

State of Florida

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General Counsel
ROBERT D. VANDIVER
(904) 413-6248

Public Service Commission

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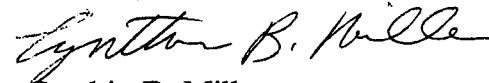
Mr. William F. Caton
Acting Secretary
Federal Communications Commission
1919 M Street, N.W., Room 222
Washington, D.C. 20554

Re: Federal-State Joint Board on Universal Service - CC Docket No. 96-45

Dear Mr. Caton:

Enclosed are the original and five copies of the Florida Public Service Commission's further comments in the above docket. Please date-stamp one copy and return it in the enclosed self-addressed stamped envelope. We are also forwarding a copy of our comments on disk to Ernestine Creech of the Common Carrier Bureau.

Sincerely,


Cynthia B. Miller
Associate General Counsel

CBM/jb
Enclosure

cc: International Transcription Service
2100 M Street, NW
Suite 140
Washington, D.C. 20037

BEFORE THE FEDERAL COMMUNICATIONS COMMISSION
WASHINGTON, D.C.

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In the Matter of:)

Federal-State Joint Board on)
Universal Service.)

CC Docket No. 96-45

SUMMARY OF COMMENTS OF THE FLORIDA PUBLIC SERVICE COMMISSION

1.
 - Although subscribership does vary by income level and ethnic group, there is no firm indication that current prices for basic service have a negative impact on subscribership levels for the majority of citizens.
 - The decline in residential local service rates in real terms from what was a modest level in 1979 is a clear indicator that rates are affordable today.
2.
 - Ideally, all factors noted by the FCC should be considered in determining reasonably comparable rates.
 - If the FCC wishes to calculate a standardized rate, the rate should be adjusted for variations in income level and cost of living.
 - The FPSC is unclear as to the impact of calling scopes in calculating such a rate, due to the broad differences in calling scopes across the nation.
3.
 - The FPSC believes that the use of a national benchmark rate to explicitly define an "affordable" level, relative to a need for federal funding, is less subject to manipulation than a method that strictly relies on costs.
 - Such a method is simple and even-handed in that there is one rule for everyone.
 - One negative aspect is that there could be short-term disruptions in funding, especially for rural companies.
4.
 - The FPSC does not believe that requiring a provider to offer the identified services in order to be designated an eligible telecommunications carrier (and thus subject to receive universal service support) would be unduly burdensome or have any adverse competitive effect.
 - Since incumbent providers offer this package on a nearly ubiquitous basis, it is highly unlikely that a potential competitor in the residential market would be successful without providing services at least comparable, if not better, than the incumbent.

5. ● The FPSC submits that loop costs do not represent the total costs of providing core services. In addition to loop costs, other costs associated with POTS generally include switching costs (both usage and line termination), and billing and collection costs.
 - For purposes of consistency, if such costs are included, any prices charged for such services must be included in deriving the benchmark rate.
6. ● The FPSC prefers that the services or functionalities should be specifically limited to insure that the amount of funds required remains reasonable and to achieve minimum functionality for all schools and libraries.
 - To promote technological neutrality, the FPSC is recommending that the services should not be specifically identified.
 - When discounts are set by the FCC and supported by the interstate universal mechanisms, it is recommended that special services (in the form of Internet access) be achieved via services such as POTS lines, 56 kbps digital services, ISDN-BRI or any other similar or interoperable services.
9. ● The FPSC's proposal maximizes the promotion of competition by furthering the country's efforts to effectively compete in the increasingly important global markets, by minimizing the cost of regulation, and by promoting the efficiency gains of an effectively competitive market.
 - The FPSC's proposal gives recognition to the importance of establishing Internet access by means of a computer lab as the preferred functional standard for special services for schools and libraries; recognition to the cost prohibitiveness of supporting bandwidth and functionality that is beyond services such as POTS lines, 56 kbps digital services, ISDN-BRI or any other similar or interoperable services; and recognition to the economic need to implement a plan that is technologically neutral.
16. ● The FPSC recommends that the FCC refrain from applying discounts to total service long-run incremental cost or short run incremental cost but instead apply a discount to 1) the price that would have been charged in the absence of the federal and any state discount; or 2) when available, the applicable undiscounted tariffed rate.

