

**REPORT OF THE
STATE CORPORATION COMMISSION**

**TO THE JOINT COMMISSION ON
TECHNOLOGY AND SCIENCE
PURSUANT TO HOUSE JOINT
RESOLUTION NO. 635**

**TO THE GOVERNOR AND
THE GENERAL ASSEMBLY OF VIRGINIA**



HOUSE DOCUMENT NO. 15

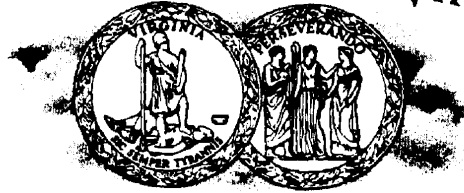
**COMMONWEALTH OF VIRGINIA
RICHMOND
1998**

HULLIHEN WILLIAMS MOORE
CHAIRMAN

CLINTON MILLER
COMMISSIONER

THEODORE V. MORRISON, JR.
COMMISSIONER

COMMONWEALTH OF VIRGINIA



WILLIAM J. BRIDGE
CLERK OF THE COMMISSION
P.O. BOX 1197
RICHMOND, VIRGINIA 23218-1197

STATE CORPORATION COMMISSION

November 14, 1997

TO: The Honorable George Allen
Governor of Virginia
and
The General Assembly of Virginia

We are pleased to transmit this report of the State Corporation Commission pursuant to House Joint Resolution No. 635 of the 1997 Session of the General Assembly of Virginia.

It includes findings and recommendations in telecommunications areas relating to local and long distance competition and universal service.

Respectfully submitted,

Handwritten signature of Hullahen Williams Moore in black ink.

Hullahen Williams Moore
Chairman

Handwritten signature of Clinton Miller in black ink.

Clinton Miller
Commissioner

Handwritten signature of Theodore V. Morrison, Jr. in black ink.

Theodore V. Morrison, Jr.
Commissioner

/js
Enclosure

TABLE OF CONTENTS

	Page
EXECUTIVE SUMMARY	ii
I. INTRODUCTION	1
II. EFFORTS TO OPEN UP COMPETITION	2
III. MONITOR AND PARTICIPATE IN FCC UNIVERSAL SERVICE PROCEEDINGS	6
IV. EXPORT OF FUNDS FROM VIRGINIA	7
V. SCHOOLS AND LIBRARIES DISCOUNTS	8
VI. RECOMMENDATIONS	9
APPENDIXES	
HOUSE JOINT RESOLUTION NO. 635	A
CERTIFICATED LONG DISTANCE COMPANIES	B
CLEC CERTIFICATE APPLICATION STATUS REPORT	C
CERTIFICATED LOCAL COMPANIES	D
COMMENTS TO THE FCC	E
SCHOOLS & LIBRARIES DISCOUNT ORDER	F

EXECUTIVE SUMMARY

In light of the Telecommunications Act of 1996, which included provisions for nationwide universal service and, more particularly, aid for local schools and libraries, the 1997 General Assembly passed House Joint Resolution No. 635. This resolution required the State Corporation Commission to report its findings and recommendations by November 15, 1997, in areas relating to local and long distance competition and universal service.

Pro-competitive efforts in the long distance markets began in Virginia as early as 1983 and continue today with the recent opening of the intraLATA market, implementation of dialing parity, and the expected future entry of Bell Atlantic in the interLATA market once conditions of the 1996 Telecommunications Act have been satisfied.

Much work has been done in opening local markets to competition, including processing applications for approval of sixty-one interconnection agreements and processing certificate applications from fifty-five new local companies. Several of these companies are already providing local service in Virginia. These markets will be slower to develop, however, due to many court challenges and the natural monopoly characteristics of local services. The slow development of local competition has been disappointing, given the considerable work that has gone into creating a fertile competitive environment in Virginia.

The Federal Communications Commission is re-examining and overhauling many of its traditional universal service programs including high cost support to telephone companies and assistance to low-income consumers. We are closely monitoring these proceedings and taking action as required at the state level.

Because Virginia has historically been a relatively low-cost state compared to others, it will likely be a net contributor to the federal Universal Service Fund, notwithstanding that we are continuing to monitor FCC developments to ensure that the objectives of **accuracy** and **fairness** are met. Funding mechanisms based on accuracy and fairness should satisfy and minimize cross-subsidy concerns while meeting nationwide universal service goals.

The FCC has established a federal fund of \$2.25 billion to give assistance for telecommunications services to schools and libraries. A prerequisite is state approval of this program, which was timely done by our order of June 30, 1997. We will continue to monitor and coordinate the implementation of these discounts and assess this program's ongoing effectiveness.

Our recommendations pursuant to HJR No. 635 are to:

1. Continue long distance and local competition initiatives;
2. Continue monitoring FCC universal service proceedings and taking action as appropriate;
3. Allow the federally-funded school and library discount program to operate for at least two years prior to assessing the need for any additional state funding; and
4. Keep the General Assembly informed, as necessary, should state legislation be needed at some future time.

**Report of the State Corporation Commission
on
HJR No. 635**

**I.
INTRODUCTION**

The 1997 Session of the General Assembly, through House Joint Resolution No. 635 (See Appendix A), requested the State Corporation Commission to:

1. Continue efforts to open up competition in the Virginia local and long distance telecommunications markets between telephone, cable and other communications companies;
2. Monitor and participate in all FCC universal service proceedings to attempt to ensure that the Commonwealth's schools, colleges, universities, libraries, and all other state and local government agencies receive the full benefits of the FCC's Universal Service Fund rules;
3. Attempt to ensure that any funding mechanism developed by the FCC to pay for the discounts available under the Universal Service Fund does not unreasonably export money from Virginia to the disadvantage of Virginians; and
4. Take such steps as are necessary to carry out its responsibilities in implementing discounts to schools and libraries as required by the Telecommunications Act of 1996 and the FCC.

The SCC was required to report its findings and recommendations on or before November 15, 1997, to the Joint Subcommittee on Science and Technology (now the Joint Commission on Technology and Science), and report its findings and recommendations to the Governor and the 1998 Session of the General Assembly.

