



# NEWS

**Federal Communications Commission**  
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**Washington, D. C. 20554**

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## **FCC MODIFIES HIGH-COST UNIVERSAL SERVICE SUPPORT SYSTEM TO PRESERVE AND ADVANCE AFFORDABLE TELEPHONE SERVICE**

*Commission Action Ensures that Telephone Carriers Providing Service to Rural Areas  
Have Specific, Predictable, and Sufficient Support*

Washington, D.C. – The Federal Communications Commission (FCC) today modified its existing universal service support mechanism for rural local telephone companies to ensure that telephone service is affordable and reasonably comparable throughout the country. Specifically, the Commission adopted an interim embedded, or historical, cost mechanism for a five-year period that provides predictable levels of support to rural carriers so that they can continue to provide affordable phone service and make needed investments in their networks.

The FCC's action today is consistent with the mandate established by Congress in the Telecommunications Act of 1996 to provide universal service support to states where the costs of providing telephone service are significantly higher than in other areas of the country. Additionally, today's action is based on recommendations made by the Rural Task Force (see attached summary), a broad cross-section of individuals representing rural telephone companies, competitive local exchange carriers, long distance carriers, wireless providers, consumer advocates, and state regulators.

With today's Order, the Commission completes the third piece of a four-piece puzzle of comprehensive universal service reform. The goal of this effort is to provide certainty and stability for competitive market entry, while at the same time preserving and advancing the policy goal of affordable universal phone service. The four elements are:

1. **Reform of the High Cost Mechanism for Rural Carriers** – Today's action to modify the embedded cost mechanism for 1,300 small local telephone companies for a five-year period.
2. **Reform of the High Cost Mechanism for Non-Rural Carriers** – The FCC adopted two companion Orders in October 1999 that reformed the high-cost support mechanism for the largest local telephone companies.

3. **Access Charge Reform for Price-Cap Carriers** – The FCC began this effort in May 1997, and completed this effort with the CALLS Order in May 2000, which identified \$650 million in implicit support in interstate access for the largest local telephone companies.
4. **Access Charge Reform for Rate-of-Return Carriers** – The FCC intends to act expeditiously on these issues, which are presented in the Multi-Association Group (MAG) proceeding.

High-cost universal service support gives consumers access to telecommunications services in areas where the cost of such service otherwise might be prohibitively expensive. In the past, this access has been achieved both through explicit support payments and implicit support flows, such as business customers subsidizing residential local rates, to enable carriers to serve high-cost areas at below-cost rates.

The universal service fund (USF) is the support mechanism established by the Commission to ensure that affordable telecommunications service is available to all Americans. The USF provides support and discounts for: 1) telecommunications services for consumers who live in high-cost areas; 2) telecommunications services for low-income consumers; 3) telecommunications services, Internet access and internal connections for schools and libraries; and 4) telecommunications services for rural health care providers.

Action by the Commission May 10, 2001, by 14<sup>th</sup> Report and Order and 21<sup>st</sup> Order on Reconsideration in CC Docket No. 96-45, and Report and Order in CC Docket No. 00-256 (FCC 01-157). Chairman Powell, Commissioners Ness and Tristani, with Commissioner Furchtgott-Roth concurring and Chairman Powell and Commissioner Ness issuing separate statements.

-FCC-

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CC Docket Nos. 96-45 and 00-256

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