

**US WEST Proposal**

**biography of presenter  
executive summary of proposal  
written testimony**

## **Glenn Brown**

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Glenn Brown is presently Executive Director - Public Policy for U S WEST, Inc. in Washington, D.C. He began his career with Mountain Bell in 1971 in the Engineering Department, and in 1973 moved to the Rates and Tariffs organizations where he held a variety of assignments related to the pricing, costing and regulation of telecommunications services. Mr. Brown has presented testimony in over fifty state and federal commission proceedings on the pricing of a wide variety of telecommunication services. In 1985 Mr. Brown founded the first marketing organization within Mountain Bell focused on Interexchange Carrier customers. In 1990 he returned to the Public Policy organization where he was responsible for managing the Federal Regulatory staff. In 1993 he relocated to Washington, D.C. where he is responsible for managing a variety of public policy issues related to the introduction of local exchange competition and the preservation of universal service. Mr. Brown is active within the United States Telephone Association where he has served as Vice-Chairman of the Regulatory Policy Committee.

Mr. Brown has a Bachelor of Science degree in Industrial Engineering from Lehigh University and a Master of Business Administration degree for the University of Colorado.

# **"INTERSTATE HIGH COST AFFORDABILITY PLAN"**

**A Proposal by U S WEST**

**April 27, 1998**

The Interstate High Cost Affordability Plan (IHCAP) is being proposed by U S WEST to assure the availability of affordable basic telephone service and network access to all Americans, particularly those living in rural and other high cost areas. We believe that this plan can form a workable alternative to the plan previously proposed by the Commission which assigned 25% of the explicit high-cost funding responsibility to the federal jurisdiction, and the remaining 75% to the states. We appreciate the FCC's intention, expressed in their April 10, 1998 Report to Congress, to reconsider this issue.

In their May 8, 1997 order, the FCC laid out a plan for accomplishing the directives of the Act. They defined a "benchmark" level (roughly \$30 for residential customers) above which explicit universal service support would be required to assure affordable service. They also directed that a "proxy cost model" be developed to determine the cost of serving customers by "small areas of geography", such as Census Block Groups, Wire Centers or Grids. Costs for customers above the benchmark level would be aggregated and recovered from an explicit universal service mechanism. Recovery of these costs would be split into two pieces, with 25% of these costs recovered from an Interstate fund, and the remaining 75% of the costs recovered from separate State funds developed and administered by each state. The problem is that, for some states, removing all of the present implicit support and making it explicit would result in surcharges which could, themselves, threaten the basic concept of affordability. Generally, the states which will have the most difficulty have significant numbers of high-cost customers, but do not have large low-cost urban areas over which to spread these costs

The IHCAP plan solves this problem by defining a second "super-benchmark" to identify the "very-high" cost customers. Costs between the basic-benchmark (\$30/month) and the super-benchmark (say, \$50/month) would be handled the same as in the FCC's proposed plan, with 25% of the funding responsibility assigned to the interstate jurisdiction, and the remaining 75% assigned to the states. Costs above the super-benchmark would be assigned 100% to the interstate jurisdiction. Based upon our analysis to date, removing these "super-high" costs from the intrastate equation would appear to level the playing field, and leave each state with a more solvable problem.

One advantage of the IHCAP plan is that it leaves the primary role for rebalancing rates, defining the need for explicit support, and assuring the continued availability of affordable service with the people who know the local customers and the local markets best - the State regulators. The size of the interstate fund is kept smaller by assuming full support responsibility only for those costs in excess of \$50/month (states would still be responsible for 75% of the costs between \$30 and \$50). Said another way, the interstate fund would cover 25% of costs between \$30 and \$50, and 100% of customer costs in excess of \$50. Most of the customers who would be eligible for funding under the single-benchmark proposal, and a significant portion of the funding need, is due to customers slightly above the \$30 benchmark but shy of the \$50 super-benchmark. By leaving

responsibility for most of these costs with state regulators, they will be able to devise rate rebalancing and/or explicit funding plans which are right for their markets. This plan also reduces the burden on customers in lower cost states, since it only requires them to contribute support to those customers who unquestionably will require some sort of assistance to retain affordable service.

