

## **GTE Proposal**

**biography of presenter**  
**executive summary of proposal**  
**written testimony: to be added**

Dennis Weller  
Biographical Information

Dennis Weller is Chief Economist at GTE. Mr. Weller is responsible for GTE's policy positions on such issues as the transition to competition, universal service, and access reform. Prior to joining GTE, Mr. Weller served as pricing strategist for AT&T. Mr. Weller did his graduate work in economics at Stanford.

## SUMMARY

GTE welcomes the Commission's effort to reevaluate the universal service plan it adopted in May of 1997. If the Commission is to carry out its mandate under the Telecommunications Act of 1996 to preserve and protect universal service, then significant changes must be made to that plan.

The Commission has wrestled for the last two years over the development of cost models, and over the choice of benchmarks and other parameters for the calculation of Federal universal service support. GTE submits that it is possible – and indeed necessary – to establish relatively clear measures of the minimum amount of support that the Federal plan must provide. These are as follows:

1. The Federal plan must provide support that is sufficient to replace the flow of implicit universal service support that is generated today by interstate access charges.
2. The Federal plan should provide a reasonable amount of support to states, particularly those with high costs and/or low revenues, to help those states replace the implicit support that is generated today by state rates for services such as access, toll, and vertical features.
3. The Federal plan should maintain the support that is provided to non-rural companies by the current high cost fund.

These policy goals provide an objective measure of whether the Federal plan is sufficient; the benchmarks and percentages used to calculate Federal support should be chosen to ensure that the plan provides at least the support required to meet these goals.

GTE proposes that the Commission should establish a sliding scale of benchmarks and percentages for Federal support. A simple example of such a framework would be the two-benchmark approach which has been proposed by US West. However, an additional benchmark (or benchmarks) may be needed to allow the plan to achieve the Commission's policy goals.

The structure and parameters of this framework cannot be chosen in a vacuum. Instead, the parameters should be chosen to ensure that the policy goals listed above are met. The Commission should choose the cost model and inputs it will employ in the calculation *before* it chooses the benchmarks and percentages, so that it can assure itself that the parameters chosen will produce the desired results.

The Act requires that the sum of the universal service support provided by state and interstate mechanisms be sufficient, but it does not specify the proportion of that total that must be provided by the Federal plan. It is therefore reasonable that the Federal plan should include a benchmark which serves as a dividing line between state and Federal responsibility. However, the Commission's framework must be designed to be consistent with its plenary responsibility – which the Commission itself recognizes – to ensure that the overall effect of universal service mechanisms are sufficient. Thus, the Federal benchmark (or benchmarks) should simply represent cost levels at which the Federal plan will intervene to provide support. They should not represent an assumption by the Commission that implicit universal service support, provided today by the rates charged for other services, can or should continue into the future.

The contributions necessary to fund the Federal support amount should be based on the total of carriers' state and interstate retail revenues. Carriers should recover their contributions through a uniform percentage surcharge.

GTE proposes a methodology consistent with the requirements of the Telecommunications Act of 1996 and which meets Congress' express intention to introduce competition into the telecommunications marketplace only while protecting universal service.