STATE OF IOWA

DEPARTMENT OF COMMERCE

UTILITIES BOARD

IN RE: STATE UNIVERSAL SERVICE FUND	DOCKET NO. NOI-08-2

ORDER INITIATING INQUIRY

(Issued September 12, 2008)

INTRODUCTION

Iowa Code § 476.102 (2007) gives the Utilities Board (Board) the authority to implement a state fund to ensure that quality telecommunications services are universally available in Iowa at just and reasonable rates. The Board previously investigated the need for such a fund and concluded that a state universal service fund was not necessary at that time. The Board is opening this docket to take a new look at the issues and consider whether changed conditions make a state universal service fund necessary.

The Board addressed specific aspects of universal service in various rule making dockets, including (but not limited to) Docket Nos. RMU-97-5 (schools and libraries), RMU-97-8 (low-income assistance), RMU-97-9/10 (eligible carriers), and RMU-06-1 (carrier reporting requirements). Most of those rules were adopted in order to coordinate state law with the requirements of federal law, specifically 47 U.S.C. § 254 and the Federal Communications Commission (FCC) rules implementing that statute. Those activities were focused on implementing the federal universal service fund in Iowa; this inquiry is addressed to the possible need for a state program.

HISTORY OF PRIOR INQUIRY

On March 5, 1999, the Board initiated an inquiry to consider issues associated with preserving and advancing universal service in a changing telecommunications marketplace, identified as In re: Universal Service Fund, Docket No. NOI-99-1. The Board described the goal of a universal service fund as a policy that would allow every home and business to have a telephone. That goal could be achieved through affordable rates and comparable service to all customers.

The Board recognized that changes in the telecommunications marketplace, including the advent of local competition, could adversely affect the availability of universal service. In order to investigate this possibility and determine whether additional regulatory efforts were necessary or appropriate at that time, the Board initiated an inquiry, which was conducted in stages.

The process began with a notice that included a set of initial questions and invited interested persons to respond in writing. The Board also appointed an inquiry manager, who scheduled informal workshops to clarify and develop the responses. The Board's expectation was that after the workshops, it would have sufficient information to draft proposed rules, if necessary.

After receiving comments and conducting workshops, the Board determined that no proposed rules were required at that time. Accordingly, the inquiry was terminated.

As a part of that docket, Board staff assembled two reports. The first report included information gathered at a workshop held with interested persons on June 8 and 9, 1999. The first report was then distributed to the participants with a request for further comments. After receiving written comments and holding a second workshop on October 27, 1999, the new information was incorporated into the first report to create a second report. However, because the final conclusion of the Board was that a state universal fund was not required at that time, the second report was never distributed for further comment. A copy of that report is attached to this order.

The Board emphasizes that it is not adopting or endorsing the recommendations contained in the attached second report. Circumstances have changed since that report was prepared and it is no longer up to date. However, it would be inefficient to ignore what the Board learned in the earlier investigation, and the report provides a useful summary of the issues that were considered important in 1999 and 2000 and the information that was available to the Board at that time.

CURRENT INQUIRY

Some local exchange carriers have asserted that recent reductions in local exchange access charges, combined with possible further reductions in the future, have reduced revenues to the point that their ability to offer quality service at just and reasonable rates may be affected. From these statements, it could be concluded that some carriers may have been relying upon implicit subsidies from intrastate access rates to keep retail rates more reasonable. Iowa Code § 476.102(2)"c" establishes a state policy in favor of specific and predictable support mechanisms that are nondiscriminatory and competitively neutral. The statute does not require that there be an explicit support mechanism, but it appears that an explicit mechanism would be one way to achieve the policy goals specified in the statute and may offer advantages over implicit support mechanisms.

This inquiry will use the same general procedures used in Docket No. NOI-99-1. The Board will appoint an inquiry manager to conduct the proceedings and ask a series of general questions regarding the topic of a state universal service fund. Interested persons may respond to the general questions and comment on any other issues they believe to be within the scope of this inquiry.

The inquiry manager will be John Ridgway, Manager of the Board's Telecommunications Section. He can be contacted at 515-281-4034 and by e-mail at john.ridgway@iub.state.ia.us.

Written comments should be filed in this docket in a manner consistent with the Board's rules for filings. An electronic copy of the comments should also be e-mailed to the inquiry manager, who will assemble a list of the e-mail addresses of those filing comments and will distribute the electronic files to all those on the list.

INITIAL QUESTIONS

1. How should the purpose and goals of a state universal service fund be defined? How should the Board determine whether a state universal service fund is necessary? What services or technologies, if any, should be supported?

The following questions assume a state universal fund is to be implemented.

2. How should the level of support be determined? Should the Board use a model to calculate support or individual company cost data or some other information?

3. How should the support be distributed? If the support is paid to the carriers, what qualifications should a carrier have to meet in order to draw support? If the support is paid to customers, what qualifications should the customers have to meet?

4. How should the fund be supported? Assuming it is funded through assessments on customer bills, what services should be assessed?

5. Should funding be paid to all eligible telecommunications carriers serving a high-cost area or should it be paid to a limited number of carriers (for example, to the two or three carriers that agree to serve any and all customers in a given geographic area for the least support per customer)?

6. Should implementation of the fund be tied to the addition of new services for all Iowans? Such services could include, for example, (a) statewide local (non-toll) calling, (b) a requirement that high-speed broadband services must be

available to 95 percent of all Iowa customers by a date certain, or (c) statewide thousands-block number pooling. Would it improve public acceptance of a new charge for an Iowa universal service fund if new services were implemented at the same time?

7. Should a neutral third-party administer the fund or should this function be performed by the Board?

ORDERING CLAUSES

IT IS THEREFORE ORDERED:

1. The Utilities Board, by this order, initiates an inquiry pursuant to Iowa Code § 476.102 to examine whether a state universal service fund is necessary and, if so, to consider the appropriate mechanism for establishing such a fund. A notice of this order should be mailed to the principle contact person for each local exchange carrier holding a certificate pursuant to Iowa Code § 476.29 and to the principle contact person for each interexchange carrier registered with the Board pursuant to 199 IAC 22.14(4)"b."

2. On or before October 13, 2008, interested persons may file answers to the questions in this order, comments on the attached second report, and any other relevant information they wish to offer. Comments should be filed in this docket pursuant to the Board's regular filing rules; in addition, comments should be e-mailed to john.ridgway@iub.state.ia.us for e-mail distribution to other commenters.

3. The inquiry manager will schedule an informal workshop for all interested persons following receipt and analysis of the initial filings.

4. Following the workshop, the Board may issue an additional order establishing further proceedings in this inquiry.

UTILITIES BOARD

/s/ John R. Norris

/s/ Krista K. Tanner

ATTEST:

/s/Judi K. Cooper
Executive Secretary

/s/ Darrell Hanson

Dated at Des Moines, Iowa, this 12th day of September, 2008.

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OBJECTIVES

1. What should be the purpose of the universal service fund?

Iowa has achieved a 96.6 percent telephone penetration level, compared to a national penetration level of 94.1 percent. Universal service has been achieved in Iowa[1]. There is no need for additional funds for universal service. However, there still is a need for a state universal service fund in the future due to competition, which will require the removal of implicit subsidies from current rates. This is consistent with IOWA CODE § 476.95(3) which requires the Board to "address issues relating to the movement of prices toward cost and the removal of subsidies in the existing price structure of the incumbent local exchange carrier."