- The FPSC's proposal contemplates that a company seeking reimbursement from the Universal Service Fund would be required to report to the FCC the actual rate that would have been charged in the absence of the federal discount. In this way, the FCC could directly address any confidentiality issues and could minimize reporting errors by adopting a policy that denies reimbursement in the event of inaccurate reports.
- 17. ● The FPSC proposal envisions that the federal discount would apply to the rate that would be charged by the telecommunications provider in the absence of any state discount or special rate.
 - The federal discount would apply and then to the extent that a state wanted to further discount any federally discounted service, it would be free to do so.
- 69. ● The CCL is not a universal service support mechanism, except perhaps in the sense that the costs recovered through the CCL are not being recovered directly from end users.
 - The existing Long Term Support (LTS) payment system comes closer to being a universal support mechanism in that larger LECs subsidize other LECs by providing funding in order for NECA pool members to be able to charge a reduced, average CCL rate.
 - The amount of LTS paid by the four largest Florida LECs in 1995 is \$22,767,463.
- 70. ● We do not believe that it is essential that the CCL be overhauled immediately in order to comply with the Act.
 - If the FCC determines that it is imperative to proceed in this area, we agree that the CCL should continue to be recovered from interstate providers. The FPSC believes a bulk-billing approach would have the least disruptive impact on providers, in that it could be devised to recover loop costs in the same proportions as are currently recovered through the CCL.
- 71. ● We recommend that a fixed dollar amount of universal service support be selected, and at the outset it should be tied to the SLC, including the states' matching portion. The discount should be portable, to allow the customer to select the carrier of choice, including a wireless provider. The customer should be allowed to apply the discount to any of the included services.

BEFORE THE FEDERAL COMMUNICATIONS COMMISSION
WASHINGTON, D.C.

In the Matter of:)
Federal-State Joint Board on)
Universal Service.) CC Docket No. 96-45

FURTHER COMMENTS OF THE FLORIDA PUBLIC SERVICE COMMISSION

On March 8, 1996, the Federal Communications Commission (FCC) issued its Notice of Proposed Rulemaking (NPRM) and Order Establishing Joint Board in order to implement key portions of Section 254, Universal Service, of the Telecommunications Act of 1996 (the Act). As indicated in that NPRM, the FCC intends in this proceeding to identify those services for which federal universal service funding will be provided and the mechanisms whereby such funding will be provided, as well as propose other changes to the FCC's regulations that are appropriate in order to fulfill the overall universal service requirements of the Act. On July 3, 1996, the FCC issued a request for further comment on specific questions in the Universal Service Notice of Proposed Rulemaking.

The Florida Public Service Commission (FPSC) is pleased to provide comments on these issues of major importance. Our comments are limited to the topics of Definitions Issues, Schools and Libraries, SLC/CCLC, and Low-Income Consumers.

Definitions Issues

1. Is it appropriate to assume that current rates for services included within the definition of universal service are affordable, despite variations among companies and service areas?

The fact that basic service rates vary among companies and service areas in and of itself is not dispositive as to whether or

FURTHER COMMENTS OF FLORIDA PUBLIC SERVICE COMMISSION
CC DOCKET NO. 96-45

not it is reasonable to assume that current rate levels are affordable. Of greater importance, which we will discuss below under question 2, is the level of telephone subscribership. Even given the variability of local service rates throughout the country, in the aggregate, telephone penetration rates do not vary drastically among the various states. One important point to consider with regard to penetration rates is that only limited increases in current subscribership levels may be possible to achieve. There are some areas of the country where subscribership is low by choice of the consumer, not because the consumer cannot afford a telephone. An example would be an area largely consisting of seasonal homes, particularly where the homes are used for weekends and other short visits, thus not being suitable for vacation-type services, where the telephone service would be active part of the year, and inactive during the off season. Although subscribership does vary by income level and ethnic group, there is no firm indication that current prices for basic service have a negative impact on subscribership levels for the majority of citizens.

As an indicator of affordability, we have compared residential local service rates to inflation. In Florida, rates for residential service have not increased at the same rate as inflation. For example, in Tallahassee, the residential rate in

FURTHER COMMENTS OF FLORIDA PUBLIC SERVICE COMMISSION
CC DOCKET NO. 96-45

1979 was \$9.95. Today, that rate is \$9.65. Indexed for inflation, using the CPI-U, the 1979 rate would have increased to approximately \$20.00 today. Even adding the subscriber line charge (SLC) of \$3.50 to the current \$9.65, the total of \$13.15 is a rate decrease in real dollar terms. We believe the decline in residential local service rates in real terms from what was a modest level in 1979 is a clear indicator that rates are affordable today.

