

additional targeted Federal support for any qualifying State in a specific, predictable and consistent manner. We seek comment on this proposed method for calculating additional targeted Federal support. Is two standard deviations an appropriate threshold for this purpose?

17. We also propose that any additional targeted Federal support for eligible wire centers in qualifying States should be calculated as a set percentage of costs in excess of the benchmark. For example, if the Commission were to set the percentage at 5 percent of costs in excess of two standard deviations above the average and Wyoming were to qualify for additional targeted Federal support, it would be eligible for approximately \$546,000. If the Commission were to set the percentage at 25 percent of costs in excess of two standard deviations above the average and Wyoming were to qualify, it would be eligible for approximately \$2,731,000 in additional targeted Federal support.

18. We believe that this proposal is consistent with the current and past methodologies for determining high-cost support for non-rural carriers and would provide meaningful support to assist States in resolving any rate comparability issues that combined Federal and State action have failed to resolve. Under the non-rural support mechanism, a non-rural carrier in a State with an average cost per loop for areas served by non-rural carriers that exceeds the cost benchmark of two standard deviations above the average is eligible for support for 76 percent of its costs in excess of the benchmark. This percentage represents an estimate of the costs above the benchmark that are assigned to the intrastate jurisdiction. Because any additional targeted Federal support would supplement the non-rural support mechanism in order to address exceptional problems, we do not believe that it would be necessary that such support be provided for the same percentage of costs in excess of the benchmark as covered by the non-rural support mechanism. We seek comment on what percentage of costs in excess of the benchmark should be supported for purposes of additional targeted Federal support. Is there another proposed method of calculating any additional targeted Federal support based on forward-looking cost estimates that would better address the purpose for which the support would be intended?

#### *D. Additional Inducements for State Action*

19. Finally, we seek comment on whether we should make additional targeted Federal support available for

high-cost wire centers in States that implement explicit universal service mechanisms. The purpose of this proposal is to create a positive incentive for States to reform their implicit universal service mechanisms. Under this proposal, as discussed below, any additional targeted Federal support would be determined using a methodology similar to that proposed above in connection with State requests for further Federal action. Unlike State requests for further Federal action, States would not be required to demonstrate that combined State and Federal efforts had failed to achieve rate comparability.

20. As discussed, section 254 states a clear preference for explicit, rather than implicit, support, but the 1996 Act does not require States to adopt explicit universal service support mechanisms. In the foregoing Order, therefore, we decline to adopt measures to require or induce all States to immediately remove implicit subsidies from intrastate rates through substantial increases in Federal support. Nevertheless, we agree with commenters that States should be encouraged to replace implicit support with explicit support mechanisms that will be sustainable in a competitive environment. To what extent should the Commission encourage States to replace their implicit universal service support mechanisms with explicit mechanisms? We seek comment on whether the Commission has an interest, other than the aspirational provisions of the Act, in States' decisions to adopt explicit mechanisms or to rely on implicit support flows. How do State universal service mechanisms, explicit and implicit, interact with the Federal universal service support mechanisms? We note that some States have made progress in making explicit their universal service support mechanisms. Can we expect States to adopt, in advance of or concurrently with the local development of competition, reforms that will reduce the vulnerability of the States' universal service mechanisms to competition? If States have not yet taken action to adopt explicit universal service mechanisms, can we assume that they will do so?

21. We seek comment on whether providing additional targeted Federal support to States that replace implicit universal service mechanisms with explicit universal service mechanisms would be an appropriate means of inducing reforms of State universal service support mechanisms. The availability of additional targeted Federal support would provide each State with a direct incentive to make its universal service support mechanisms

explicit, rather than implicit. This method of inducement would pose less risk to our universal service goals than conditioning receipt of existing non-rural high-cost support on State action. Moreover, providing States that implement universal service reforms with additional targeted Federal support might mitigate possible transitional issues associated with the replacement of implicit support with explicit support and encourage States to adopt a long-term approach to universal service. To what extent are there transitional issues associated with moving from implicit support mechanisms to explicit support mechanisms? If such transitional issues are a significant deterrent to State adoption of universal service reforms, should any additional targeted Federal support be limited for the period of time during which the transition takes place? If commenters contend that another form of inducement would be better suited for achieving the Commission's goals, the commenters should provide a detailed explanation of their inducement.

22. We further propose that any additional targeted Federal support that is provided to induce States to adopt explicit universal service mechanisms should be based on forward-looking wire-center cost estimates. Basing any additional targeted Federal support on forward-looking cost estimates will make such support specific and predictable, consistent with the Act, and would target the support to high-cost areas, which may ease a State's implementation of explicit universal service mechanisms. Similar to the additional targeted Federal support proposed above with respect to State requests for further Federal action to achieve rate comparability, we propose that any additional targeted Federal support provided for inducement purposes should be calculated based on a percentage of forward-looking costs in excess of a particular threshold for high-cost wire centers.

23. Specifically, we propose that, if a State meets the necessary conditions, it should receive additional targeted Federal support equal to a specific percentage of costs in excess of two standard deviations above the average cost wire center. We seek comment on this proposed method of calculating additional targeted Federal support for inducement purposes. We specifically seek comment on the appropriate percentage of costs in excess of the threshold that we should support with additional targeted Federal support. We note that 48 States and Puerto Rico would have at least one wire center with costs per loop above the benchmark of