The need for a plan like IHCAP is not limited to the western states served by U S WEST. Southern states, such as Mississippi, Kentucky and Alabama, New England states such as Vermont, New Hampshire and Maine, and Appalachian states like West Virginia have similar problems with many high cost customers and relatively few low cost customers. The IHCAP plan has been designed to benefit all Americans.

Lower cost states also benefit from IHCAP for two reasons. First, all states have some customers who are costly to serve. The IHCAP fund will support very high cost customers in all states, reducing the size of the problem that each state must deal with. Second, customers in all areas of the country benefit from ubiquitous access to all people and businesses nationwide. High cost and rural areas possess agricultural, energy and recreational resources on which urban areas depend. Rural areas contain many customers for goods and services produced in urban areas. IHCAP assures affordable service for all Americans, consistent with the directives of the 1996 Act.

En Banc Hearing  
June 8, 1998  
Statement of Glenn Brown

Good morning Mr. Chairman and Joint Board Members. My name is Glenn Brown, and I am Executive Director - Public Policy for U S WEST. Among my areas of responsibility are the related subjects of Universal Service and Access Reform.

On behalf of U S WEST and the many high-cost rural customers we serve, I would like to thank the FCC for deciding to reconsider the earlier 25/75 split of funding between the interstate and state jurisdictions. I am here today to describe the Interstate High Cost Affordability Plan (IHCAP) which has been presented in this proceeding by U S WEST. This plan was developed in an effort to find a workable middle-ground solution to an urgent and critical problem - preserving the availability of affordable basic service and access to advanced services in rural high-cost areas of the "non-rural" LECs.

As many commenters have stated, a stronger federal role in supporting universal service will be necessary in the more rural regions of the nation including many of the Western, Southern, New England and Appalachian states. For example, in U S WEST's 14 state service territory, we serve over half a million customers who cost in excess of \$50/month, and of that total, 200,000 cost over \$100/month. In many of these states there are no large urban centers to offset these costs.

It is also vitally important that the Commission meet its January, 1999 target for implementing new explicit funding for non-rural LECs. Currently, U S WEST faces competition for local customers, particularly in business markets. In August of 1996 the Commission took action to open local markets. In July of 1997, and again this July, the Commission will direct significant reductions in access charges. As these sources of implicit support are removed, it is absolutely essential that new explicit support be provided, particularly when it is required to serve as a "safety net" for the highest-cost of our rural customers.

In developing the IHCAP plan, we had four objectives:

1. It must be simple and understandable.
2. It must leave the states with the primary role for rate rebalancing and the assuring affordable service to all of their customers.
3. It must appropriately address the needs of states that face a disproportionate problem because of large numbers of high-cost rural customers and relatively few low-cost urban customers - and it must do so with minimum additions to the federal fund.
4. It must be capable of implementation by January 1, 1999.

The workings of the IHCAP plan are shown on Chart 1. A proxy model is run to determine the forward-looking cost of serving customers by small areas of geography. It is important that these areas be as small as possible and practical so that support may be efficiently targeted to the customers who need it the most. Areas where the cost is less than \$30/month would receive no explicit federal support. Where costs are between \$30/month and \$50/per month, explicit funding responsibilities would be split between the federal and state jurisdictions consistent with the 25/75 relationship established in the prior FCC Order. Costs over \$50/month would be funded 100% from the federal fund.

