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.

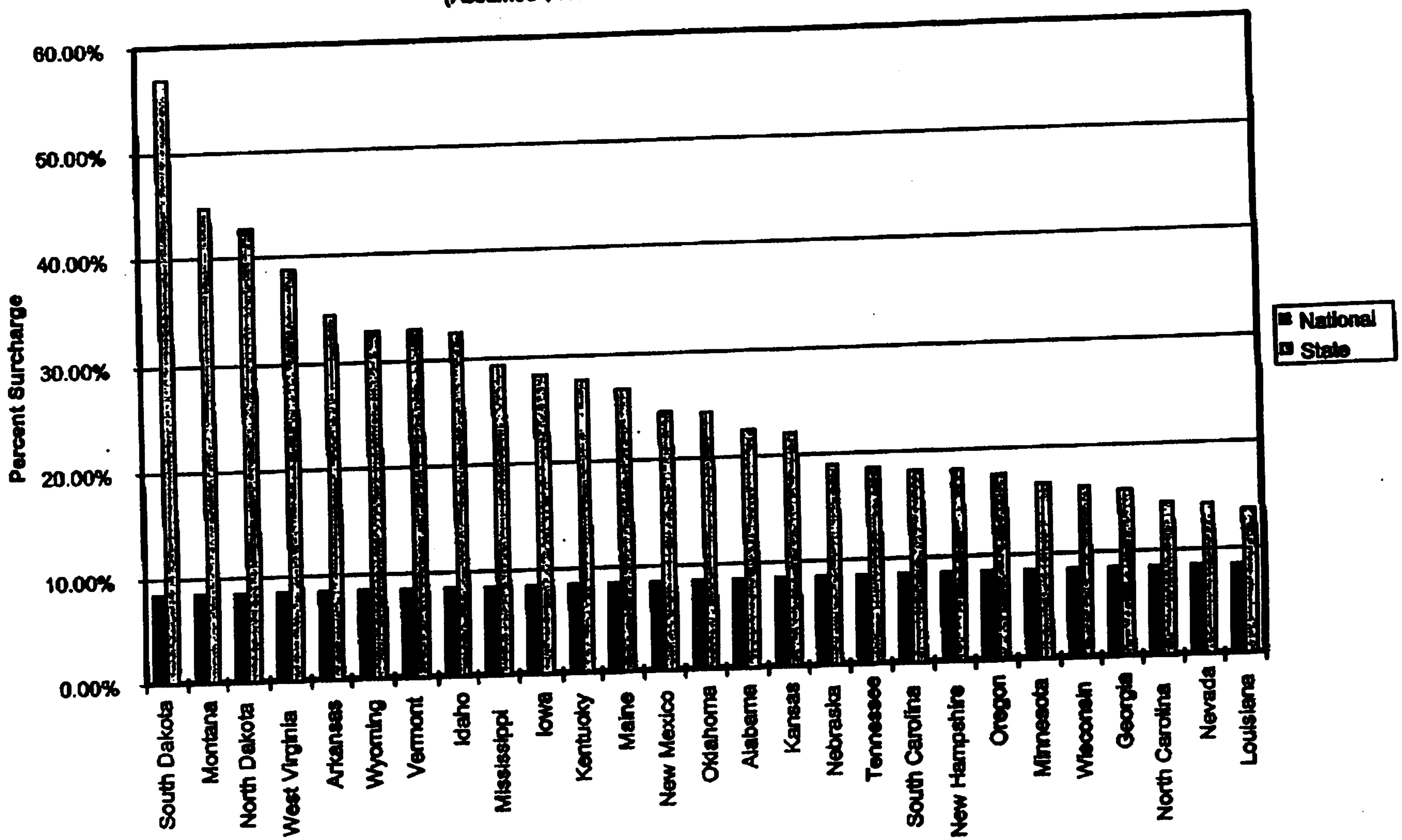
Because the nation, as a whole, benefits when everyone can afford telephone service, everyone should share in the responsibility of ensuring that affordability.

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)