Currently, local service rates in rural areas are kept low due to statewide averaging and numerous services providing contributions to local service. As competition develops in Iowa, it will be much more difficult to continue rate averaging since competitors will enter the high density, low-cost areas first, thus reducing the ability of low cost areas to provide a contribution to high cost areas. In addition to the loss of rate averaging, the prices for services that provide contribution to the local loop, such as business, vertical services, access, and toll, should decrease as competition increases.

A state universal service fund is also needed because current averaged UNE rates will have to be deaveraged under FCC rules.[2] To provide an incentive for competitors to enter into high cost areas, there should be USF support for deaveraged UNEs in these areas.

Recommendation:
The Iowa USF should replace current subsidies with competitively neutral subsidies in areas where high costs would jeopardize affordable rates.

2. Should the Board encourage rate re-balancing?

The entry of competition will, in all likelihood, create a need for rate re-balancing. Many of the reasons for this are addressed above. The reasons include the loss of current local rate averaging and of contribution to local service from services currently priced above cost.

However, the Board shouldn't re-balance rates immediately. First, the framework for a universal service fund should be in place. Rate re-balancing will result in rates reflecting cost and the local service rates in high-cost areas will increase. Without a mechanism in place to provide an offset to higher rates, local service

[1] *Monitoring Report*, CC Docket No. 98-202, June 1999, pp. 6-30 and 6-44.
[2] 47CFR §51.507(f)

may become unaffordable in some areas and universal service will be compromised.

Second, networks of incumbent companies should be accessible to competitors. Without the accessibility to an incumbent's network, true competition will not develop and without true competition there is no need to rebalance rates. Accessibility should include a functional and robust Operational Support System (OSS), which currently is not in place.

Recommendation:
The Board should address the question of if or when rate re-balancing should occur after the establishment of rules for universal service and accessibility to incumbent networks.

3. Should the Board establish a price standard for affordable local service rates?

The Board should establish an affordable local rate. The amount of this affordable rate should be addressed when the cost issues are addressed. The affordable rate would be used as a benchmark. State USF support would be provided for costs over the affordable rate or benchmark. Companies would have to recover revenues resulting from the affordable rate either through local rates or some other manner.

Most of the commentors believe that the Board should adopt an affordable rate and some recommend having safeguards in place for those customers whose income would cause them to drop off the network. U S West recommends $25, the cost of two large pizzas, as an affordable rate. ITA and AT&T believe the Board should consider factors such as size of the local calling area in determining an affordable rate.

Along the same line, the Board should consider current EAS additives that customers currently pay as part of their local service. The following indicates the range of EAS additives:

GTE

Business	$ .45 to $27.49 (most in the $5 to $10 range)
Residential	$ .23 to $13.75 (most in the $3 to $5 range)

Frontier

Business	$1.74 to $5.50 (most in the $4 to $5 range)
Residential	$ .97 to $3.06 (most in the $2 to $3 range)

The amount of the affordable rate will affect the size of the state universal service fund and should be addressed in conjunction with the costing issues.

Recommendation:
The affordable or benchmark rate should be addressed in conjunction with the cost of universal service.

2nd Report Discussion and Recommendation

Staff Comments:
The discussion of the parties uses the affordable rate and the benchmark interchangeably. They may or may not be the same. The benchmark is an amount used to calculate the level of support. A cost model is used to calculate the cost of each customer's primary basic service. If the cost exceeds the benchmark rate then that line is eligible for support. For example, if the benchmark rate is $50 and the cost of the basic service for a particular line is $80, the support for that line would be $30. If the rates were driven to cost, the company would charge $50 for the basic service. The affordability of a $50 rate would depend on the individual circumstances of the customer.

Whether the basic service rate would rise to $50 depends on the level of competition in the market place and the other services sold to the customer. If the line is used for more than one service, the cost may be shared among the services. We do not know how services will be packaged in the future. Companies may give away voice service if cable TV or data lines are purchased.

The primary question is should the Board set an affordable rate as a benchmark or should the Board, like the federal fund, set a cost-based benchmark.

Affordable Rate

There are two approaches offered for setting an affordable rate. The Board could conduct a study and determine on a company by company basis what would be an affordable rate based on income factors and calling scope. A refinement of this plan would set a statewide affordable rate, based upon some of the same criteria. The Board could also, like USWC recommends, set an arbitrary statewide amount as affordable.

Benchmark Rate

The second approach would disassociate the concept of affordability with the benchmark. The purpose of the benchmark would be to determine the amount of support a company will receive. Theoretically, a benchmark based upon a statewide average cost will produce rates that reflect average costs and achieve urban/rural comparability.

If the Board established an income-related program such as the FCC's link-up and lifeline programs, the affordable rate could be determined through a study as suggested by AT&T.

Staff Recommendation:

The benchmark should be based upon the statewide average forward-looking cost. This would meet the statute's requirement that rates should reflect cost and enable carriers to charge reasonably comparable urban and rural rates. Using the FCC model this would be approximately $20.75. If the Board develops a low-income program, it would be appropriate to determine an affordable rate.

DEFINITION OF SERVICES TO RECEIVE SUPPORT

1. Should the intrastate definition of services to be supported by the high-cost fund mirror the federal definition?

The FCC designates the following services to receive USF support:

1) Voice grade access to the public switched network;
2) Local usage;
3) Dual tone multi-frequency (DTMF) signaling or its functional equivalent;
4) Single-party service or its functional equivalent;
5) Access to emergency services;
6) Access to operator services;
7) Access to interexchange services; and
8) Toll limitation for qualifying low-income consumers.

To receive federal USF support, an eligible telecommunications carrier (ETC) must offer all the above services.

All parties agreed that the FCC definition of supported services should be used for the Iowa definition. GTE wanted to add white pages directories to the definition. The FCC had not included white pages directories because it was not deemed a "telecommunications service."[3] There was little support among the parties for adding white pages. Sprint argued against adding white pages in the interest of minimizing fund size. During the workshop, the Wireless Consortium argued their customers prefer not to publish their numbers since they pay for all incoming calls.

With regard to toll limitation, US West asked the Board to change its current definition of toll limitation (toll blocking <u>and</u> toll control) to match the FCC's definition (toll blocking <u>or</u> toll control). US West explained that the FCC recognized that a large number of carriers are incapable to providing both toll blocking and toll control.

<u>Recommendation</u>:

[3] The FCC's May 7, 1999, Universal Service Order, Paragraph 81.

The Iowa definition of USF-supported services should mirror the current FCC services listed above, at this time. The FCC definition should be adopted by rule at a point in time and any future changes to the FCC definition should be reviewed and considered for adoption for use in the IA USF.

2. **Should business lines receive support? If so, should support be limited to only single-line businesses or to some other subclass of business service?**

The FCC definition includes single-party service. Therefore, to mirror the FCC definition, the Iowa definition of USF-supported services should include single-line business service as a part of single-party service. At the workshop, ITA pointed out that, in some rural areas, business and residential lines are the same. Also, some businesses such as hospitals provide essential services to the community.