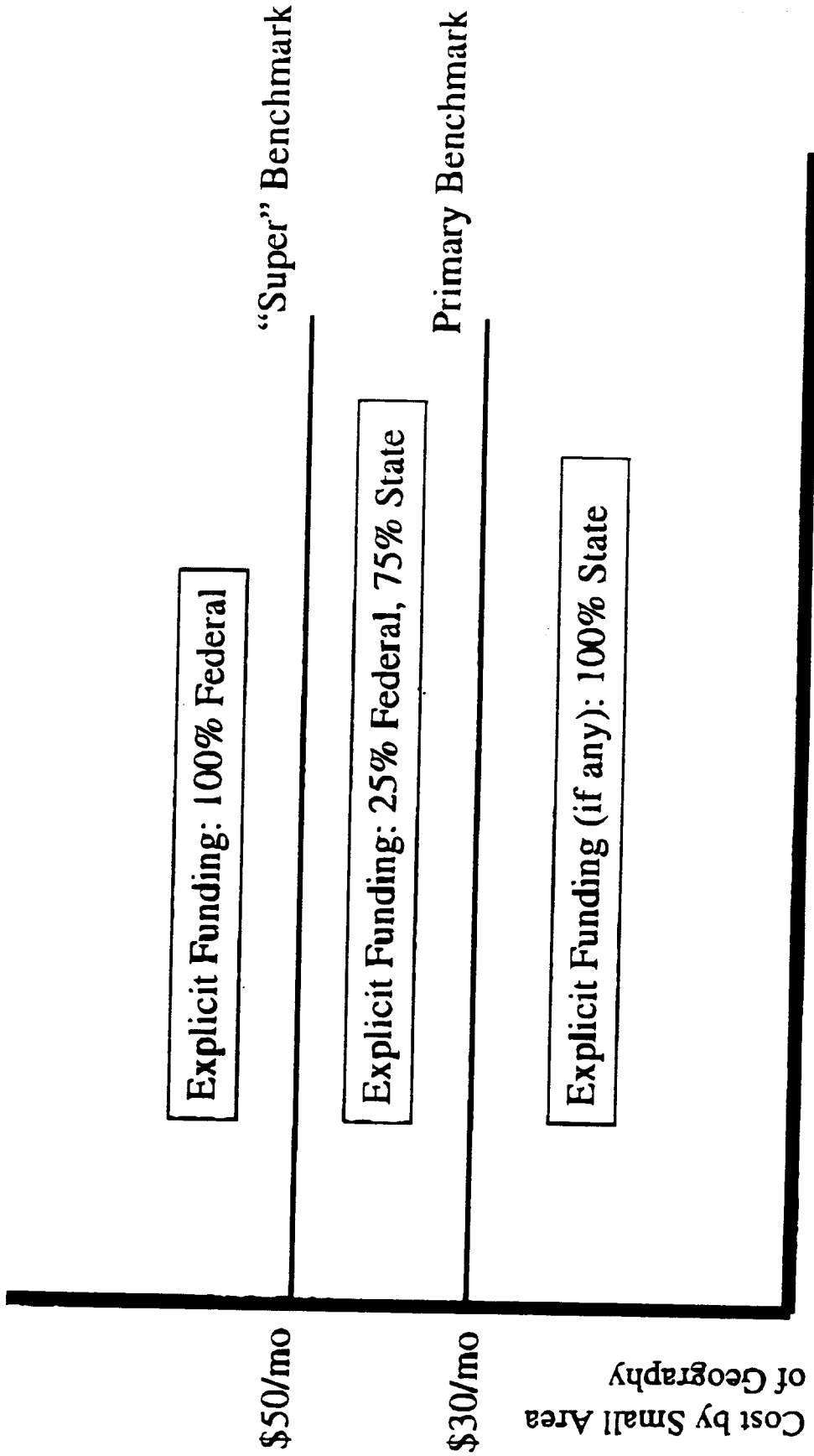
Chart 2 illustrates the impact of the IHCAP plan on five "randomly" selected states (SD, MO, GA, TX, FL). The solid bar shows the required surcharge on intrastate revenues to meet the high-cost funding obligations under the 25/75 plan. The striped bar shows the impact of the IHCAP plan.

We believe that IHCAP offers a simple, effective and fair method for the FCC to assure that the mandates of the 1996 Act for affordable service in rural high-cost areas are fulfilled. I must point out in closing, however, that, as demonstrated by BellSouth and GTE, there will still be considerable implicit support remaining in interstate access following the implementation of IHCAP. The Commission must continue to address and carefully manage this implicit support as local competition evolves.