This report presents the status of each of the four previously mentioned items, and makes recommendations as appropriate.

II.

EFFORTS TO OPEN UP COMPETITION

Over the past fourteen years, the Virginia SCC has endeavored to timely implement public policy expressed through legislation passed by the General Assembly. In 1984, we promulgated rules authorizing intrastate long distance competition. Also, in 1984 the Commission opened the interLATA¹ market to competition (Case No. PUC840017, order dated June 29, 1984; and Case Nos. PUC840020, 22, 23, 24, 25 and 27, order dated August 22, 1984).

Because the SCC does not regulate long distance resellers (Case No. PUC830005, order dated June 7, 1983, and Case No. PUC850009, order dated September 3, 1987), some limited long distance competition by resellers occurred beginning in the mid 1980s in the intraLATA market. The SCC more recently revised its rules to allow long distance competition in the intraLATA market among facility-based carriers (Case No. PUC850035, order dated July 24, 1995). Earlier this year we issued an order requiring that dialing parity be implemented in the intraLATA market (Case No. PUC970009, order dated May 9, 1997). This ensures that consumers will be able to presubscribe to, or use competing carriers without having to dial extra digits. All local companies are required to implement dialing parity according to schedules that depend on when **they** begin providing long distance service. For example, Bell Atlantic is not required to do so until it is authorized by the FCC to provide interLATA long distance service. We expect

¹ LATAs, or Local Access and Transport Areas, are geographic areas defined by the 1984 Consent Decree which broke up the Bell System. Local Bell companies such as C&P Telephone Company (now Bell Atlantic) were allowed to provide services within LATAs, and AT&T and other long distance companies were allowed to provide services between LATAs.

Bell Atlantic to apply for such authorization next year, and have already established a docket to process this application (Case No. PUC960111). We are required under Telecommunications Act of 1996 (the Act) to advise the FCC of Bell Atlantic's compliance of certain requirements in opening local markets to competition, a prerequisite under the Act for authorizing its entry into interLATA long distance competition.

To date, the SCC has issued certificates of convenience and necessity to thirty-five interexchange (long distance) companies. (See Appendix B).

Unlike long distance competition, which is more mature, local competition for basic services is in its infancy. Beginning in 1989, the SCC approved an experimental regulatory plan for the major local telecommunications companies. This plan recognized the advent of competition for certain products and services such as customer premise equipment, inside wire maintenance, Centrex, and yellow page directory advertising (Case No. PUC880035, order dated December 15, 1988). These companies were given both earnings and pricing flexibility to allow them to better compete in these areas. Enabling legislation was enacted in 1993 (Virginia Code Section 56-235.5) that allowed the SCC to make such alternative regulatory plans permanent. The success of the SCC's experimental plan was examined in Case No. PUC920029. Permanent alternative regulatory plans were approved in 1994 (Case No. PUC930036, order dated October 18, 1994).

Competition for basic local services, such as dial tone lines, was legislatively prohibited until 1995 when the General Assembly enacted legislation that enabled the

SCC to authorize more than one company to provide local service in any given geographic area. As a result of this legislation, the SCC promulgated local competition rules which specify filing requirements for companies seeking a local certificate, and provide the conditions under which these companies will be regulated (Case No. PUC950018, order dated December 13, 1995). With the passage of the Telecommunications Act of 1996, which imposed additional conditions and state requirements involving local competition, the SCC promulgated rules to implement certain provisions of this Act (PUC960059, order dated July 31, 1996).

Since then we have received local certificate applications from fifty-five new local companies, and have granted thirty-four. A status report is attached (See Appendix C). Of these, eighteen have filed tariffs, and fourteen have been accepted, which is the final regulatory prerequisite for market entry. A list of all the certificated local exchange companies in Virginia (incumbents and new) is also attached (See Appendix D).

In addition to our local certification responsibilities, we are also required under the Act to approve interconnection agreements between incumbent local exchange companies (ILECs) and competitive local exchange companies (CLECs). To date, we have received sixty-three such agreements, and have approved forty-two. We are further required to arbitrate interconnection terms and conditions between ILECs and CLECs if they are unsuccessful in negotiating among themselves. Thus far we have processed nine such arbitration proceedings. They have imposed enormous time and workload requirements on the Commission and its Staff. For example, we have held over 21 days of hearings generating over 40,000 pages of testimony and have employed outside

professionals to assist in matters related to these arbitrations at a cost to date of slightly over one million dollars. Our decisions have generated several legal challenges including two by GTE and one by MCI. In addition, we have joined with other state commissions in appealing the FCC's nationwide interconnection pricing regulations, which have been challenged also by numerous industry participants.

Many other dockets have been established to deal with a plethora of related local competition issues. For example, in Case Number PUC970005, we are establishing permanent interconnection prices for Bell Atlantic to replace interim prices established in the previously discussed arbitration proceedings. A similar case (PUC970006) has been initiated for GTE. Case No. PUC970014 has been established to address issues relating to Bell Atlantic's proposed tariffs to allow CLECs to collocate equipment within Bell Atlantic's central offices. Case No. PUC960164 also deals with collocation where Bell Atlantic has requested an exemption because of space limitations in certain central offices. Case No. PUC960160 was set up to review Bell Atlantic's Statement of Generally Available Terms and Conditions (for interconnection), a byproduct of the Act. Case No. PUC970069 was established to address a petition by a CLEC (Cox Communications) dealing with the enforcement of a disputed clause in its interconnection agreement with Bell Atlantic. We are looking at the question of whether GTE qualifies as a rural telephone company under the Act in Case No. PUC960109. The issue of local number portability is being considered in Case No. PUC960135. And finally, we are reevaluating our service quality standards and rules in light of local competition in Case No. PUC970146.

Needless to say, it is premature to judge the success and effectiveness of local competition. The many legal challenges to both the FCC's and the SCC's efforts and rulings will ensure further delays. The SCC has clearly done all it can do in its efforts to open up local competition, and will continue to do so.