2. To what extent should non-rate factors, such as subscribership level, telephone expenditures as a percentage of income, cost of living, or local calling area size be considered in determining the affordability and reasonable comparability of rates?

The FPSC agrees that non-rate factors must be considered in evaluating affordability and comparability. As noted above, subscribership level is probably the key measure of affordability. Expenditures as a percentage of income may yield a partial explanation of deviations in subscribership levels. For example, a \$20 rate in New York City would likely represent a smaller percentage of disposable income than that yielded by the same rate level in rural Florida. Ideally, all factors noted by the FCC should be considered in determining reasonably comparable rates. If the FCC wishes to calculate a standardized rate, it should be adjusted for variations in income level and cost of living. However, although we believe calling scope is an important

FURTHER COMMENTS OF FLORIDA PUBLIC SERVICE COMMISSION
CC DOCKET NO. 96-45

consideration in determining comparability, we are unclear as to the impact of calling scopes in calculating such a rate, due to the broad differences in calling scopes across the nation. For example, a level of calling scope that might be appropriate for a large urban area like New York City could not be achieved in many less populous areas. Thus, this element is more difficult to evaluate.

3. When making the "affordability" determination required by Section 254(i) of the Act, what are the advantages and disadvantages of using a specific national benchmark rate for core services in a proxy model?

As discussed in our initial comments, we believe that a reasonable starting point to arrive at an affordability benchmark would be the nationwide average rate for residential service. We would add that certain adjustments may be needed, as discussed under item 2 above. We also reiterate that we believe it will be necessary to reexamine the benchmark level periodically, especially as the competitive provision of local service becomes more widespread.

According to a recent FCC publication (Reference Book: Rates, Price Indexes, and Household Expenditures for Telephone Service) including subscriber line charges, touchtone, taxes and 911 charges, the nationwide average rate for residential service as of October 1994 was approximately \$20.00. We proposed in our initial

FURTHER COMMENTS OF FLORIDA PUBLIC SERVICE COMMISSION
CC DOCKET NO. 96-45

comments that an analogous rate should be the threshold for receiving federal universal service support for rural/high-cost areas. Given this approach, the FCC, strictly speaking, would not necessarily base federal support levels on achieving specific end-user prices. The benchmark rate would be used as a floor in conjunction with an estimate of the cost of providing the core group of services, to yield the required support amount.

The FPSC believes that it is appropriate for all telecommunications providers (and thus their customers) to contribute in order to sustain the availability of affordable rates for ratepayers in rural and high-cost areas. With the approach we have proposed, individual state commissions could still authorize rates that deviated from the benchmark level. However, it is inappropriate for consumers in other states to be required to contribute funds indirectly (through the rates and charges they pay for telecommunications services) to sustain telephone rates for LECs in selected states at levels that are significantly below the nationwide average levels, when adjusted for cost of living and other factors. Where a state chooses to maintain local rates below the nationwide standard, we believe that it is proper for the state to assume funding responsibility for this decrement below the norm using intrastate support mechanisms. For example, if a benchmark rate of \$20 is selected, a company with a cost of \$50 would receive

FURTHER COMMENTS OF FLORIDA PUBLIC SERVICE COMMISSION
CC DOCKET NO. 96-45

\$30 in funding. If the residential rate was \$15, the additional \$5 in support would not be funded through the federal mechanism. Thus, the use of a benchmark rate as a threshold for federal support would help to ensure that inequities between states do not occur.

The FPSC believes that the use of a national benchmark rate to explicitly define an "affordable" level, relative to a need for federal funding, is less subject to manipulation than a method that strictly relies on costs. Additionally, the information necessary to derive such a rate is in the public domain, making it easy to obtain and use. Such a method is simple and even-handed in that there is one rule for everyone.

One negative aspect is that, depending on how it is derived, a method based on a national benchmark rate may not be acceptable to all groups. There could be short-term disruptions in funding, especially for rural companies. However, as discussed in our initial comments, to the extent that the process outlined above results in a change in the total level of funding and significant (e.g., greater than 5% or 10%) changes in the amount of funds provided to current recipients, these changes should be phased-in uniformly over five years. If presently unforeseen effects occur during this transition period, a phase-in also will provide the

FURTHER COMMENTS OF FLORIDA PUBLIC SERVICE COMMISSION
CC DOCKET NO. 96-45

opportunity to make any appropriate refinements to the new mechanism.

4. What are the effects on competition if a carrier is denied universal support because it is technically infeasible for that carrier to provide one or more of the core services?