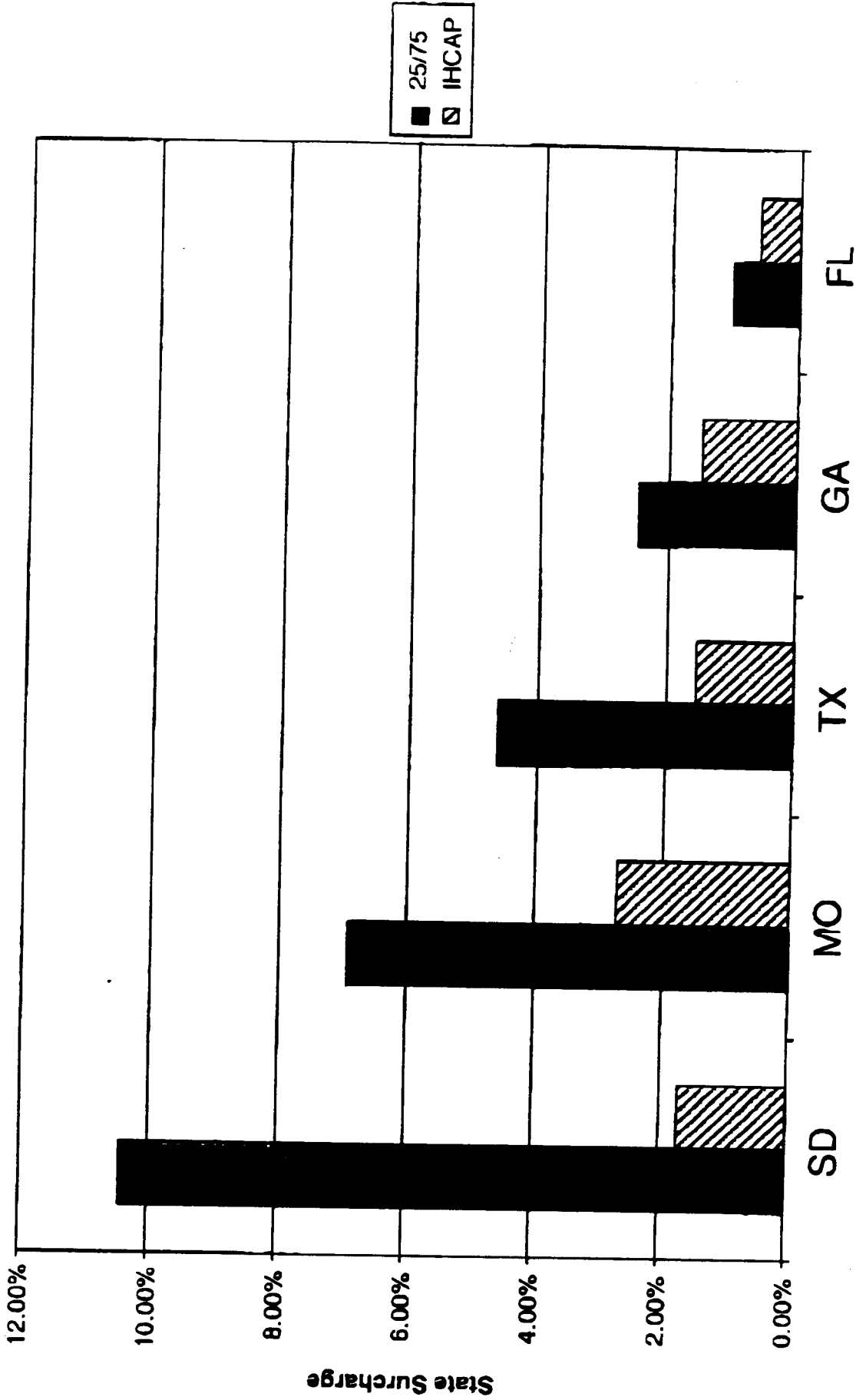
Thank you, and I look forward to your questions.

Chart 1

# Operation of IHCAP Plan



# Chart 2 Impact of IHCAP



Note: This chart assumes a fund size of \$4.5B derived from using FCC "common inputs" in the BC'PMJ model. The actual fund size will be determined after completion of further proceedings to finalize model inputs.