III. **MONITOR AND PARTICIPATE IN FCC** **UNIVERSAL SERVICE PROCEEDINGS**

We are continuing to monitor and participate in FCC universal service proceedings. For example, we filed comments and reply comments with the FCC in April and May of 1996 (See Appendix E). We participate in weekly conference calls with other state regulatory agencies coordinated by the National Association of Regulatory Utility Commissioners (NARUC). We have established three dockets relating to the FCC's universal service proceedings. Case No. PUC970063 dealt with discounts for schools and libraries (see Section V. to follow). Case No. PUC970135 addresses the issue of designating Virginia carriers to be eligible to receive universal service support. And Case No. PUC970166 was established to investigate FCC-initiated changes to its lifeline assistance program and our Virginia Universal Service Plan, both of which enable qualifying low income Virginians to receive reduced charges for basic telephone service. Final orders in the latter two cases are expected prior to the end of 1997.

We will continue to monitor the FCC's universal service proceedings where orders affecting Virginia companies are expected over the next two years. A final order dealing with high cost support for non-rural carriers is expected in August of 1998 for

such support to begin in January of 1999. For rural carriers, a final FCC order is expected in late 2000 for support beginning in January of 2001. Much of what will be required of this Commission in Virginia will depend on FCC actions in its universal service proceedings.

IV. EXPORT OF FUNDS FROM VIRGINIA

Part of HJR No. 635 states that “{t}he SCC should further attempt to ensure that any funding mechanism developed by the FCC to pay for the discounts available under the Universal Service Fund does not unreasonably export money from Virginia to the disadvantage of Virginians.”

As previously mentioned, Comments and Reply Comments were filed by the SCC in the FCC’s Universal Service Proceeding in April and May of 1996. Since then the Commission has monitored the FCC’s Universal Service proceedings to continue efforts to ensure that Virginians are not unreasonably disadvantaged by the funding mechanisms that ultimately go into place. Accordingly, on August 7, 1997, the Commission advised the FCC that it is reserving its right to perform a Virginia-specific cost determination if it deems such action necessary. Also, NARUC, on behalf of all state commissions, has petitioned the FCC for additional time for states to evaluate the FCC’s funding mechanism data for the purpose of finding whether state-specific determinations are advisable. We strongly hope this additional time is granted, so that a higher quality finding can be made on this important issue.

The FCC's determination of how the costs of Universal Service will be spread among the states is not yet complete. Virginia has traditionally been a relatively low-cost state, so we will not be surprised if Virginia is a net contributor to the Universal Service Fund. However, accuracy and fairness must be the objectives of any funding mechanism, and the Commission will continue its efforts to ensure those objectives are met.

V.
SCHOOLS AND LIBRARIES DISCOUNTS

The FCC's order of May 8, 1997, in CC Docket No. 96-45, adopted most of the Federal-State Joint Board's recommendations concerning discounts for telecommunications services to schools and libraries. It contains a schedule of discounts of between 20% and 90% effective January 1, 1998, from a federal fund projected to be \$2.25 billion for 1998. The amount of the discount varies based on the extent of eligibility for the national school lunch program, as well as rural and urban weightings. For example, the minimum discount of 20% will be available in an urban school district with no students eligible for the school lunch program. The maximum discount of 90% will be available in a rural or an urban district with at least 75% of the students eligible.

The FCC's order requires state commissions to approve such discounts as a prerequisite for availability in individual states. To assure this availability, this Commission approved these discounts by order of June 30, 1997 (Case No. PUC970063; See Appendix F).

These discounts have not yet been implemented due to delays by the FCC in making the application forms available. We are continuing to monitor and coordinate this program with the Department of Education, the Virginia Telecommunications Industry Association and the telephone companies in Virginia. For example, we participated in recent seminars conducted for school administrators by Bell Atlantic. As required by the FCC, we forwarded a letter dated October 20, 1997, to the fund administrator advising that we have approved the discounts.

VI. RECOMMENDATIONS

As previously discussed, much of what is happening in the telecommunications competition and universal service areas is work in progress. Long distance competition will continue and will likely be enhanced when local Bell companies are granted interLATA authority. Local competition will evolve, but court actions and the natural monopoly characteristics of many local services will ensure that this evolution will not happen overnight. Universal service proceedings at the federal and state levels require careful study and will take several years to become fully implemented.

Our recommendations are to continue local and long distance competition efforts, and continue monitoring FCC universal service proceedings and taking intrastate actions as necessary. Concerning discounts to schools and libraries, we recommend monitoring the federal discount program for at least two years to assess its effectiveness. At that point we should be able to evaluate whether additional intrastate-funded discounts are needed.

We do not see a need for any legislation by the Virginia General Assembly, and accordingly recommend no legislative initiatives at this time. We will, of course, keep the General Assembly informed, as necessary, should legislation become necessary at some future date.

HOUSE JOINT RESOLUTION NO. 635

Requesting the State Corporation Commission to continue its efforts to open up competition in the Virginia local and long distance telecommunications markets and to foster and encourage the evolution of a telecommunications system which offers reasonable and affordable prices to Virginia's schools and libraries by monitoring and participating in the Federal Communications Commission universal service proceedings and initiating such intrastate proceedings as may be required.

Agreed to by the House of Delegates, February 4, 1997

Agreed to by the Senate, February 19, 1997

WHEREAS, there exists a need for the Commonwealth to foster and encourage the evolution of a telecommunications system which offers reasonable and affordable prices to Virginia's schools and libraries; and

WHEREAS, on February 8, 1996, Congress passed the Telecommunications Act of 1996 (TA 1996), which is designed to open up competition in the local exchange market between telephone, cable, and other communications companies, primarily through the use of interconnection agreements approved by each state's public utility commission, and to permit local exchange companies such as Bell Atlantic and GTE to compete in the long distance markets; and

WHEREAS, on August 8, 1996, the Federal Communications Commission (FCC) promulgated 700 pages of rules implementing TA 1996; and

WHEREAS, TA 1996 created the Federal-State Universal Service Joint Board and directed the board to make recommendations to the FCC on how "universal service" should be defined, what basic services should be included in universal service, and when the TA 1996 goal to achieve universal service should be completed; and