In addition to endorsing the FCC's proposal for certain core services¹ to be eligible for funding, the FPSC also suggested in its initial comments some refinements and some additions to that group. Those were: that the service be flat-rated; that unlimited calling in the local calling area be provided; that more generic terminology, dual tone multifrequency (DTMF), should be used rather than touch-tone; and that provision for access to emergency services be general, rather than restricted to 911. The FPSC further proposed that three additional capabilities be included: access to available interexchange carriers (IXCs) and to directory assistance (DA), and a white pages directory listing.

The FPSC does not believe that requiring a provider to offer these services in order to be designated an eligible telecommunications carrier (and thus subject to receive universal service support) would be unduly burdensome or have any adverse competitive effect. Since incumbent providers offer this package

¹ Those services are: voice grade access to the public switched network with the ability to make and receive calls; touchtone; single-party service; and access to emergency services and to operator services.

FURTHER COMMENTS OF FLORIDA PUBLIC SERVICE COMMISSION
CC DOCKET NO. 96-45

on a nearly ubiquitous basis, it is highly unlikely that a potential competitor in the residential market would be successful without providing services at least comparable, if not better, than the incumbent. For example, in our view, the ability to place a long distance call with one's carrier of choice and to call DA to obtain another subscriber's telephone number are considered as intrinsic to local service. Similarly, not having one's name, address, and telephone number appear in a telephone directory would tend to devalue basic phone service for all subscribers.

The FPSC also believes that it is reasonable to require as a precondition to receive funding that a provider should offer a minimum set of services in order to receive universal service support. Additionally, we believe that it is doubtful that a potential entrant's business plans would (or should) hinge solely on the availability of universal service support.

5. A number of commenters proposed various services to be included on the list of supported services, including access to directory assistance, emergency assistance, and advanced services. Although the delivery of these services may require a local loop, do loop costs accurately represent the actual cost of providing core services? To the extent that loop costs do not fully represent the costs associated with including a service in the definition of core services, identify and quantify other costs to be considered.

The FPSC submits that loop costs do not represent the total costs of providing core services. In addition to loop costs, other costs associated with POTS generally include switching costs (both

usage and line termination), and billing and collection costs. The FPSC is not prepared to provide an all-inclusive list of costs associated with the recommended core services. We believe other commenters may have more current and complete information than we are able to provide. However, there is one point we wish to make with respect to the inclusion of costs of access to other services in the total cost of core services: for purposes of consistency, if such costs are included, any prices charged for such services must be included in deriving the benchmark rate. Although this would necessarily complicate the process of calculating a benchmark rate by adding more components to the equation, we believe it is a crucial factor to be considered. The analysis provided by the FPSC in response to other issues is based solely on residential rates.

Schools and Libraries

6. Should the services or functionalities eligible for discounts be specifically limited and identified, or should the discount apply to all available services?

The Florida Public Service Commission (FPSC) in its Reply Comments dated May 6, 1996, addressed whether services or functionalities should be specifically limited:

. . . we recommend that the services to be supported by the interstate universal service funds be limited to insure that the amount of funds required remains reasonable and to achieve minimum functionality for all schools and libraries.

FURTHER COMMENTS OF FLORIDA PUBLIC SERVICE COMMISSION
CC DOCKET NO. 96-45

Although the FPSC prefers that the services or functionalities should be specifically limited, the FPSC is recommending that the services should not be specifically identified.

When discounts are set by the FCC and supported by the interstate universal mechanisms, it is recommended that special services (in the form of Internet access) be achieved via services such as POTS lines, 56 kbps digital services, ISDN-BRI or any other similar or interoperable services.

Under the FPSC proposal, a maximum dollar limit of expenditure on Internet access would be set and any expenditure for Internet access service that fell under that limit would qualify for a discount. This approach is preferable to specifically identifying services to which the discount would apply because it promotes technological neutrality.

9. How can universal service support for schools, libraries, and health care providers be structured to promote competition?

The FPSC's proposal, as set forth in its Reply Comments dated May 6, 1996, maximizes the promotion of competition by furthering the country's efforts to effectively compete in the increasingly important global markets, by minimizing the cost of regulation, and by promoting the efficiency gains of an effectively competitive market. The FPSC believes that its recommendations maximize the promotion of competition by giving recognition to the:

- 1) Importance of establishing Internet access by means of a computer lab as the preferred functional standard for special services for schools and libraries;

FURTHER COMMENTS OF FLORIDA PUBLIC SERVICE COMMISSION
CC DOCKET NO. 96-45

- 2) Cost prohibitiveness of supporting bandwidth and functionality that is beyond services such as POTS lines, 56 kbps digital services, ISDN-BRI or any other similar or interoperable services; and
- 3) Economic need to implement a plan that is technologically neutral.

