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.