WHEREAS, the board's recommendations, issued November 7, 1996, included a proposal to provide discounts of 40 to 90 percent for approximately 97 percent of the country's grade schools, at a cost capped at \$2.25 billion per year; and

WHEREAS, the media reported that this proposal was in response to President Clinton's support, during a campaign speech in mid-October 1996, for giving schools and public libraries free basic access to the Internet through an "E" (education) rate; and

WHEREAS, final rules to implement the Universal Service Fund are due from the FCC by May 8, 1997; now, therefore, be it

RESOLVED by the House of Delegates, the Senate concurring, That the State Corporation Commission (SCC) be requested to continue its efforts to open up competition in the Virginia local and long distance telecommunications markets between telephone, cable and other communications companies. The SCC is also requested to monitor and participate in all FCC universal service proceedings to attempt to ensure that the Commonwealth's schools, colleges, universities, libraries, and all other state and local government agencies receive the full benefits of the FCC's Universal Service Fund rules. The SCC should further attempt to ensure that any funding mechanism developed by the FCC to pay for the discounts available under the Universal Service Fund does not unreasonably export money from Virginia to the disadvantage of Virginians. In addition, the SCC is requested to take such steps as are necessary to carry out its responsibilities in implementing discounts to schools and libraries as required by TA 1996 and the FCC, including initiating such intrastate proceedings as may be required.

Assistance may be provided to the SCC by the Joint Subcommittee on Science and Technology created by House Joint Resolution No. 195 (1996) or a successor joint subcommittee or entity thereof. All agencies of the Commonwealth shall provide assistance to the SCC, upon request.

The SCC shall report its findings and recommendations on or before November 15, 1997, to the Joint Subcommittee on Science and Technology, or a successor joint subcommittee or entity thereof, and shall also submit its findings and recommendations to the Governor and the 1998 Session of the General Assembly as provided in the procedures of the division of Legislative Automated Systems for the processing of legislative documents.

LONG DISTANCE TELEPHONE COMPANIES (IXCs)**REVISED 11/05/97**

!INTERPRISE-Alternet of Virginia Data Communications
!INTERPRISE-Hyperion of Virginia Data Communications
AT&T Communications of Virginia, Inc.
Atlantic Telecom, Inc.
American Communications Services of Virginia, Inc.
CFW Network Inc.
Cable & Wireless of Virginia, Inc.
Central Telephone Company of Virginia
Citizens Telephone Cooperative
Cox Fibernet Access Services, Inc.
Digital Services Corporation
GTE South, Inc.
Hyperion Telecommunications of Virginia, Inc.
Institutional Communications Company - Virginia
Intermedia Communications Inc.
KMC Telecom of Virginia, Inc.
MCI Telecommunications Corp. of Virginia
MCImetro Access Transmission Services of Virginia, Inc.
MediaOne Telecommunications of Virginia, Inc.
MediaOne of Virginia
Microwave Services, Inc.
Pinnacle Telecommunications of Virginia, Inc.
R&B Network, Inc.
RCN Telecom Services of Virginia, Inc.
Scott County Telephone Cooperative
Shenandoah Telephone Company
SouthernNet of Va., Inc.
Sprint Communications Company of Virginia, Inc.
TCG Virginia, Inc.
Teligent of Virginia, Inc.
United Telephone-Southeast, Inc.
VPS Communications, Inc.
Virginia MetroTel, Inc.
Virginia WorldCom, Inc. d/b/a LDDS Worldcom
Winstar Wireless of Virginia, Inc.

**VIRGINIA
CLEC CERTIFICATE APPLICATION
STATUS REPORT**

Company	Case No. PUC	Application Filed	Initial Order	Comments Due	Staff Report Due	Hearing	Final Order	Comments
1. MFS	950082	12-14-95	01-29-96	03-14-96	04-11-96	04-30-96	05-01-96	
2. MCI Metro	950083	12-18-95	01-29-96	03-14-96	04-11-96	04-30-96	05-03-96	
3. INTERPRISE-Alternet	960001	01-02-96	03-13-96	04-24-96	05-28-96	06-11-96	06-17-96	IXC Application in same docket
4. Jones	960003	02-20-96	04-01-96	05-07-96	06-06-96	06-26-96	06-28-96	
5. AT&T	960006	02-29-96	04-01-96	05-07-96	06-06-96	06-26-96	06-28-96	
6. Cox	960009	03-20-96	04-24-96	05-20-96	06-28-96	07-15-96	07-22-96	IXC Application filed 3-5-96; Same docket
7. LCI	960018	03-26-96	02-21-97	03-18-97	04-01-97	04-10-97	04-25-97	Application amended 1-30-97
8. PCS	960025	04-29-96	07-10-97	09-19-97	09-22-97	10-02-97	10-09-97	Application supplemented 6-12-97
9. INTERPRISE-Hyperion	960083	06-24-96	08-15-96	09-18-96	10-09-96	10-18-96	11-12-96	
10. TCG	960085	06-27-96	08-20-96	09-27-96	10-10-96	10-18-96	11-08-96	Application amended 8-7
11. ACSI	960087	06-28-96	08-09-96	09-23-96	10-09-96	10-18-96	11-08-96	Amended 7-22 to include IXC application
12. Sprint	960086	06-28-96	08-09-96	09-20-96	10-04-96	10-18-96	11-08-96	Amended 7-8
13. CFW	960088	07-01-96	08-09-96	09-20-96	10-04-96	10-18-96	11-08-96	
14. Intermedia	960107	07-22-96	05-30-97	07-09-97	07-16-97	07-29-97	08-06-97	IXC in same docket
15. MediaOne Tel. (CCI)	960119	08-22-96	10-07-96	11-08-96	11-15-96	11-22-96	12-19-96	IXC Application in same docket
16. MediaOne of Va (Alternet)	960120	08-22-96	10-07-96	11-08-96	11-13-96	11-22-96	12-19-96	IXC Application in same docket
17. KMC	960116	08-16-96	10-07-96	11-08-96	11-13-96	11-22-96	12-19-96	IXC Application in same docket
18. WinStar	950076	09-09-96	12-23-96	01-31-97	02-17-97	02-28-97	03-11-97	IXC Application in same docket
19. R&B Network	960122	09-03-96	10-02-96	11-01-96	11-15-96	11-22-96	12-23-96	
20. Citizens Co-op	960142	11-01-96	03-21-97					Company required to form affiliate
21. Commonwealth L.D.	960145	11-21-96	NA	NA	NA	NA	NA	Application withdrawn 5-16-97
22. Microwave Svcs.	960155	12-11-96	02-07-97	03-07-97	03-21-97	04-10-97	04-17-97	IXC Application in same docket
23. Digital Svcs. Corp.	960157	12-17-96	02-07-97	03-07-97	03-21-97	04-10-97	04-21-97	IXC Application in same docket
24. MSN Corp.	NA	12-23-96	NA	NA	NA	NA	NA	Application withdrawn 2-7-97
25. Atlantic Telecom	970004	01-07-97	02-07-97	03-07-97	03-21-97	04-10-97	05-01-97	IXC Application in same docket
26. Cable & Wireless	970027	02-25-97	04-11-97	05-29-97	07-01-97	07-17-97	07-21-97	
27. CRG International		02-26-97						Application is incomplete
28. US LEC	970030	03-24-97	07-09-97	08-04-97	08-15-97	09-03-97	09-08-97	
29. Eastern Telecom Int. Corp.		03-27-97						Application is incomplete
30. Hyperion Telecom	970033	03-31-97	05-09-97	06-03-97	06-10-97	06-17-97	06-20-97	
31. US One		04-03-97						Application is incomplete
32. Access Virginia	970038	04-07-97	05-02-97	06-16-97	07-03-97	07-17-97	07-23-97	
33. Pinnacle Telecom	970040	04-08-97	04-22-97	05-29-97	07-01-97	07-17-97	07-21-97	
34. U.S. Teleco		04-14-97						Application is incomplete
35. RCN	970043	04-17-97	07-10-97	08-18-97	08-21-97	09-08-97	09-16-97	
36. ATX Tele. Serv., Ltd.	970044	04-18-97	07-08-97	08-11-97	09-18-97	10-02-97	10-08-97	
37. Tel-Save Holdings	970045	04-21-97	08-18-97	09-19-97	09-25-97	10-02-97	10-09-97	

