior to his present assignment, Joel held various positions in Federal Regulatory, Marketing, Service Cost and Rates, Long Lines and Bell Telephone Laboratories.

Joel received a BA degree in Mathematics from Wilkes College in 1969, an MS in Operations Research from Columbia University in 1972, and an MBA from Fordham University in 1976.

BIOGRAPHY

JIM SMILEY
VICE PRESIDENT-MINNESOTA
U S WEST COMMUNICATIONS, INC.

Jim Smiley was born in Bozeman, Montana, in 1949. He received his BA degree in Communications from Washington State University in 1971.

Mr. Smiley joined U S WEST in 1971 as an editorial associate in Seattle, Washington. Since that time, he has held positions in Human Resources, Public Relations and External Affairs. From 1989 to 1993, he was Vice President for U S WEST Communications in South Dakota. He was active in leadership positions in various local and state community projects in South Dakota and Colorado, including the South Dakota Board of Education and United Way. In 1993 he was named Vice President of Congressional Relations for U S WEST, Inc. in Washington, DC. Mr. Smiley assumed his present position of Vice President-Minnesota in January, 1996.

In his current position as Vice President-Minnesota, Mr. Smiley oversees approximately 6,000 employees in the state and is responsible for maintaining U S WEST's leadership and commitment in Minnesota. He directs all regulatory and legislative initiatives in the state, and represents the company in all civic and community affairs. In addition, Mr. Smiley oversees U S WEST Communications' Public Policy operations in the states of Iowa, Nebraska and New Mexico.

Mr. Smiley currently serves on the Board of Directors of Fairview Physician Associates, Minnesota Business Partnership, Minnesota Meeting and United Way.

U S WEST Communications provides telecommunications services to more than 25 million customers in 14 western and midwestern states. The company serves about 2 million customer access lines in Minnesota, and is one of two major groups that make up U S WEST, Inc.

U S WEST, Inc. is in the connections business, helping customers share information, entertainment and communications services in local markets worldwide. U S WEST's other major group, U S WEST Media Group, is involved in domestic and international cable and wireless networks, directory publishing and interactive multimedia services.

Jim Smiley and his wife, Rhonda, are the parents of two children, Shannon and Derek, ages 18 and 20.

3/2/98

Haynes G. Griffin
Chairman & Co-Chief Executive Officer

Haynes G. Griffin is Chairman of the Board and member of the Office of Chief Executive of Vanguard Cellular Systems, Inc., which he co-founded in 1984. Vanguard, based in Greensboro, North Carolina, is one of the largest independent non-wireline cellular telephone companies in the country with operational cellular systems in 29 markets covering a population of over 7.9 million. Mr. Griffin is also past Chairman of the Board of the Cellular Telecommunications Industry Association (CTIA), the national trade association for the cellular industry.

Mr. Griffin was appointed by the White House to the United States Advisory Council on the National Information Infrastructure to advise the administration on information superhighway policy as the sole representative from the cellular industry. The Advisory Council in its recently submitted report facilitated private sector input to the inter-governmental Information Infrastructure Task Force (IITF) which was chaired by the Secretary of Commerce and included the Vice President.

Mr. Griffin is Chairman of the Board of Directors of International Wireless Communications, Inc., a California-based company involved in wireless telecommunications licensing, construction and operations primarily in Asia and Latin America. He is a member of the Board of Directors of Lexington Global Asset Managers, Inc., a publicly held diversified financial service holding company based in New York, and serves as a trustee for The Center for Creative Leadership, one of the world's largest organizations devoted to the study of leadership, creativity and effective management. Mr. Griffin is a member of the Board of Directors of Geotek Communications, Inc., a New Jersey-based telecommunications company operating primarily in the field of wireless communications, both domestically and internationally. He is also a member and past North Carolina State Chairman for the Young Presidents' Organization, a group which provides education and idea exchange for executives; its membership is comprised of individuals who have become president of their company prior to age 40.

Mr. Griffin is Immediate Past Chairman of the Board of Trustees of the Greensboro Day School and is a board member for the Greensboro Symphony Orchestra. He is a graduate of Woodberry Forest School, where he serves on the Executive Committee of the Board of Trustees, and Princeton University, where he has served on the National Alumni Council Executive Committee.

TESTIMONY OF HAYNES G. GRIFFIN
CHAIRMAN
VANGUARD CELLULAR SYSTEMS, INC.

Before the Federal Communications Commission
En Banc Hearing on Universal Service
March 6, 1998

I. Introduction

Thank you very much for inviting me to speak at this en banc hearing on behalf of Vanguard Cellular Systems, Inc. Vanguard is a large independent cellular provider, and provides service to more than 685,000 customers in 29 markets in the eastern part of the U.S.

As you know, Vanguard has been an active participant in the Commission's Universal Service proceedings. Vanguard believes that proper resolution of universal service issues is critical to the continuing development of the telecommunications industry and to ensure that, as Congress intended, consumers and the Nation as a whole benefit from that development.

