Before the
FEDERAL COMMUNICATIONS COMMISSION
Washington, DC 20554

In the Matter of Federal-State Joint Board on Universal Service Petition for Forbearance from Enforcement of Sections 54.709 and 54.711 of the Commission's Rules by Operator Communications, Inc. d/b/a Oncor Communications, Inc.	CC Docket No. 96-45

REPLY COMMENTS OF VERIZON[1]

The record in this proceeding confirms the wisdom of the Commission's original decision not to use current revenues to assess contributions to the universal service fund. Using base year revenues is competitively neutral and far less administratively burdensome than the alternatives, of which AT&T is the primary advocate. There is no basis for AT&T's argument that the existing assessment method gives the regional Bell operating companies an unfair advantage over the interexchange carriers, as AT&T admits that other carriers in the interexchange market whose demand is increasing are in the same position as the regional Bell operating companies. The

[1] This filing is made on behalf of the Verizon telephone companies, which are the local exchange carriers affiliated with Verizon Communications Inc. (listed in an attachment) as well as the Verizon Long Distance Companies, which include Bell Atlantic Communications, Inc. d/b/a Verizon Long Distance, NYNEX Long Distance, Inc. d/b/a Verizon Enterprise Solutions, Verizon Hawaii International Inc., Verizon Select Services Inc. and GTE Pacifica Inc. d/b/a Verizon Pacifica – collectively, "Verizon."

Commission was correct the first time when it found that its method does not discriminate against any class of carriers.

Most commenters agree that the Commission should not use current revenues to assess contributions to the universal service fund. ***See*** CTIA at 3-10; USTA at 2-4; Qwest at 5-9; WorldCom at 2-3; Verizon at 2-7. They demonstrate that the existing method is competitively neutral and far easier to administer than the alternatives based on current revenues. In particular, the Universal Service Administrative Company ("USAC") showed that the two proposals in the *FNPRM* would greatly complicate USAC's administrative functions and cost an additional $1.4 million per year for monthly data collection and processing, more than four times USAC's current budget for these functions. ***See*** USAC at 12. In addition, these proposals would (1) risk the integrity of the universal support mechanism by creating potential shortfalls; (2) increase the risk of inaccurate payments and non-payments; (3) require the carriers to file up to 13 or 14 revenue reports annually rather than the 2 current annual filings; (4) increase USAC's verification and audit responsibilities; and (5) increase compliance and enforcement issues. ***See*** id. at 9-19. CTIA points out (at 3) that the proposal to base universal service assessments on current revenues would result in an over-recovery of contributions from certain classes of carriers, such as wireless carriers, that have higher growth rates than other classes of carriers. Therefore, it would be less competitively neutral than the existing mechanism.

In contrast, only two commenters – AT&T and NOS – support the use of current revenues as the basis for assessing universal service contributions, and they simply repeat arguments that the Commission has already considered and rejected. ***See*** *Seventeenth Order on Reconsideration*, ¶¶ 21-27. AT&T's argument (at 2-5) that relying on base year revenues is not competitively neutral is based solely on its chagrin that particular competitors – the regional Bell operating companies – have been successful in the marketplace while AT&T continues to suffer a reduction in market share that began long before the regional Bell operating companies entered the market. This does not show that the existing system discriminates against any class of carrier or any market segment over another. As AT&T concedes, its arguments apply as well to all interexchange carriers that are experiencing revenue growth or are new entrants into the interexchange market. ***See*** AT&T at 3, fn.3 & 5. The fact that the regional Bell Operating companies are among these carriers in a small handful of states does not demonstrate any discriminatory competitive impact.

AT&T's argument (at 4) that the existing recovery method gives the regional Bell operating companies "an extraordinary cost and pricing advantage for long distance" because they do not pay the contribution rate in the first year is grossly exaggerated. The latest universal service assessment factor is under 7 percent. This is much less than the percentage of a new entrant's costs that are dedicated to building a new organization and growing a customer base from scratch. Given the fundamental difference between the financial situations of new entrants and incumbents, it is impossible to look at the universal service contribution factor in isolation and decide that a particular carrier has a pricing advantage over others in the industry.

NOS also argues (at 2-3) that the existing assessment method favors carriers whose revenues are growing over carriers whose revenues are declining, but it does not claim that this uniquely benefits the regional Bell operating companies. Its argument that its own revenues declined by one-third in a recent year, making it difficult to recover its universal service contribution from a declining revenue base, is precisely the argument that it made two years ago and that the Commission rejected in the *Seventeenth Order on Reconsideration* (¶ 14). The Commission correctly found that "[t]he fact that some carriers may have difficulty recovering their contributions from a declining customer base is the product of a competitive marketplace, not an inequitable, discriminatory, or competitively-biased Commission rule." Id. ¶ 21.

AT&T's comments confirm that assessing universal service contributions on the basis of current revenues would drastically increase the administrative burden on USAC and the carriers, as it admits that the carriers' revenue reports would increase from 2 per year to 14, in addition to mid-quarter adjustments, self-audits and true-ups, and increased oversight by both USAC and the Commission. ***See*** AT&T at 6-9. This shows that the costs of adopting this assessment method would greatly outweigh any potential benefits, of which there are none.

In contrast, Verizon has proposed to make the universal service recovery mechanism less burdensome by shifting to a single recovery factor per year, using base year revenues as at present, in place of the quarterly changes to the contribution factor. This would relieve carriers and their customers from the burden of quarterly rate changes. Alternatively, Verizon proposed that the Commission allow the local exchange carriers to establish their universal service recovery charges on an annual basis, as they do for their other interstate rates. Either method would be an improvement over the existing process.

Conclusion

There is nothing in the record to warrant shifting to a current revenue base for universal service contributions. However, the Commission should take this opportunity to simplify the universal service recovery method by allowing the incumbent local exchange carriers to develop their end user rates on an annual basis.

Respectfully submitted,

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ATTACHMENT A

THE VERIZON TELEPHONE COMPANIES

The Verizon telephone companies are the local exchange carriers affiliated with Verizon Communications Corp.. These are:

Contel of Minnesota, Inc. d/b/a Verizon Minnesota
Contel of the South, Inc. d/b/a Verizon Mid-States
GTE Alaska Incorporated d/b/a Verizon Alaska
GTE Arkansas Incorporated d/b/a Verizon Arkansas
GTE Midwest Incorporated d/b/a Verizon Midwest
GTE Southwest Incorporated d/b/a Verizon Southwest
The Micronesian Telecommunications Corporation
Verizon California Inc.
Verizon Delaware Inc.
Verizon Florida Inc.
Verizon Hawaii Inc.
Verizon Maryland Inc.
Verizon New England Inc.
Verizon New Jersey Inc.
Verizon New York Inc.
Verizon North Inc.
Verizon Northwest Inc.
Verizon Pennsylvania Inc.
Verizon South Inc.
Verizon Virginia Inc.
Verizon Washington, DC Inc.
Verizon West Coast Inc.
Verizon West Virginia Inc.