VIRGINIA
CLEC CERTIFICATE APPLICATION
STATUS REPORT

Company	Case No. PUC	Application Filed	Initial Order	Comments Due	Staff Report Due	Hearing	Final Order	Comments
38.Stickdog Telecom	970050	05-02-97	06-18-97	07-09-97	07-17-97	07-29-97	08-04-97	
39.Excel Telecom	970059	06-02-97	06-18-97	08-11-97	NA	NA	NA	Application withdrawn 8-14-97
40.OnePoint	970074	06-20-97	07-09-97	08-04-97	08-15-97	09-03-97	09-10-97	
41.Business Telecom	970111	07-15-97	08-19-97	09-19-97	09-25-97	10-02-97	10-09-97	
42.Tel. Co. of Central FLA	970112	07-17-97	10-21-97	11-19-97	11-24-97	12-04-97		Application supplemented 10-16-97
43.Teligent	970124	08-01-97	08-18-97	09-16-97	10-03-97	10-23-97	10-28-97	IXC Application in same docket
44.Reconex		08-04-97						Application is Incomplete
45.Dynamic Telco Services	970127	08-07-97	09-15-97	10-15-97	10-28-97	11-19-97		
46.Quintelco		08-07-97						Application is Incomplete
47.OMC Communications		08-27-97						IXC Application in same docket Application is incomplete
48.USN Communications	970141	09-05-97	09-23-97	10-20-97	10-28-97	11-19-97		IXC Application in same docket
49.Total-Tel	970151	09-15-97	10-01-97	10-29-97	11-05-97	11-19-97		
50.Group Long Distance	970152	09-15-97	09-30-97	10-29-97	11-05-97	11-19-97		
51.EasyTel, Inc.		09-25-97						
52.LEC-Link		09-23-97						Application is incomplete
53.Frontier Telemanagement	970157	10-02-97	11-06-97	12-05-97	12-08-97	12-18-97		
54.Mid-Atlantic Tele. Co.		10-27-97						IXC Application in same docket
55.Bell South BSE of Virginia		10-31-97						IXC Application in same docket

Revised 11/13/97

LOCAL TELEPHONE COMPANIES IN VIRGINIA

11/05/97

INTERPRISE-Alternet of Virginia Data Communications
INTERPRISE-Hyperion of Virginia Data Communications
AT&T Communications of Virginia, Inc.
ATX Telecommunications Services, Ltd.
Access Virginia, Inc.
Atlantic Telecom, Inc.
Amelia Telephone Corporation
American Communications Services of Virginia, Inc.
Bell Atlantic - Virginia
Buggs Island Telephone Cooperative
Burke's Garden Telephone Exchange
Business Telecom of Virginia, Inc.
CFW Telephone Inc.
CFW Network Inc.
Cable & Wireless of Virginia, Inc.
Central Telephone Company of Virginia
Citizens Telephone Cooperative
Cox Virginia Telecom, Inc.
Digital Services Corporation
GTE South, Inc.
Highland Telephone Cooperative
Hyperion Telecommunications of Virginia, Inc.
Intermedia Communications Inc.
Jones Telecommunications of Virginia, Inc.
KMC Telecom of Virginia, Inc.
LCI International of Virginia, Inc.
MFS Intelenet of Virginia, Inc.
MCImetro Access Transmissions Services of Virginia, Inc.
MediaOne of Virginia
MediaOne Telecommunications of Virginia, Inc.
Microwave Services, Inc.
MGW Telephone Company
New Castle Telephone Company
New Hope Telephone Company
North River Telephone Cooperative
Pembroke Telephone Cooperative
Peoples Mutual Telephone Company, Inc.
Pinnacle Telecommunications of Virginia, Inc.
Preferred Carrier Services of Virginia, Inc.
R&B Network, Inc.
RCN Telecom Services of Virginia, Inc.
Roanoke & Botetourt Telephone Company
Scott County Telephone Cooperative
Shenandoah Telephone Company
Sprint Communications Company of Virginia, Inc.