Including multi-line business service is a separate question. At the workshop, parties were asked whether excluding multi-line business would affect economic development. MCI and the Wireless Coalition stated that economic development was not a goal of universal service. Others such as RIITA and US West disagreed, stating that economic development was part of the public convenience and necessity served by universal service. OCA stated that telephone service generally was not a large share of business expense and, thus, OCA had little concern over its impact on economic development. OCA's greater concern was over inflating the fund size. It is not yet clear what effect multi-line business service would have on USF size or economic development. Therefore, a recommendation on this issue will be deferred until after the second workshop, when its potential impacts are better known.

Recommendation:
Single-line business service should be included in the definition of USF-supported services, to mirror the FCC definition. The issue of including multi-line business service should be deferred until after the second workshop, when its potential impacts on fund size and economic development are better known. No information was provided in the second workshop on the impact of including multi-line business service in the supported services. The Board should address this issue in a formal docket.

3. **Should residential line support be limited to primary lines?**

This question was posed at the workshop. AT&T, Frontier, and MCI argued for limiting support to primary lines. Their concern was over inflating the fund size by including secondary lines. Frontier and US West suggested starting with primary lines, and later expanding the definition to include secondary lines if necessary. GTE, ITA, RIITA, and OCA argued for including secondary lines from the outset, citing the difficulties involved in distinguishing primary lines from secondary lines. OCA did not believe including secondary lines would significantly expand the fund size, since it believed there were relatively few secondary lines at this time.

Staff discussions on this issue touched on the potential difficulties with restricting USF support to primary lines. Distinguishing primary lines from secondary lines is workable with one carrier. However, verification becomes more difficult with multiple carriers. Customers could self-verify their primary lines, but might resort to false reporting. Ultimately, the issue will focus on the impact of secondary lines on fund size versus the cost of enforcing primary lines only. The first step is estimating the impact of secondary lines on fund size. A recommendation on this issue will be deferred until then, after the second workshop.

Recommendation:
The issue of including secondary lines in the definition of USF-supported services should be deferred until after the second workshop, when the potential impacts on fund size are better known.

2nd Report Discussion and Recommendation

Staff comments:
The staff supports the principle that only primary residential lines should be supported. However, the cost of identifying and implementing support for primary lines should be measured against the cost of support for all residential lines. Staff asked the parties to provide information on a cost/benefit ratio of determining primary lines. No information was provided. This may have been because there was no way to file proprietary information.

Staff Recommendation:
Staff recommends the Board address the support of primary lines in a formal docket. In the docket, the parties should file information to support the argument that it is not cost beneficial to identify primary and secondary lines.

4. **Should the intrastate definition be evolving? If so, how often should the Board review the definition?**

All parties agreed that the Iowa definition of services receiving USF support should evolve to reflect changes in the FCC definition, or changes in technology or the market. There was no agreement on how often the definition should be reviewed. Some tied review to changes in the FCC definition. Others called for periodic review; the time period cited most often was 3 years. The FCC has determined that it will review its definition on January 1, 2001 (about 3 years after the FCC's order), and thereafter "may institute a review of its definition at any time upon its own motion or in response to petitions by interested parties."[4] This seems a workable and flexible approach.

Recommendation:
The Iowa definition of USF-supported services should be reviewed 3 years after adoption, and thereafter open to review at the Board's discretion.

5. **Should the definition of universal service for all exchanges include a minimum data transmission speed and access to advanced services equal to levels provided in urban areas today?**

All parties except McLeod opposed expanding the USF definition to include a minimum data transmission speed. The main concern seemed to be over inflating the size of the fund. At the workshop, Frontier and RIITA suggested that any support for advanced services should be provided through a separate funding mechanism, not the USF.

The Wireless Consortium also expressed concern that including a minimum data transmission speed might place wireless carriers at a competitive disadvantage. At the workshop, Wireless Consortium indicated that current analog wireless technology is only capable of transmitting 14.4 kbs. Faster speeds will be available in the future through digital technologies.

At the workshop, ITA pointed out that cost models define transmission capabilities in terms of copper wire lengths rather than speed criteria. Staff has noted that some forward-looking telephone cost models may reflect shorter copper wire and longer fiber (i.e., higher data transmission speeds) than exist in the current network. For consistency, the definition of USF-supported services should match the USF cost models. That is, If USF cost model service parameters reflect greater data transmission capabilities than currently exist, this should be reflected in the definition of USF-supported services. If USF cost models reflect higher data transmission speeds than exist in the current network, then USF payments should be coordinated with the provisioning of high-speed capabilities. USF payments could either be phased-in or provided on a date certain based on provision of the supported services.

Recommendation:
The definition of USF-supported services should ultimately reflect the service parameters used in USF cost studies.

DETERMINING THE COST OF THE INTRASTATE UNIVERSAL SERVICE FUND

[4] The FCC's May 7, 1999, Universal Service Order, Paragraph 106.

1. **Should the funding level for an intrastate universal service fund be based on a forward-looking cost model?**

The participants provided three separate approaches to the basis for determining the funding level for an intrastate universal service fund. Responses included not using a model, using a forward-looking cost model and the use of embedded costs to determine funding levels.

GTE believes the purpose of the intrastate universal service fund is to transform the current implicit support mechanism for basic local telephone service to an explicit and competitively neutral mechanism. Current model outputs describe a state of the world that will never be realized. The current network and its associated costs are relevant to this determination.

ITA raised concerns about the results of the current models. These concerns include:

- Difficulty of obtaining relevant inputs.
- Provides no economic incentive to invest in the network.
- Will understate the cost of an efficient competitor who has less than 100% market share assumed in the models.
- Errors in the models don't "average out" when looking at a small company with only a few exchanges.

AT&T, MCLeodUSA, Sprint, U S West and the Wireless Consortium believe that forward-looking costs and/or models should be utilized to determine funding levels for the intrastate universal service fund.

The OCA believes that the Board should use embedded cost, as opposed to forward-looking models to determine the funding level. The timing of costs and revenues should correspond to each other and to the period in which the costs and revenues occur. OCA believes that any relationship between forward-looking costs, such as TELRIC study costs, and the actual costs to provide service is purely accidental. TELRIC costs are 3.4 to 10 times the actual embedded costs.

Recommendation:
A decision to use a forward-looking cost model for determination of funding levels in a state universal service fund should be deferred until the second workshop has been completed. The second workshop will further explore costing models and the related issues.

2nd Report Discussion and Recommendation

Staff Comments:
It is impractical to calculate the embedded or actual cost of all providers of service that may request USF. This was practical only in a monopoly environment, where there was one carrier in a geographic area. In addition,

providing various companies different levels of subsidy for serving the same customer is not competitively neutral and rewards the least efficient competitor.

Staff Recommendation:
Costs should be based on a hypothetical calculation of forward-looking costs.

2. **Should the Board use the same cost model adopted for use in the federal universal service high-cost fund?**

Five of the parties felt it was not necessary for the Board to adopt the same cost model as used by the FCC in the federal universal service fund. Sprint, Wireless Consortium, and McLeodUSA believe it is important for the Board to provide consistency between federal and state models.