First, by ensuring that a minimum functionality is achieved nationwide for all schools and libraries, the FCC would be assisting financially strapped institutions in attaining the minimum national standard. This serves to further the country's efforts to effectively compete in the increasingly important global market.

Second, by preventing telecommunications providers and their customers from being faced with burdensome universal service support contributions, the FCC would be promoting the efficient operation of the free market. New entrants would have a greater opportunity to focus directly on serving their customers and responding to their customers' needs. While promoting universal service, the FCC would also be minimizing the cost of regulation.

Most importantly, by adopting a technologically neutral plan, the FCC would be encouraging the benefits of a competitive market. Because telecommunications technology is constantly changing and advancing, educational end users have diverse needs and strategies in acquiring the benefits of the information age. A technologically neutral plan would allow educational end users to

FURTHER COMMENTS OF FLORIDA PUBLIC SERVICE COMMISSION
CC DOCKET NO. 96-45

choose which services and technologies best suit their needs. This, in turn, would reward firms that best serve their customers. Consequently, the competitive forces of the market would be given the best opportunity to function efficiently.

16. What should be the base service prices to which discounts for schools and libraries are applied: (a) total service long-run incremental cost; (b) short-run incremental costs; (c) best commercially-available rate; (d) tariffed rate; (e) rate established through a competitively-bid contract in which schools and libraries participate; (f) lowest of some group of above; or (g) some other benchmark? How could the best commercially-available rate be ascertained, in light of the fact that such rates may be established pursuant to confidential contractual arrangements?

In its Reply Comments, the FPSC stated:

When setting an interstate discount, the FCC should be aware of the incremental cost of the service that is to be discounted and guard that the discounted price does not fall below the incremental cost. In this fashion, the FCC will protect the market from the distortions that could result from services being priced below their cost.

The FPSC recommends that the FCC refrain from applying discounts to total service long-run incremental cost or short run incremental cost. It is appropriate for the FCC to discount the price that would have been charged in the absence of the federal discount and any state discount. When available, it is appropriate for the FCC to discount the applicable undiscounted tariffed rate.

The FPSC's proposal contemplates that a company seeking reimbursement from the Universal Service Fund would be required to

FURTHER COMMENTS OF FLORIDA PUBLIC SERVICE COMMISSION
CC DOCKET NO. 96-45

report to the FCC the actual rate that would have been charged in the absence of the federal discount and any state discount. In this way, any confidentiality issues could be directly addressed by the FCC. In addition, inaccuracies could be minimized by a policy that denies reimbursement in the event of inaccurate reporting.

17. How would discounts be applied, if at all, for schools and libraries and rural health care providers that are currently receiving special rates?

The FPSC discussed the application of discounts in its Reply
Comments:

The FPSC recommends that the FCC establish a nationwide minimum functionality and expressly acknowledge the ability of individual states to further discount the federally discounted services and/or expand the services that are acceptable for receiving support to provide Internet access.

Therefore, the FPSC proposal envisions that the federal discount would apply to the rate that would be charged by the telecommunications provider in the absence of any state discount or special rate. The federal discount would apply, and then, to the extent that a state wanted to further discount any federally discounted service, it would be free to do so.

SLC/CCLC

69. If a portion of the CCL charge represents a subsidy to support universal service, what is the total amount of the subsidy? Please provide supporting evidence to substantiate such estimates. Supporting evidence should indicate the cost methodology used to estimate the magnitude of the subsidy (e.g., long-run incremental, short run incremental, fully distributed).

The FPSC does not agree that the interstate carrier common line (CCL) is, strictly speaking, a universal service support mechanism. As noted in the NPRM, the CCL was designed to recover loop costs allocated to the interstate jurisdiction; the CCL is not a universal service support mechanism, except perhaps in the sense that the costs recovered through the CCL are not being recovered directly from end users.

The existing Long Term Support (LTS) payment system comes closer to being a universal support mechanism in that larger LECs subsidize other LECs by providing funding in order for NECA pool members to be able to charge a reduced, average CCL rate. As discussed in our initial comments, the FPSC does not believe that it is critical that the FCC's proposal to eliminate recovery of Long Term Support must be dealt with at this time. If it must be addressed now, we would tentatively propose that rather than eliminate LTS, it should be added to a fund for distribution to all eligible carriers under whatever explicit high cost mechanism is

FURTHER COMMENTS OF FLORIDA PUBLIC SERVICE COMMISSION
CC DOCKET NO. 96-45

adopted. In that vein, we have provided the amounts of LTS paid by the four largest Florida LECs.