LOCAL TELEPHONE COMPANIES IN VIRGINIA

11/05/97

Stickdog Telecom, Inc.
TCG Virginia, Inc.
Tel-Save Holdings of Virginia, Inc.
Teligent of Virginia, Inc.
US LEC of Virginia, L.L.C.
United Telephone-Southeast, Inc.
VIC-RMTS-DC, LLC d/b/a One Point Communications
Virginia Telephone Company
Winstar Wireless of Virginia, Inc.

**Before the
FEDERAL COMMUNICATIONS COMMISSION
Washington, D. C. 20554**

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

**INITIAL COMMENTS OF THE
VIRGINIA STATE CORPORATION COMMISSION STAFF**

Virginia State Corporation Commission
Division of Communications
1300 East Main Street - 9th floor
P.O. Box 1197
Richmond, VA 23218

April 11, 1996

**Before the
FEDERAL COMMUNICATIONS COMMISSION
Washington, D. C. 20554**

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

**INITIAL COMMENTS OF THE
VIRGINIA STATE CORPORATION COMMISSION STAFF**

1. INTRODUCTION

The Virginia State Corporation Commission (VSCC) Staff Division of Communications respectfully submits these comments in response to the FCC's Notice of Proposed Rulemaking in this Docket, released March 8, 1996 (Notice). The VSCC had already initiated its own universal service proceeding with an Order in Case No. PUC950081, issued December 13, 1995. While the Staff is in the early stages of its work to produce facts for the VSCC's consideration in its proceeding, we trust these comments will nevertheless be helpful in the FCC's consideration of this vital subject.

2. SERVICE QUALITY

The VSCC addressed the service quality issue in its Rules for certification of new entrants into the local exchange business ("Order Adopting Rules", Case No. PUC950018, December 13, 1995). The VSCC required new entrants to comply with the service quality criteria that have been applied to incumbent LECs for many years (and formally adopted by the VSCC in its Order in Case No. PUC930009; June 10, 1993). We urge the FCC to base its quality measurements on existing standards in the states. Service quality has long been of importance to state commissions, and their experience should be valuable.

The goal should be to encourage competition to meet or exceed existing service standards. We believe the way to do that is to maintain minimum standards. Some may believe that in a competitive environment, it is not necessary to provide excellent service, but merely to provide better service than the competition. If the competition's quality is poor, the competitor need only be a little better than poor. However, good and reliable service quality in the United States, based on historical commitment, has come to be assumed, and it should not be allowed to deteriorate.

3. SERVICES TO SUPPORT

In defining the services to be eligible for support, we suggest that the definitions be expressed as capabilities, not as existing services. For example, in paragraph 16 of the Notice, "touch-tone" is expressed in the core group of services. This should be expressed as DTMF signalling, because "touch-tone" is a Bell System name that was not used by the Independents. To remain technologically and competitively neutral, service definitions should be expressed generically as communications capabilities, which has been done for the remainder of the services expressed in paragraph 16.

The VSCC's Rules for certification require new local exchange entrants to provide a core group of capabilities that the FCC should consider in its determination of services to receive universal service support. The VSCC's Rules specify the provision of (1) access to 911 and E911 services, (2) white page directory listings, (3) access to telephone relay services, (4) access to directory assistance, (5) access to operator services, (6) equal access to interLATA carriers, and (7) free blocking of 900- and 700-type services so long as the same requirement applies to incumbent local exchange companies. These Rules presume, of course, that a new entrant will be providing voice-grade calling, among other exchange communications services. We cite this list to urge that peripheral capabilities be considered, along with traditional voice-telephone capabilities, to concentrate attention on customer service, rather than technology.

The same group of capabilities that the FCC determines to be worthy of universal service support should be supported for low-income subscribers. The problems in achieving universal service with affordable rates may be different in high-cost areas and among low-income groups, but the goals should be the same; i.e., universal.

4. AFFORDABILITY

The VSCC addressed the issue of affordability in its Order of October 18, 1994. (Case No. PUC930036) following legislation which established an affordability standard for the first time in the pricing of Virginia telephone services. The legislation, which permitted the Commission to adopt alternative regulatory plans for LECs, directed the Commission to ensure that alternative regulatory plans protect the affordability of basic telephone service. In its Order of October 18, 1994, the VSCC, among other things, found that the LECs' current rates were affordable and could be expected to remain so under alternative regulation. The VSCC based its decision on affordability primarily on the residential penetration rate in Virginia, but first took notice of the fact that there had been no increases in basic rates in Virginia since the spate of rate cases during 1983-85; indeed, there had been only decreases in basic rates since that time. Moreover, the residential penetration rate in Virginia had increased since 1983-85. Based primarily on these findings, the VSCC found that existing rates in Virginia were affordable.

The FCC could take an approach similar to the VSCC's. Residential penetration rates should be a major part of the considerations going into a determination of whether rates are affordable. It should always be recognized, of course, that penetration rates are influenced by the strong demand for basic telephone service. But one cannot escape the conclusion that if penetration rates are high, then most people are able to afford the service in some way.

The Virginia Universal Service Plan was expanded as a result of the Commission's October 18, 1994, Order. It directed the alternative regulatory plan

companies to expand their offering of discounted rates to Food Stamp recipients, in addition to Medicaid recipients, who were already being offered the lower rates.

The FCC should rely on existing identifiers of low-income people, instead of pursuing or inventing new methods to define and identify them. A more pressing problem seems to be informing eligible low-income people of the availability of economy options for basic service.

Experience in Virginia has shown that initial nonrecurring charges and deposits are the major barrier to many would-be subscribers. The Link Up America plan was very successful in Virginia, particularly because many Virginia LECs voluntarily relaxed their deposit requirements coincident with the introduction of the plan. Moreover, the Link Up plan was introduced in Virginia along with the Subscriber Line Charge waiver plan. The FCC should remember this experience in considering universal service plans now. Monthly rates are generally available in Virginia at levels where they should be affordable, and even with discounted initial charges, some areas of the Commonwealth have relatively low residential penetration rates. In considering services eligible for universal service support, it is important to remember the initial nonrecurring charges and deposit requirements as well as the monthly rate.