AT&T and U S West believe that a model other than the FCC model should be utilized in state universal service. AT&T favors using the Hatfield Model and U S West believes the Benchmark Cost Proxy Model (BCPM) should be used. GTE contends that there are numerous problems with the FCC's model at this time. ITA states that they cannot offer a reasoned opinion regarding the validity of the FCC model.

OCA continues to endorse the use of embedded costs for determining funding levels in an intrastate universal service fund.

Recommendation:
Staff recommends that any decision regarding the use of the FCC model for adoption in a state universal service funding mechanism be delayed. A delay in this decision will allow the industry time to critique and give the FCC the opportunity to modify its model. Also, the second workshop on state universal service funding will provide an opportunity to explore other models and rationale for determining fund levels.

3. **Should one cost model be used for all the local exchanges in the state?**

AT&T, ITA, McLeodUSA, Sprint, U S West and the Wireless Consortium support the use of a single cost model for all of the Iowa local exchanges. Several of the parties also indicated that the models should have the capability of producing unique, forward-looking costs at the wire center level. ITA also stated that with current model capabilities it might be necessary to use different inputs or different models.

GTE contends that company specific models and inputs should be used to produce company specific costs deaveraged at the appropriate geographic level.

OCA believes the Board should use embedded costs and the same cost principles across telephone companies to the extent possible. If different cost principles are employed, over- or under-funding of the universal service will occur.

Recommendation:
Staff recommends that any decisions related to the use of a single model for all exchanges in the state be deferred until the second workshop has been completed. Proposed models and inputs will be explored in the second workshop. This additional information will provide a broader basis for making this decision.

4. Should a company use the same cost model that is used to calculate the rates for the company's unbundled network elements?

AT&T, McLeodUSA and the Wireless Consortium have filed comments stating that it is critical for companies to use the same cost model for calculating the rates and costs for both unbundled network elements and universal service. Wireless Consortium believes that if a single model is used, efforts are not duplicated and the possibility of arbitrage gaming between different models is avoided.

Sprint believes that the correct model will cost services at the same level whether UNEs or access. ITA says that there are different model inputs for UNEs and USF. OCA states that a cost model used to calculate the rates for UNEs should not be used for USF.

U S West opposes the use of a single model for both UNEs and USF cost calculations because each has distinctly different sets of requirements.

GTE believes it is more important to focus on the sufficiency of the USF mechanism with respect to current retail rates than to focus on mathematical consistency between UNEs and universal service costs.

Recommendation:
Staff recommends that the decision to use a single model for both universal service and unbundled network elements should be deferred until completion of the second workshop.

2nd Report Discussion and Recommendation
Staff grouped questions regarding the choice of cost models and the inputs and will address them with one recommendation.

2. **Should the Board use the same cost model adopted for use in the federal universal service high-cost fund?**
3. **Should one cost model be used for all the local exchanges in the state?**
4. **Should a company use the same cost model that is used to calculate the rates for the company's unbundled network elements?**

Staff Comments:
The Board found in RPU-96-9 that the model chosen did not have as significant an impact on the results as the inputs. Ideally, each company would file inputs for its specific company. However, as the FCC discovered when it allowed each state to file a model and inputs for calculating the federal USF, it is virtually impossible to implement a fund with cost calculations for each company. The amount of support for a company cannot be so specific to that company that it provides exactly the amount of support needed above a benchmark rate. The USF should be an estimate and staff recommends that, at the beginning, the estimate be below the amount needed to provide basic service as a stand-alone service. This provides some support for the highest cost areas and allows companies to lower rates where there is significant competition.

Regarding using the same cost model for UNEs and USF calculations, theoretically, the inputs for the USF cost should not vary from the inputs used to calculate UNE cost. Since both are based on forward looking cost and a competitor can buy all of the elements needed to provide basic service, the cost should not differ. However, as was discussed above, the complexity of developing and maintaining individual models and inputs for each company outweigh the benefits. This is especially true in the early development of a conservative or phased-in fund.

There are many positive reasons for using the FCC model and its inputs. The model is a result of many years of review by numerous parties. The FCC worked with the proposed models, the HAI and the BCPM, for many years. The final model chosen is a combination of both of those models and the FCC staff's model. It is unlikely that a model picked in Iowa will have the scrutiny applied to the federal model. The FCC model will continue to be scrutinized as it is put into service. If the federal model is used in Iowa, Iowa will benefit from continual review and revisions to the model. It will also be tested in actual implementation before the Iowa fund will be implemented.

Recommendation:
Staff recommends that initially the Board adopt one model and one set of inputs for all companies. Staff recommends the FCC model to determine the cost of universal service in Iowa. The federal model, based upon nation-wide inputs, provides funding that can be targeted to areas with the highest cost. The Board should open a proceeding that reviews the FCC nationwide inputs to determine if any of the inputs should be adjusted to reflect Iowa statewide costs. The parties

should be encouraged to focus only upon those inputs that vary significantly from the nationwide inputs and would result in significant differences in the cost of basic service. The FCC model has over 1,400 inputs, most of these should be acceptable for an Iowa fund. In a recent Kansas Commission proceeding the parties agreed to most of the FCC inputs, litigated very few of the inputs, and the Kansas Commission made adjustments to even fewer.

5. **Should there be separate cost calculations for wireline and wireless companies?**

Most of the participants have stated that wireless companies should not receive USF unless they provide basic local exchange service and have obtained ETC status.

AT&T believes there should be no separate calculation and McLeodUSA is unsure as to the purpose served by using separate cost calculations for wireline and wireless companies.

Sprint states that USF needs to be non-discriminatory. If separate cost calculations are used, different support amounts would be paid to different companies for the same service. If this approach is used, it will discourage low cost providers from entering high cost markets.

ITA and U S West believe the support amounts should be based on the costs associated with the technology.

GTE and the Wireless Consortium believe that the support for each line should be the same regardless of the technology used to provide that service.

Recommendation:
The decision on the use of separate cost calculations for wireline and wireless companies should be delayed until the completion of the second workshop.

2nd Report Discussion and Recommendation

Staff Comments:
The concept of a fund that is technology neutral is supported by most of the parties and the FCC. The IA USF should not favor one technology over another and all providers that meet the ETC criteria should receive funding. The problem of determining the cost to provide wireless service has not been solved. This leaves little choice but to provide support to wireless ETCs on the basis of the wire-line cost. At this time, this is not a major problem since most customers do not have wireless service as their primary service provider. In the future, this may not be the case. As the Board reviews the model and the cost in the future, the Board should continue to look for better ways to determine the cost of basic wireless service.

Recommendation:
There should not be a separate calculation of cost for a wireless carrier.

6. **If funding is provided for advanced services, should there be a separate cost calculation and a separate fund to provide support for advanced services?**

All the participants except ITA and McLeodUSA oppose separate cost calculations and funding for advanced services. Reasons given by the parties include: the funding of advanced services goes beyond the objectives and the mandate of the Act; and the required fund size to universally provision advanced services would be an onerous burden to the ratepayers. The Wireless Consortium believes that any funding of advanced services should be through grants, tax credits, or general revenue expenditures.

