

Corrected Version

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



In the Matter of

)

)

Federal-State Joint Board on
Universal Service

)

)

CC Docket No. 96-45

REPORT AND ORDER

Adopted: May 7, 1997

Released: May 8, 1997

By the Commission (Chairman Hundt and Commissioners Quello and Ness concurring and
issuing separate statements; Commissioner Chong concurring in part and dissenting in part and
issuing a separate statement):

Table of Contents

I. Introduction 1
II. Executive Summary 21
III. Principles 43
IV. Definition of Universal Service: What Services to Support 56
A. Overview 56
B. Designated Services 58
C. Feasibility of Providing Designated Services 88
D. Extent of Universal Service Support 94
E. Quality of Service 97
F. Reviewing the Definition of Universal Service 103
V. Affordability 108
A. Overview 108
B. Affordability 109
VI. Carriers Eligible for Universal Service Support 127
A. Overview 127
B. Eligible Telecommunications Carriers 130
C. Definition of Service Areas 182
D. Unserved Areas 194

VII.	Rural, Insular, and High Cost	199
A.	Overview	199
B.	Background	208
C.	Universal Service Support Based on Forward-Looking Economic Cost	223
1.	Overview	223
2.	Scope of Costs to Be Supported	224
3.	Determination of Forward-Looking Cost for Non-Rural Carriers	232
4.	Determination of Forward-Looking Cost for Rural Carriers	252
5.	Applicable Benchmarks	257
6.	Share of Support Provided by Federal Universal Service Support	
	Mechanisms	268
D.	Mechanism for Carriers Until Support Is Provided Based on Forward-Looking Economic Cost	273
1.	Non-Rural Carriers	273
2.	Rural Carriers	291
E.	Use of Competitive Bidding Mechanisms	319
VIII.	Support for Low-Income Consumers	326
A.	Overview	326
B.	Authority to Revise Lifeline and Link Up Programs	329
C.	Changes to Structure of Lifeline and Link Up	341
D.	Services Included in Lifeline and Link Up	383
E.	Implementation of Revised Lifeline and Link Up Programs	408
IX.	Issues Unique to Insular Areas	410
X.	Schools and Libraries	424
A.	Overview	424
B.	Telecommunications Carrier Functionalities and Services Eligible for Support	426
C.	Discount Methodology	464
D.	Restrictions Imposed on Schools and Libraries	552
E.	Funding Mechanisms for Schools and Libraries	583
F.	Access to Advanced Telecommunications and Information Services	587
G.	Sections 706 and 708 of the 1996 Act	601
H.	Initiation	606
XI.	Support for Health Care Providers.	608
A.	Overview	608
B.	Services Eligible for Support	609
C.	Eligibility of Health Care Providers	638
1.	Defining Eligibility for Health Care Providers	638

2.	Defining Rural Areas	646
3.	Definition of Health Care Provider	653
D.	Implementing Support Mechanisms for Rural Health Care Providers	657
1.	Identifying the Applicable Rural Rate	657
2.	Identifying the Applicable Urban Rate	664
3.	Competitive Bidding	686
4.	Insular Areas and Alaska	690
E.	Capping and Administering the Mechanisms	702
1.	Selecting Between Combined or Separate Support Mechanisms for Health Care Providers and Schools and Libraries	702
2.	Funding Cap	704
F.	Restrictions and Administration	717
1.	Restrictions on Resale and Aggregated Purchases	717
2.	Bona Fide Requests	724
3.	Selecting Between Offset or Reimbursement for Telecommunications Carriers	732
G.	Advanced Telecommunications and Information Services	738
XII.	Interstate Subscriber Line Charges and Carrier Common Line Charges	750
A.	Overview	750
B.	LTS Payments	753
C.	SLC Caps	760
D.	CCL Charges	767
E.	Replacement of LTS	769
XIII.	Administration of Support Mechanisms	772
A.	Overview	772
B.	Mandatory Contributors to the Support Mechanisms	775
C.	Other Providers of Interstate Telecommunications	793
D.	The <i>De Minimis</i> Exemption	801
E.	Scope of the Commission's Authority Over the Universal Service Support Mechanisms	806
F.	Basis for Assessing Contributions	842
G.	Administrator of the Support Mechanisms	858
H.	Implementation	867
XIV.	Final Regulatory Flexibility Analysis	870
A.	Need for and Objectives of This Report and Order and the Rules Adopted Herein. 872	
B.	Summary and Analysis of the Significant Issues Raised by Public Comments in Response to IRFA	874

C.	Description and Estimates of the Number of Small Entities to Which the Rules Adopted in this Report and Order Will Apply	890
1.	Telephone Companies	894
2.	Cable System Operators	917
3.	Municipalities	923
4.	Rural Health Care Providers	924
5.	Schools and Libraries	925
D.	Summary Analysis of the Projected Reporting, Recordkeeping, and Other Compliance Requirements and Significant Alternatives and Steps Taken to Minimize the Significant Economic Impact on a Substantial Number of Small Entities Consistent with Stated Objectives.	926
E.	Report to Congress	983
XV.	Conclusion.	984
XVI.	Ordering Clauses	985
Appendix A	(Parties Filing Initial Comments)	
Appendix B	(Parties Filing Reply Comments)	
Appendix C	(Parties Filing Cost Proxy Model Comments)	
Appendix D	(Parties Filing Comments on Proxy Cost Model Workshops)	
Appendix E	(Parties Filing Proxy Cost Models)	
Appendix F	(Parties Cited in this Order that Filed Only in Response to the NPRM in CC Docket No. 96-45)	
Appendix G	(Parties Filing Initial Comments: CPD File No. 97-2)	
Appendix H	(Parties Filing Reply Comments: CPD File No. 97-2)	
Appendix I	(Final Rules)	
Appendix J	(Summary of Comments in CC Docket No. 96-45)	
Appendix K	(Universal Service Proceeding February 1996 - May 1997)	
Appendix L	(List of Universal Service Proceedings May 1997 - 2001)	
Appendix M	(Future Proceedings)	