Company	Amount of LTS Payments/1995
Sprint/Centel	\$ 866,652
Sprint/United	\$ 3,282,508
GTE Florida	\$ 6,058,791
BellSouth	\$12,559,512
Total	\$22,767,463

70. If a portion of the CCL charge represents a contribution to the recovery of loop costs, please identify and discuss alternatives to the CCL charge for recovery of those costs from all interstate telecommunications service providers (e.g., bulk billing, flat rate/per line charge).

Currently, the interstate assignment of loop costs is recovered in part through SLCs that are assessed directly to end users, with the remainder recovered through the interstate CCL charge which is assessed on a per minute of use basis to interexchange carriers.

The FCC asserted in its NPRM that the interstate CCL appears to be in conflict with the Act because it is not explicit and is not recovered on a nondiscriminatory basis from all providers of interstate telecommunications services. Inquiry has been made as to how the interstate CCL should be reduced or eliminated, and from what other sources the resulting revenue shift should be recovered.

FURTHER COMMENTS OF FLORIDA PUBLIC SERVICE COMMISSION
CC DOCKET NO. 96-45

The FPSC reiterates that while we acknowledge the flaws in the CCL, we do not believe that it is essential that it be overhauled immediately in order to comply with the Act. The existence of the CCL does not discriminate against nonLEC providers of local service, and does not impede their entry. (In fact, it appears that Alternative Local Exchange Carriers (ALECs) have adopted this rate design and will assess a CCL charge to IXCs, too.) The FPSC believes that issues involving recovery of interstate loop costs should be dealt with at a later time and in a calmer environment; efforts in this proceeding should be limited to those matters which must be resolved on an expedited basis.

Nevertheless, if the FCC determines that it is imperative to proceed in this area, we agree that the CCL should continue to be recovered from interstate providers. Caution must be exercised to ensure that any methodology adopted, especially in light of the probable changes in explicit universal service support devices, does not have unintended and drastic impacts. If the interstate CCL charge were eliminated in Florida and these costs shifted to the intrastate jurisdiction, we estimate that the impact could result in an increase of approximately \$3.50 per month for every access line. The elimination of these charges could also provide a windfall to the IXCs that currently pay the charges, with no guarantee that the benefits would be passed through to consumers.

Although competition might ensure some flow-through, its effect undoubtedly would not be immediate.

We believe a bulk-billing approach would have the least disruptive impact on providers, in that it could be devised to recover loop costs in the same proportions as are currently recovered through the CCL. At the same time, this method would meet the requirement that the support be explicit.

We would not recommend implementation of a flat rate per access line without careful study of the impact on the IXCs. Such a rate could provide a windfall to some in the form of charges no longer paid, while others may then pick up a disproportionate share of the burden, relative to their revenues.

Low-Income Consumers

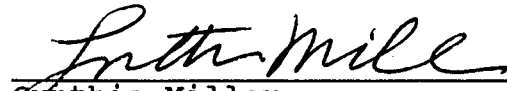
71. Should the new universal service fund provide support for the Lifeline and Linkup programs, in order to make those subsidies technologically and competitively neutral? If so, should the amount of the lifeline subsidy still be tied, as it is now, to the amount of the subscriber line charge?

In our initial comments, we recommended that a fixed dollar amount of support be selected. We also suggested that the amount at the outset should be tied to the SLC, including the states' matching portion. For example, many states participate in Plan 2 of Lifeline, under which the FCC provides a waiver of the \$3.50 SLC charge and the states contribute a matching amount, bringing the total discount to \$7.00. However, the federal support should not

FURTHER COMMENTS OF FLORIDA PUBLIC SERVICE COMMISSION
CC DOCKET NO. 96-45

go only to the incumbent LEC. The discount should be portable, to afford the customer the ability to select his carrier of choice, including a wireless provider. Additionally, the customer should be allowed to apply the discount to any, or all, of the services included in the definition of universal service, including measured service.

Respectfully submitted,



Cynthia Miller
Senior Attorney
FLORIDA PUBLIC SERVICE COMMISSION
2540 Shumard Oak Boulevard
Tallahassee, FL 32399-0850

DATED: August 1st, 1996