Should the Board decide to establish an advanced service fund, OCA, ITA, and Sprint believe the cost calculations and funds should be separate from basic service funding.

Recommendation:
The decision regarding the funding of advanced services and the related decisions of separate cost calculations and separate funding should be delayed until after completion of the second workshop.

2nd Report Discussion and Recommendation
Staff Comments:
No parties supported addressing the funding of advanced services in this docket. Since staff is recommending a conservative approach, at this time, only basic local service should be supported. This will allow time for technology and competition to develop ways to provide advanced services in what may now be considered unprofitable geographic areas.

Recommendation:
At this time, the Board should not address support for advanced services.

DISTRIBUTION OF SUPPORT

1. **Should companies providing service with unbundled network elements qualify to receive Iowa USF?**

The Universal Service Order, at Paragraph 154, states '…a carrier that offers any of the services designated for universal service support, either in whole or in part, over facilities that are obtained as unbundled network elements pursuant to section251(c)(3) and that meet the definition of facilities set forth above, satisfies the facilities requirement of section 214(e)(1)(A).' The Act further contemplated the use of unbundled network elements as one of the three primary paths of entry into local markets. The three paths were construction of new networks, the use of UNEs, and resale. If UNEs are excluded from receiving universal service support, it would be the only one of the three paths not benefiting from the universal service fund. The concept of competition may be stunted if this path is not allowed to qualify for support.

There was some difference of opinion as to whether the cost support should go directly to the underlying company or to the company providing service with UNEs. Those believing the support should go to the underlying company also stated that this company should provide a credit to the UNE purchaser. These two approaches should result in the same final cost to the UNE purchaser.

Recommendation:
Staff recommends that companies providing service with unbundled network elements should qualify to receive Iowa USF.

2. **Should companies receiving Iowa USF be required to reduce rates dollar for dollar for support received?**

Any increase in an explicit subsidy should be offset by a corresponding reduction in an implicit subsidy. This avoids any double recovery.

An initial concern is whether the Board has authority over the non-rate-regulated companies as to determining which services are to be reduced and the amount of any reductions. However, the Board will be administering the fund and one requirement of any company wanting to receive USF support could be requiring it to file its proposal for rate reductions.

The question of what services should be reduced brought a myriad of responses from the parties. This question relates to rate re-balancing and should be answered if and when rate re-balancing is addressed.

Recommendation:
Staff recommends the following: Incumbent local exchange companies should be required to reduce rates if they receive funds. The Board could require non-rate-regulated companies to file proposals identifying the rate reductions. All questions regarding the services to be reduced and the amount of reductions should be addressed when the Board addresses rate re-balancing.

3. **Should support received from the federal fund be an offset to the amount of support received from the intrastate fund?**

The parties agree that federal fund support should offset amounts received from the intrastate fund.

There are two choices. The first would be to determine the costs separately and apply support without regards to the federal support. The second choice is to calculate the total costs of providing service to a particular area and then use the federal support as an offset since it will assure companies receive sufficient funding and safeguard against over-recovery from the Iowa USF.

The first approach could result in over- or under-recovery of total universal service funds since the federal fund does not provide support to all companies on a consistent basis. Federal funding differs based upon the size of the company, with smaller companies receiving greater per line support. Inconsistent treatment of companies and differences in methods of support calculations between the federal and Iowa USF will result in total USF payments that do not reflect the cost to provide service.

Recommendation:
The staff recommendation is support received from the federal fund should be used as an offset to the amount of support received from the intrastate fund.

4. Should the intrastate definition of eligible telecommunications carrier (ETC) mirror the federal definition?

The majority of the parties believe the intrastate definition should mirror the federal definition. AT&T states that it believes the Act does not allow the states or the FCC to adopt additional criteria. In addition, there is no need to change anything in our rules to match the Act's definition of an ETC.

Consumer Advocate proposes the Board develop its own definition. U S West states that the federal definition along with two additional criteria be used. The first criterion would state the ETC must offer the services supported by the universal service mechanism on a stand-alone basis at an affordable rate. The second criterion would make carrier of last resort responsibilities apply to all carriers with ETC status.

The second criterion may be addressed by looking at the certificated service territory of the company. If the company has a certificate to provide service, it would be difficult to explain why it would not provide service. The company's tariff should also include an extension plan covering those extensions in excess of those included in the regular rates for service.

Recommendation:
Staff recommends the intrastate definition of eligible telecommunications carrier should mirror the federal definition.

5. Should intrastate support be shown as a credit on the customers' bills?

The responses from the parties ran the gamut from full disclosure by any means deemed appropriate by the carrier to not showing anything at all. Other parties were not even sure their systems would be readily adaptable to showing this information. Several of the parties stated that any revision to the bill form or relying on a bill stuffer would be costly.

During the workshop, GTE stated that all parties would live with whatever the Board decided on this issue. If the credit is to be shown on the bill, then GTE requested the Board provide the exact language/format for disclosing the credit. This would prevent unnecessary confusion for the customers and any potential gaming by the various carriers.

This issue has many complexities. A more in-depth analysis is provided in question 6 of the Contributions section. This issue should be reserved for more discussion.

Recommendation:
This issue should be deferred for the same reasons as explained under Question 6 of Contributions.

2nd Report Discussion and Recommendation
Staff Comments:
As recognized in the previous report this issue should be consistent with the issue of the surcharge on the bill. For the reasons stated in the discussion of Question 6 of Contributions, staff recommends companies not be allowed to list a separate surcharge for the IA USF on the customer's bill. If the surcharge is not listed, then a credit should not be shown.

Staff Recommendation:
Intrastate support should not be shown as a credit on the customers bill.

6. Should there be a threshold local service rate before a company is eligible to receive Iowa USF?

The majority of the parties stated that a threshold rate should not be used before support is allowed. AT&T states that a threshold rate is not part of the FCC mandated criteria for a company to be eligible to receive support.

Support should be based on the relationship of the forward-looking cost of providing service and the benchmark/affordable rate. A required minimum rate may result in companies raising rates unnecessarily. Any increase in rates should be part of a rate re-balancing plan that assures off-setting rate reductions.

Recommendation:
The staff recommendation is there should not be a threshold local service rate before a company is eligible to receive Iowa USF.

7. Should there be a maximum local service rate for companies receiving USF support?

As mentioned in the preceding section, universal fund support should be based on the relationship of the forward-looking cost of providing service and the benchmark/affordable rate. As such, a maximum rate or cap should be set in order to prevent an economic windfall. This topic should be revisited after the benchmark/affordable rate issue is resolved.

Recommendation:
This issue should be deferred until after the second workshop.

2nd Report Discussion and Recommendation
Staff Comments:
At the workshop, concern was expressed that some companies in high cost areas may receive USF funding to offset the cost to provide service and still charge the customer the full price of the service. Staff agrees that this could be a problem.

Staff Recommendation:
Companies receiving funds from the IA USF should not have basic service rates higher than the benchmark rate.

8. Should carriers be required to serve the entire geographic areas used to calculate the support?

Most parties agreed that a company must serve the entire geographical area used to calculate the support. This is consistent with the federal fund. The parties have different notions as to what the geographical area entails. The size ranged from a wire center to census block group, to an exchange, to the study area.

