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Federal Communications Commission
445 12th Street, S.W.
Washington, D. C. 20554

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NEWS MEDIA CONTACT:
Michael Balmoris 202-418-0253
Email: michael.balmoris@fcc.gov

FCC MODIFIES HIGH-COST SUPPORT MECHANISM BUT MAINTAINS CURRENT SUPPORT LEVELS

Support Mechanism Part of Universal Service Program to Keep Telephone Rates Affordable and Reasonably Comparable throughout the Nation

Washington, D.C. – The Federal Communications Commission (FCC) today, in response to a remand by the U.S. Court of Appeals of the Tenth Circuit, revised its high-cost universal service support mechanism for the largest local telephone companies. The support mechanism determines the amount of federal support to be provided to these non-rural carriers in each state. The FCC found that rural and urban phone rates generally are reasonably comparable today, based on data from a General Accounting Office (GAO) Report, and therefore concludes that current support levels should be maintained.

The amount of support for each state is determined by comparing the statewide average cost per line, estimated by the FCC's forward-looking cost model, to a nationwide cost benchmark of the national average cost. Federal support is provided to these non-rural carriers in states with costs that exceed the benchmark. For the year 2002, eight states received \$233 million in support.

The Tenth Circuit directed the FCC 1) to explain and define more precisely how its high-cost mechanism satisfied the statutory requirement to achieve reasonably comparable phone rates among rural and urban areas, 2) to better justify the cost benchmark used to determine support amounts, and 3) to develop a mechanism to induce states to assist in implementing the goals of universal service.

In today's *Order on Remand, Further Notice, and Memorandum Opinion and Order*, the FCC largely adopts the recommendations of the Federal-State Joint Board on Universal Service (Joint Board), with certain modifications. Specifically, the FCC:

- Requires the states to compare rates in their rural areas with a nationwide urban rate benchmark to determine whether such rural and urban rates are reasonably comparable.
- Concludes that a rate review and expanded certification process will induce states to achieve reasonably comparable rates.

- Reaffirms that comparing statewide average costs to a nationwide cost benchmark appropriately determines high-cost support for non-rural carriers.
- Defines the statutory terms “sufficient” and “reasonably comparable” more precisely.
- Modifies the high-cost mechanism for non-rural carriers by basing the cost benchmark – which is used to determine the amount of support – on two standard deviations above the national average cost per line.
- Seeks comment in a *Further Notice* on issues related to the rate review and expanded certification process. Additionally, the *Further Notice* seeks comment on whether additional targeted federal support should be made available to states that implement explicit universal service mechanisms to encourage states to adopt universal service mechanisms that will be sustainable in a competitive environment.

-FCC-

Docket No.: CC 96-45

Action by the Commission October 16, 2003, by Order on Remand, Further Notice of Proposed Rulemaking, and Memorandum Opinion and Order (FCC 03-249). Chairman Powell, Commissioners Abernathy, Copps, and Adelstein, with Commissioner Martin approving in part and dissenting in part. Separate statements issued by Chairman Powell, Commissioners Abernathy, Copps, Martin, and Adelstein.

Wireline Competition Bureau Staff Contact: Katie King at 202-418-7400

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