I have been asked to speak today about Vanguard's position on the allocation of universal service funding between the FCC and State regulators. At the outset, I should note that Vanguard, like many other providers of wireless service, believes that, under Sections 254 and 332 of the Communications Act, commercial mobile radio services are subject only to FCC universal service funding requirements, not to state requirements. No matter how that question is resolved, however, the allocation of financial responsibility for universal service between the federal and state jurisdictions is important. Some States and telephone companies with rural service areas have argued that the FCC must shift costs from the state jurisdiction to the federal jurisdiction. Vanguard disagrees. Rather, the FCC and the States should focus on the fundamental purposes of the new universal service requirements in Section 254. These purposes do not include shifting funding responsibility to the federal level. There also is no evidence at this time that there is any need to create new subsidies at the federal level for what are now intrastate costs.

II. The Purposes of Section 254

Section 254, together with amendments to Section 214, creates a new universal service regime. There are three key elements to this regime. One of these is funding for schools, libraries and rural health care, which is outside the scope of today's discussion.

The second element of the new universal service regime is expanding eligibility for universal service funding, so all competitors have an equal incentive to serve all subscribers. Expanding eligibility increases choices, and reduces prices, for urban, suburban and rural customers alike. Section 214 gives the States the power to designate which carriers are eligible for universal service subsidies. Vanguard, which serves a significant rural population in many of its service areas, such as the Huntingdon Rural Service Area in Pennsylvania (RSA 11), expects that this element of the universal service program will give it the opportunity to meet the basic communications needs of many customers who now are underserved.

The third important element of the new regime is that it replaces the old system of implicit subsidies with explicit subsidies. Eliminating the implicit subsidies removes an important barrier to fair competition. Eliminating implicit subsidies also means that regulators have to make hard choices about whether to continue those subsidies in explicit form, to replace them with other subsidies, or to eliminate them altogether.

One thing the new regime does ***not*** do is to require the FCC to create new subsidies for basic telephone service, or to provide subsidies at the federal level for intrastate services. In fact, Section 254 gives the FCC and the States independent authority to preserve universal service and to adopt funding mechanisms that are limited to the areas of their jurisdictions: The FCC can obtain funding only from interstate carriers, and state-level funding is to be provided only by carriers in each specific State. There is nothing at all in Section 254 that suggests, let alone requires, that the FCC change the current balance between federal and state recovery of the costs of providing telephone service.

III. The Effects of Maintaining the Current Balance Between Federal and State Cost Recovery

I would like to turn now to the effects of maintaining the current balance between federal and state recovery of the costs of providing telephone service. As the Commission has recognized, the key regulatory issue in both federal and state universal service proceedings is how to recover the costs of providing telephone service. Historically, interstate revenues have been targeted to recover approximately 25 percent of the total costs of providing landline service, and intrastate revenues have been targeted to recover the rest of those costs. While some carriers aetually recover more than 25 percent of their costs from interstate sources, 25 percent is a reasonably accurate approximation.

As a practical matter, however, there is little evidence that 25 percent actually represents the best allocation of costs. For instance, when Vanguard prepares its own universal service and telecommunications relay service filings using the Commission's methodologies, only about 15 percent of Vanguard's revenues fall into the interstate category.

Although interstate costs generally are recovered through the Commission's access regime, it does not matter whether a cost is characterized as a "local" cost or an "access" cost, so long as all costs are recovered. For instance, the costs allocated to the intrastate jurisdiction are recovered both through charges for local service and through intrastate access charges. Under today's regime, all local exchange carriers recover all of their costs through revenues from interstate access, intrastate access, intrastate toll, and local service, based entirely on the current jurisdictional allocation.

In other words, if interstate charges continue to recover costs at the current level, there is no hardship on the States. Today, all jurisdictionally intrastate costs are recovered through existing intrastate charges, and rates generally are reasonable. In fact, rates often are lower in rural areas than in urban areas. If the total costs recovered through interstate charges remain the same, there is no reason for average intrastate rates to increase anywhere in the country.

In practice, any increase in the interstate portion of universal service funding caused by shifting costs out of the intrastate jurisdiction and into the interstate jurisdiction would be a new subsidy in addition to those that already exist. In this case, more densely populated areas would provide additional subsidy funds to less densely populated areas. Considering that many customers in rural areas already pay lower rates than those in urban and suburban areas, there does not appear to be any reason to create this new subsidy.

The real problem faced by the States is the same problem that the Commission has had to confront in its universal service proceedings: For years, hidden, implicit subsidies have been used to set rates and, in particular, to reduce rates for rural customers. Now the States have to eliminate those implicit subsidies and replace them with explicit subsidies. Shifting additional costs into the interstate jurisdiction might help state regulators avoid difficult political choices, but will do nothing to change the actual costs that must be recovered. Equally important, and as I described above, there is no evidence that Congress intended for the Commission to create new subsidies for high cost States and telephone companies. Vanguard believes that it is best for the Commission to do what the statute requires – make subsidies explicit and make them available to incumbents and competitors alike – and that the Commission should not try to readjust a jurisdictional balance that has worked well for so many years.

Thank you.