U S West's presentation earlier this year showed that there are zones within an exchange or a small town. If a competitor comes into an exchange and serves the central core of the exchange, there could be areas of higher-cost customers the incumbent would still be required to serve. The requirement that the entire exchange would be served would reduce this problem.

Another approach mentioned during the workshop was the "doughnut" approach. With this approach, there would not be any support for a certain distance from the central office, or the center of the doughnut hole. Support would be given based on the customers residing in the doughnut area. This concept should be investigated to determine its merits.

<u>Recommendation:</u>
Staff recommends that carriers should be required to serve the entire geographic area used to calculate the support.

9. When the previous owner sells an exchange, the federal fund limits the amount of universal service funding to the amount received by the previous owner. Should an Iowa fund have this same limitation?

The parties generally agreed that the Iowa fund should have the same limitation as that of the federal high-cost fund. However, U S West stated that the support by the Iowa fund should be provider neutral and that any provider serving a high cost customer should get the same amount of support as determined by the cost model.

Currently, U S West receives no universal service support. Its service territory is made up of high cost areas and low cost areas with the theory that the overall costs are averaged. However, if U S West sells off a high cost exchange, a limit on the fund would preclude the new owner from applying for support. This could reduce the potential for competition in these high-cost areas. By not having this limitation, the fund could be company neutral. Funding should not be based on the support provided previous owners of a particular exchange.

<u>Recommendation:</u>
Staff recommends that there should be no limitation.

10. Should the Iowa fund reflect the federal fund's differential treatment of rural and non-rural local exchange companies?

The positions of the parties were extreme. AT&T believed that if a rural carrier seeks support under the new explicit funding mechanism, the carrier must adhere to the same methodology as non-rural carriers. Sprint stated the federal program should provide adequate support for the rural companies until 2001, and the rural companies should be excluded from the Iowa fund. U S West favors a transition period during which the cost model can be reviewed to see if the model is applicable to the smaller companies.

Most parties recognized the need to revisit the decisions on an Iowa fund after the year 2001, when the federal fund for rural companies is scheduled to be implemented.

At the present time, the level of implicit subsidies the rural companies receive is unknown. We also do not know what the results of a forward-looking cost study will be for the smaller companies. If the results show the characteristics of the smaller companies to be in line with the larger companies, it may be appropriate to include the smaller companies in the Iowa fund. If the results are quite disparate, the smaller companies may better be served if they are treated differently from the non-rural companies. It would also be prudent to treat everyone the same until we get closer to the end and see what the FCC does on this matter.

Recommendation:
This issue should be deferred until after the second workshop.

2nd Report Discussion and Recommendation

Staff Comments
Many parties suggested that the IA USF follow the pattern of the Federal fund and delay implementation of a fund for rural companies until the Rural Task Force makes its recommendation to the FCC and the FCC implements a new fund. The FCC has stated the rural companies will continue to receive funding from the current embedded high cost fund until 2001. The FCC agreed to set up the Rural Task Force to review the cost models and determine if cost models will work for rural companies and, if so, what, if any, adjustments should be made.

If the fund was implemented just for non-rural companies, only USWC and the companies serving in USWC service area could receive funding. It seems unfair to collect from all customers a universal service fee for a fund that by policy excluded the customers in service areas other than USWC from the benefits of the fund.

The FCC set up the separate treatment for rural companies because of concerns with the accuracy of the cost models and inputs for rural companies. Since the staff is recommending a phased-in approach to funding, the accuracy of calculation of the support is not as important.

Staff Recommendation
The fund should be available to rural and non-rural companies. After the FCC makes its decision, the Iowa fund should be reviewed to determine if comparable changes are needed. Rural companies should not receive funds unless they can demonstrate, to the Board's satisfaction, that they have reduced other rates dollar for dollar for money received.

SOURCES OF AND RECOVERY OF CONTRIBUTIONS TO THE FUND

1. What companies should contribute to an Iowa USF?

There was a wide range of opinions on this issue. Many parties stated that all carriers should contribute, but some parties differed on the definition of a carrier. The IAMU and Sprint stated that all customers or end users should contribute, with Sprint further defining the contributions as limited to intrastate retail services, excluding interstate revenues.

The Wireless Consortium presented a unique perspective, suggesting that affordable telecommunications service was a social program and therefore should be funded by general state tax revenues. The Wireless Consortium said that this would avoid the problem of LECs recovering fund contributions through toll carrier access charges.

GTE and USW said that the Board should adopt the Federal Act definition of telecommunication carriers and the FCC's interpretation of that definition. This is an attractive option, because the FCC definition is already in place, and has been used for the Federal universal service charge.

<u>Recommendation:</u>
All telecommunications companies as defined by the FCC should contribute.

2. Should the Board establish a state registry to insure all companies required to contribute are notified of responsibilities?

The ITA, McLeod and the OCA said the Board should establish a state registry of all service providers. USW and GTE said the Board should appoint a fund Administrator to identify providers and make certain they are contributing. The Wireless Consortium stated that general state taxation would avoid these problems, and asserted that state registration of wireless carriers would likely be precluded by federal law (47 U.S.C. Sect. 332(b)(3)(A)).

While the issue of whether wireless carriers can be registered may need more research, all other parties appear to agree that a list or registry of some sort is needed. If the Board appoints a fund administrator, the Board will have to spell out the duties of the administrator, and it appears the duty of collecting funds from all providers points to the need for a registry.

<u>Recommendation:</u>
The Board should either establish a state registry of all telecommunications providers, or should direct a fund administrator to establish the registry.

3. Upon what basis should the amount of contribution to the fund be calculated, total intrastate revenues, interstate and intrastate revenues, retail revenues, or some other measurement?

AT&T, Sprint and OCA stated that the fund should be based on intrastate revenues. GTE, ITA and USW stated the fund should include all intrastate, interstate and international retail revenues. USW said that the distinction between intrastate and interstate revenues continues to blur, and that Iowa has a limited revenue base on which to assess recovery.

McLeod stated the fund should be based on retail revenues consistent with the FCC's procedures. The Wireless Consortium (again) said the fund should come from general state tax revenues, however, if funded through telecommunications carriers, the charge should be a fixed-rate end-user surcharge.

Recommendation:

The position of the Board has been to support billing on the basis of intrastate revenues, unless the FCC is allowed to bill on intra and interstate revenues, in which case Iowa should mirror the FCC. The choice of a flat rate or a percentage should be deferred for the time being, and staff should collect data on the revenue of providers and the number of customers, to assess the effect of each type of method.

2nd Report Discussion and Recommendation

Staff Comments:

Most parties recommended an end-user surcharge based upon total retail revenue. The parties stated that the distinctions between inter- and intra-state revenue are blurred. Where it is not clear if revenues are inter- or intra-state, companies will have an incentive to game the system. Since the parties commented on this issue, a district court ruled that the FCC could not calculate an assessment for an interstate fund based on intrastate revenues. Staff finds this a compelling reason to recommend a surcharge based on intrastate revenues only for an intrastate fund.

Staff Recommendation:

Contributions to the fund should be based upon jurisdictional separated retail intrastate revenue.