5. RECOVERY OF SUBSCRIBER LOOP COSTS

It is fundamentally important for the FCC to realize that subscriber loops are just as traffic sensitive as anything else in the network. If they were not traffic sensitive, there would be only one loop to each subscriber location. Most all residences and many businesses are served with one loop because there is not enough traffic to justify more, customers are deterred from getting more lines because of the prices, customers are willing to wait to place their calls, and they are willing to let their callers endure busy signals up to a point. However, the popularity of Call Waiting shows that this latter willingness is quite limited. It is essential to realize that the number of loops serving a

given customer's premises is always determined by the amount of busy-hour traffic carried to and from that customer's premises. There may be reasons to have flat rates for the use of subscriber loops, but non-traffic-sensitivity is not one of them.

One of the proposals discussed in the Notice in paragraphs 112 - 115 is to eliminate the Carrier Common Line Charge (CCLC) while concurrently increasing the Subscriber Line Charge (SLC). We believe that thinking about communications prices in terms of "cost-recovery" is out of date. It is related to revenue requirement regulation. Prices should now be considered as payments for the use of facilities, and when interexchange carriers make use of subscriber loops to permit their customers to originate and terminate calls, there is nothing wrong with interexchange carriers paying for that use. The prices they pay may be flat (per line), or usage-based (per minute), or other designs, but there is no compelling reason to jump to conclusions that they need not pay at all.

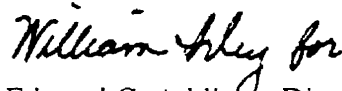
Subscriber loops are dedicated to the use of one subscriber only for the origination of calls. It has long been assumed that the originator of a call is responsible for it; i.e., the originator pays for it unless the charges are "reversed" in some way. In this sense, any switched (end to end) subscriber loop is "dedicated" for short durations to anyone who originates a call. Thus, there is no good reason to conclude that each subscriber should have a flat charge covering his or her loop costs since loops are available for the use of all subscribers and dedicated to none. We are concerned that increasing the Subscriber Line Charge could be contrary to universal service.

6. **CONCLUSION**

We have long held in Virginia that poor service at any price is no bargain. Affordable rates must always be based upon good service. We believe good service can be maintained, and we urge the FCC to adopt it as a firm objective.

There is much to do at both the Federal and State levels to ensure a successful implementation of the Telecommunications Act of 1996. We look forward to cooperating with and being as helpful to the FCC as possible.

Respectfully submitted.



Edward C. Addison, Director
Division of Communications
Virginia State Corporation Commission

April 11, 1996

**Before the
FEDERAL COMMUNICATIONS COMMISSION
Washington, D.C. 20554**

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

**REPLY COMMENTS OF THE
VIRGINIA STATE CORPORATION COMMISSION STAFF**

Virginia State Corporation Commission
Division of Communications
1300 East Main Street - 9th floor
P. O. Box 1197
Richmond, VA 23218

May 6, 1996

Before the
FEDERAL COMMUNICATIONS COMMISSION
Washington, D.C. 20554

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

**REPLY COMMENTS OF THE
VIRGINIA STATE CORPORATION COMMISSION STAFF**

1. INTRODUCTION

The Virginia State Corporation Commission (VSCC) Staff Division of Communications respectfully submits these Reply Comments in response to the FCC's Notice of Proposed Rulemaking in this Docket, released March 8, 1996 (Notice). We have reviewed as many parties' Initial Comments as possible and offer these Reply Comments to assist the Joint Board and the FCC in the difficult and important considerations required by this Docket.

2. AFFORDABILITY

The VSCC recently found (Final Order, Case No. PUC930036; October 18, 1994) that basic local rates in Virginia are affordable as offered by the three largest Local Exchange Carriers (LECs) in Virginia, which serve about 98% of the network access lines. The finding was strongly influenced by the residential penetration rates at that time; therefore, the existing level of the federal Subscriber Line Charge (SLC) was implicitly included in the finding. These LECs have not increased their basic local rates since the VSCC finding, so we may assume they are still affordable, including the SLC.

Any proposed increases in basic local rates or the SLC paid by Virginia customers naturally moves them into an area where their affordability is in doubt and must be reevaluated. We hope the FCC can implement its Universal Service plans without any increase in the SLC.

The high level of residential penetration in Virginia has been favorably affected by the Lifeline and Link-Up America plans, along with the efforts of Virginia LECs who offer many good low-cost options for local service. We believe the Lifeline and Link-Up America plans are an important part of maintaining high residential penetration in Virginia, and we hope the FCC can continue these plans and improve them where advisable. We believe that continuing these plans is consistent with the Telecommunications Act of 1996 (Act).

We urge the FCC to ignore the advice of those commenters who suggest that a national standard affordable rate should be determined. The overall affordability of telephone service encompasses more than just the basic line rate. It encompasses nonrecurring charges, deposit requirements, directory assistance charges and call allowances, usage charges, and more. All of these rates and charges exist in a structure that each state commission has built over many years, with input from LECs, customers, and many others. Comparing any one part of this structure between states is invalid and misleading, and trying to find one national rate that would affordably fit the structure in all states is impossible.

Universal service affordability, of necessity, is an issue that ultimately must be solved by the states. The FCC could make its best contribution by avoiding SLC

increases, continuing the low-income customers' plans, and directing support to high-cost areas in the most effective and efficient way.

3. SUBSCRIBER LINE CHARGES (SLCs)

There is no compelling reason to set a SLC equal to the common line costs resulting from any embedded cost allocation. Indeed, SLCs may not now have any reason even to exist. SLCs were created in a rate of return regulatory environment, as a means to facilitate interstate toll rate reductions by redistributing the interstate common line cost burden away from usage charges toward fixed charges. That purpose has been served, and those days are gone.

The Telecommunications Act of 1996 has established a new national universal service policy which highlights affordable rates. Any role SLCs may play in implementing this policy is unclear.