4. Should the Board establish a cap on the fund?

AT&T, GTE, Sprint and USW said no cap is needed. OCA said there is no need for a cap, unless a TELRIC model was used, which might inflate the fund to the point a cap would be necessary. The IAMU and the ITA said the size of the fund should reflect actual needs and the parameters used to determine the fund, not a fixed dollar amount.

McLeod stated there might need to be a cap, but this should be decided after the size of the fund is determined. The Wireless Consortium stated the fund should be capped at a level that achieves affordable telecommunications service, promotes access and avoids unnecessary market distortions. The fund should not be used to preserve status quo revenue flows for incumbent LECs.

The issue of a cap is tied closely with the size of the fund. Because the cost of service issues will have a large effect on the size of the fund, this issue should be deferred until cost of service issues are determined.

Recommendation:
The issue of a cap on the fund should be addressed with the cost of service issues in the second workshop.

2nd Report Discussion and Recommendation

Staff Comment:
There are better ways to control the size of the fund than a cap. Staff has recommended a phased-in approach to funding. Instead of a cap, the Board should size the fund by setting a support level at a % above the benchmark. If the Board accepts the staff's recommendation to use the FCC cost model statewide average rate of $20.75, the Board could phase-in support by supporting only the highest cost lines such as those 200% or 300% above the benchmark rate. This would provide support for lines whose costs are in excess of $41.50 or $62.25.

Staff Recommendation:
The Board should not establish a cap on the fund. The Board should control the size of the fund with the benchmark.

5. **How should the Board handle lifeline and low-income support?**

AT&T and OCA suggested that lifeline customers be exempt from the USF charge. AT&T mentioned that extra lines should not be exempt.

U S West supported a surcharge on lifeline lines, arguing the amount would be low if a percentage surcharge was used instead of a flat rate.

Recommendation:
Lifeline customers should be exempt from the surcharge. It make little sense to institute a fund to ensure maximum penetration of telecommunication service, and then charge the customers most at risk for dropping off the system.

6. Should the companies be allowed or required to list the contributions on the customers' bills?

AT&T stated that carriers should be able to inform consumers of additional charges. In the workshop, AT&T said that the amount of the surcharge should be tariffed, however, Allan Kniep pointed out that AT&T does not file tariffs with the Board. AT&T stated that if the Board does not inform the public about the Iowa USF, AT&T will.

GTE stated carriers should be allowed to recover their contribution as an explicit line item on the bill. In the workshop, GTE said that if education was needed, the company should provide enough information to be informative, but the information should not be excessive.

The IAMU stated it was in favor of full disclosure. In the workshop, the IAMU said it supported education or a bill insert, but that the line item on the bill should not single out some person or body to embarrass. The language should be approved by the Board to avoid finger pointing.

The ITA stated that if the Board allows recovery by a line item, the Board should specify the language to be used. In the workshop, the ITA said the information about the bill should be shown by bill insert or published in local papers.

McLeod stated companies should not be required, but should be allowed to list the contribution as a separate item.

OCA stated all companies which charge customers for the contributions should use identical language identifying the line item. In the workshop, OCA clarified its position to say that it does not support the fund amount being shown on the customer's bill.

Sprint stated competitive companies should be free from government intervention in billing practices. In the workshop, Sprint said that it supports using a bill insert to educate customers. Sprint also mentioned that the billing system is problematic.

US West stated that companies should be required to list the contribution as a separate line item, that the contribution must be explicit. In the workshop, US West said it supported a bill insert to educate customers, which might be developed by a collaborative process. The Board should not mandate the language, but should exercise some oversight.

The Wireless Consortium stated competitive carriers should be allowed but not required to list the contribution as a separate item. In the workshop, the WC said it objects to a bill insert, or at least wants flexibility. The WC said that a bill insert is expensive, and billing systems are under stress. The WC said that government mandates needed full disclosure, but questioned whether customers benefit from having additional information. The lack of space to put individual items on bills causes nonproductive calls to companies about bills. The WC said that most states have adopted line items, but are usually very prescriptive about the line item description. Beyond the line item, states are flexible about information.

Recommendation:
The issue of putting the USF charge on the bill should be deferred, similar to the issue of putting a USF credit on bills. The arguments for and against an explicit charge are very complex, and the parties were not in agreement on this issue. There was tentative agreement that if an explicit line item charge was put on bills, the Board should specify the language for the line item, while allowing flexibility for carriers to convey additional information about the USF line item.

A case can be made that if the state imposes the charge it should be on the bill, not only because it is a mandate, but also to prevent companies from reallocating charges. For example, in electric restructuring, lack of specific bill line items could result in shifting of costs between customer classes.

However, in telecommunications, there will be little opportunity to reallocate costs among classes. Also, there can be significant costs to put the line item in bills, develop and distribute bill inserts, educate customers and answer questions.

If a charge is required on all customers' bills, no customer will be able to avoid the charge. However, the information conveyed by the line item will not give customers any means to do something about the charge, except to complain.

Economic theory suggests that if the charge is not required on the bill, it will not necessarily be passed on to customers. A company which wants a competitive advantage may decide to absorb the cost, and this will tend to make most other competitors eat the cost as well. The charge may be competed away.

A residual question is whether the line item should be optional or prohibited. There may be telecommunications providers which want to put this charge on bills. However, by doing so, these providers escape having to balance the cost of the charge against other fees they charge customers. An option to put the charge on the bill also allows such a company to say to customers, "hey, we all pay the USF costs, the other company really is charging you, they just don't show it on the bill." Thus an optional line item quickly becomes a mandatory line item, as companies find the price advantage is undermined by customers' uncertainty.

Economic theory and equity concerns suggest that customers always need and want more information. While more line item charges may seem to increase information, at some point more information actually becomes counterproductive noise, especially if the means to respond is not under the direct control of the customer. Several parties pointed out the billing system is already stressed, thus the cost of the line item could be high.

A decision on this issue should be deferred in order to allow staff and the parties to consider the issue further. All parties should be prepared to respond to the issue of whether the information conveyed by the line item is useful to customers, and whether alternatives such as periodic bill inserts or Internet information sites could serve the intended purpose of informing customers while avoiding misunderstandings and increased costs.

2nd Report Discussion and Recommendation

Staff Comments:

Almost all parties supported requiring companies to collect the IA USF as a surcharge on the end-users' bill. The parties were divided on the amount of regulatory control that should be exercised over billing. Sprint favored allowing the companies control over billing. They stressed that companies' billing systems are all different and it may be costly for a company to list a surcharge exactly as the IUB may require. Other parties favored a uniform rate and description set by the Board.

Staff Recommendation:

The companies should not be allowed to list the contributions on the customers' bills. Billing surcharges create confusion and provide no benefit if the customer is unable to change the surcharges (as is the case in the USF). In addition, under staff's phased-in approach, the surcharge should be minimal and, as such, easily competed away if it is not separately identified on the bill.

2nd Report Discussion and Recommendation
Administration of an Iowa Universal Service Fund

For the second workshop staff asked the parties to comment on the administrative rules proposed by AT&T (see attachment A). There was general agreement that the proposed rules could be used as a starting point for the IA USF proposed rules. The parties suggested numerous changes regarding clarifications or preferred languages. Staff has recommended the major changes that are congruent with the overall IA USF recommendations. The parties will have the opportunity to address other proposed changes in the rulemaking. Staff recommends the use of the AT&T rules with the following changes:

Rule 10.21.5 If the Administrator has a Board of Directors that includes members with direct financial interests in entities that contribute to or receive support from the universal service support programs, no more than a third of the Board members may represent any one category (for example, local exchange carriers, interexchange carriers, wireless carriers, schools, or libraries) of contributing carriers or support recipients, and the Board's composition must reflect the broad base of contributors to and recipients of universal service.

Staff Comment
As suggested by OCA this rule should be amended to include a consumer representative.

Rule 10.7 The Administrator shall have access to the books of account of all telecommunications service providers to the limited extent necessary to verify the intrastate Retail Revenues and other information used by the Administrator in determining assessments and disbursements for the HCF.

Staff Comment
Since the final rules will define who contributes to the fund, "telecommunications service providers" should be replaced with "contributors to the Iowa state universal service fund".

Rule 10.8 The Administrator shall be required to maintain a database to track Primary Residential Lines eligible for support based on how the service is provisioned and what carrier is providing the service in each Service Area.

Staff Comment
The parties point out that the decision has not been made to support only primary residential lines. The proposed rules should strike Primary Residential.

Rule 10.9 The Administrator will develop an appropriate form to be used by all telecommunications service providers and provide a copy of the form on a quarterly basis to those companies for completion.

Staff Comment
For the same reason as in Rule 10.7, "telecommunications service providers" should be replaced with "contributors to the Iowa state universal service fund".

ATTACHMENT A

AT&T: Generic Universal Service Fund Rules.

RULE 10: Administration:

Rule 10.1: The Iowa Universal Service Fund shall be under the direction of an administrator. The Board shall appoint a neutral third party who meets the criteria set out in this Rule as Administrator. The Administrator shall be selected by the Board by means of competitive bidding pursuant to the issuance of a request for proposal. Until such time as an Administrator has been appointed, or during times when a third party is not available to act as Administrator, the Board may act as the Administrator.

Rule 10.1.1: The fund shall be administered in a manner ensuring that the Iowa HCF is exempt from state, federal and local taxes.

Rule 10.2: Qualifications of the Administrator.

Rule 10.2.1: The Administrator shall meet the following criteria:

Rule 10.2.1.1: Be neutral and impartial;

Rule 10.2.1.2: Not advocate specific positions before the Board in non-universal service administrative proceedings related to common carrier issues, except that membership in a trade association that advocates positions before the Board will not render it ineligible to serve as the Administrator;

Rule 10.2.1.3: Not be an affiliate of any provider of telecommunications services;

Rule 10.2.1.4: Not issue a majority of its debt to, nor derive a majority of its revenues from any provider(s) of telecommunications services. This prohibition also applies to any affiliates of the Administrator; and

Rule 10.2.1.5: If the Administrator has a Board of Directors that includes members with direct financial interests in entities that contribute to or receive support from the universal service support programs, no more than a third of the Board members may represent any one category (for example, local exchange carriers, interexchange carriers, wireless carriers, schools, or libraries) of contributing carriers or support recipients, and the Board's composition must reflect the broad base of contributors to and recipients of universal service.

Rule 10.2.2: An individual does not have a direct financial interest in entities that contribute to or receive support from the universal service support programs if he or she is not an employee of a telecommunications carrier or of a recipient of universal service support programs funds, does not own equity interests in bonds or equity instruments issued by any telecommunications carrier, and does not own mutual funds that specialize in the telecommunications industry. If a mutual fund invests more than 50 percent of its money in telecommunications stocks and bonds, then it specializes in the telecommunications industry.

Rule 10.2.3: An individual's ownership interest in entities that contribute to or receive
support from the universal service support programs is de minimis if in aggregate the individual, spouse, and minor children's impermissible interests do not exceed $5,000.

Rule 10.3: The reasonable expenses incurred in the administration of the HCF fund shall be a cost of the HCF and shall be recovered from the funds contributed to the HCF.

Rule 10.4: The Administrator shall determine the assessment each telecommunications provider must pay into the HCF and determine the disbursement each ETC may withdraw from the HCF.

Rule 10.5: The Administrator shall net each ETC's assessment and disbursement prior to receipt or disbursement of funds.

Rule 10.6: To the extent the funding received from providers in any one fiscal year exceeds: 1) the disbursements required for the HCF, plus 2) the cost of administering the HCF (including such reserve as may be necessary for the proper administration of the HCF), any unexpended and unencumbered moneys shall remain in the HCF and shall be credited against the assessment each telecommunications service provider must pay in the succeeding fiscal year.

Rule 10.7: The Administrator shall have access to the books of account of all telecommunications service providers to the limited extent necessary to verify the intrastate Retail Revenues and other information used by the Administrator in determining assessments and disbursements for the HCF.

Rule 10.8: The Administrator shall be required to maintain a database to track Primary Residential Lines eligible for support based on how the service is provisioned and what carrier is providing the service in each Service Area.

Rule 10.9: The Administrator will develop an appropriate form to be used by all telecommunications service providers and provide a copy of the form on a quarterly basis to those companies for completion.

Rule 10.10: Any competitive and financial information received by the Administrator shall be treated as confidential and proprietary and shall only be released upon order of the Board.

Rule 10.11: The Administrator, under the direction of the Board, shall perform an annual review of HCF fund recipients to verify their continued eligibility and that each ETC has received and is projected to receive their entitled amounts from the HCF. Subject to such reviews, the Administrator will recommend to the Board any required adjustments to HCF assessments, distributions, necessary rule changes and other relevant items that the Board should consider in connection with the HCF.

Rule 10.12: The quarterly reports required of each telecommunications service provider under Rule 7.2.1 will be the principal source for starting the annual reviews.

Rule 10.13: Supplemental and forecast information that may be requested by the Administrator to assure a complete review shall be provided by telecommunications service providers to the Administrator, as formally requested, within 45 days of the Administrator's written request. If those persons do not provide the data required within 45 days of the request, the Board may file a show cause proceeding for applicable remedies, including withholding future support from the HCF and/or penalties as provided in [State statute].

Rule 10.14: The Administrator shall engage and determine the compensation for such professional and technical assistance as may, in its judgment, be necessary for the proper administration of the fund.

Rule 10.15: The Administrator shall operate on a fiscal year which runs from [July 1 to June 30] of the succeeding year.

Rule 10.16: The HCF records covering both collections and disbursements shall be audited for the fiscal year ending [June 30, ___] by an independent external auditor chosen by the Board. The costs for conducting audits shall be included in the computation of HCF requirements. Thereafter, the HCF shall be audited in the same manner at least once every other year.

Rule 10.17: An annual report prepared by the Administrator shall be filed with the Board by [October 1] of each year. This report shall summarize the preceding fiscal year's activity and contain the following:

Rule 10.17.1: A statement of HCF collections and disbursements,

Rule 10.17.2: A record of the total cost of administration of the HCF, and

Rule 10.17.3: The most recent audit report.

Rule 10.18: A copy of the Administrator's annual report shall be provided to the Legislative Audit Committee and to each telecommunications service provider which contributes to the HCF.