4. ANALYSIS OF LOOP COSTS IN IDENTIFYING HIGH-COST AREAS

Existing embedded costs of loops are not relevant to the identification of high-cost areas worthy of universal service subsidies. These costs are useful in studying and explaining the cost history of an area, but they cannot be used to establish a definite subsidy level. To do so could institutionalize and perpetuate inefficiencies, such as situations where the current provider has high loop costs due only to inefficiency. Granting a subsidy in this situation could permit the current provider to price its services below true economic costs and foreclose competitive entry. The costs that are relevant to

determining the need for, and amount of, a subsidy are the forward-looking costs of an efficient provider under the conditions of the area being studied.

The use of proxy cost models should be avoided, particularly when the costs are being determined for small geographic areas, such as Census Block Groups. The broad assumptions and estimates necessarily used as inputs to proxy cost models can create gross errors when applied to small, specific areas. These inputs are necessarily broad averages and they apply only by coincidence to any small, specific area.

5. **CONCLUSION**

This proceeding on universal service involves many detailed, difficult analyses and decisions. We respectfully submit these Reply Comments as the best we have to offer under existing time constraints in our effort to help the Joint Board and FCC achieve the important objective of universal service.

Respectfully submitted,



Edward C. Addison, Director
Division of Communications
Virginia State Corporation Commission

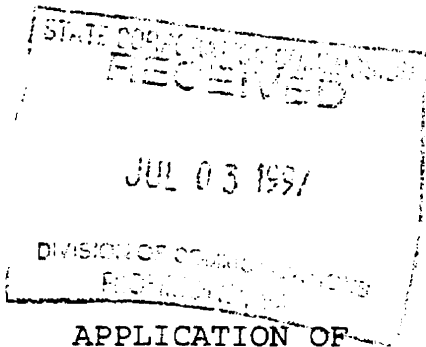
May 6, 1996

970640190

COMMONWEALTH OF VIRGINIA

STATE CORPORATION COMMISSION

AT RICHMOND, JUNE 30, 1997



APPLICATION OF

COMMONWEALTH OF VIRGINIA, ex rel.,
STATE CORPORATION COMMISSION

CASE NO. PUC97063

Ex Parte, in re: Establishing
schools and libraries discounts,
pursuant to the Telecommunications
Act of 1996

DOCUMENT CONTROL
97 JUN 30 PM 3:34

ORDER ADOPTING DISCOUNTS

On May 8, 1997, the Federal Communications Commission ("FCC") issued its Report and Order, FCC Order No. 97-157 ("Order"), implementing portions of the Telecommunications Act of 1996, 47 U.S.C. § 251 et seq. ("Act"), which, among other things established discounts¹ for certain telecommunications services provided to schools and libraries, and established the requirements for an institution's eligibility to receive such discounted services. The FCC set a cap on the amount of funding to be provided and required that this amount be distributed on a "first-come-first-served" basis. Eligible institutions will be able to apply to receive such discounts at such time as the FCC's

¹ See, ¶ 520 of Order No. 97-157. The discount "matrix" is attached to this Order as Appendix A.

now required "schools and libraries website" is opened and application forms are made available.²

On June 9, 1997, the Commission issued its Order for Notice, establishing a proceeding for consideration of adoption of the discounts for intrastate services and requiring its Division of Communications to cause to be published, in newspapers of general circulation throughout the Commonwealth, notice of the proceeding. Copies of the Order for Notice were served on all telephone companies and interexchange carriers in Virginia, a number of public officials known or reasonably believed by the Commission to be interested in the issue, including the Attorney General, the Secretary of Education, the Superintendent of Public Instruction, the State Librarian, the Executive Director of the Virginia Library Association and on media coordinators for as many of the Virginia public schools for whom the Commission had addresses readily available.

Comments on the issue of adoption of the discounts or requests for hearing to present evidence on the issue were directed to be filed on or before June 30, 1997. The Commission has received a number of comments, in nearly every case urging the adoption of the discounts. No valid requests for hearing have been received. Having considered the issue, and the public

² That date was originally set for July 1, 1997, but is now not known, pending further action of the FCC.

comments received thereon, the Commission is of the opinion and finds that adoption of the discounts shown in Appendix A is in the public interest. Accordingly, IT IS ORDERED that:

(1) The discounts for intrastate telecommunications services established by the FCC, in implementing portions of the Telecommunications Act of 1996, and attached hereto as Appendix A, are adopted for all purposes consistent with the Act and Order; and

(2) This matter is dismissed.

AN ATTESTED COPY HEREOF shall be sent by the Clerk of the Commission to each local exchange telephone company operating in Virginia as set out in Appendix B attached hereto; each certified interexchange carrier operating in Virginia as set out in Appendix C attached hereto; the Additional Service List attached hereto; the Division of Consumer Counsel, Office of Attorney General, 900 East Main Street, Richmond, Virginia 23219; Jean Ann Fox, Vice President, Virginia Citizens Consumer Council, 114 Coachman Drive, Yorktown, Virginia 23693; Sheryl Butler, Esquire, Office of the Judge Advocate General, Department of the Army, 901 North Stuart Street, Room 400, Arlington, Virginia 22203-1837; Ronald B. Mallard, Director, Department of Consumer Affairs, County of Fairfax, 12000 Government Center Parkway, Fairfax, Virginia 22035; Mr. Charles R. Smith, Hello, Inc., 2315 West

Broad Street, Richmond, Virginia 23220; James C. Roberts,
Esquire, Mays & Valentine, P.O. Box 1122, Richmond, Virginia
23218-1122; the Commission's Office of General Counsel, and the
Commission's Divisions of Communications, Public Utility
Accounting, and Economics and Finance.

A True Copy
Taken *William J. Bridge*
Clerk of the
State Corporation Commission

SCHOOLS AND LIBRARIES DISCOUNT MATRIX		DISCOUNT LEVEL	
HOW DISADVANTAGED?		urban discount (%)	rural discount (%)
% of students eligible for national school lunch program ¹⁹⁹⁹	(estimated % of US schools in category)		
< 1	3	20	25
1-19	31	40	50
20-34	19	50	60
35-49	15	60	70
50-74	16	80	80
75-100	16	90	90

