

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

In the Matter of)	
)	
Multi-Association Group (MAG) Plan for)	CC Docket No. 00-256
Regulation of Interstate Services of)	
Non-Price Cap Incumbent Local Exchange)	
Carriers and Interexchange Carriers)	
)	
Federal-State Joint Board on)	CC Docket No. 96-45
Universal Service)	
)	
Access Charge Reform for Incumbent)	CC Docket No. 98-77
Local Exchange Carriers Subject to)	
Rate-of-Return Regulation)	
)	
Prescribing the Authorized Rate of Return For)	CC Docket No. 98-166
Interstate Services of Local Exchange Carriers)	

REPLY COMMENTS OF VERIZON¹

Verizon agrees with the majority of parties who support the goals of the proposal of the Multi-Association Group (“MAG”) to establish a comprehensive approach to resolve the numerous, inter-related, interstate access reform and universal service issues that rate-of-return regulated local exchange carriers are encountering, while also introducing more efficient cost recovery mechanisms for those carriers. The MAG plan contains many provisions that are similar to the CALLS plan that the Commission recently adopted for price cap carriers. *See Access Charge Reform, Price Cap Performance Review for Local Exchange Carriers*, 15 FCC Rcd 12962 (2000) (“CALLS Order”). The Commission should use the common provisions of the MAG proposal and CALLS plan as the foundation for its expeditious consideration of the

¹ The Verizon telephone companies (“Verizon”) are the local exchange carriers affiliated with Verizon Communications Inc. identified in the attached list.

access reform and universal service needs of rate-of-return carriers. At the same time, the Commission should not adopt those limited aspects of the proposal that are inconsistent with prior Commission decisions or sound public policy.

The principal provisions of the two plans are in harmony. First, under the MAG proposal, starting on July 1, 2001 the subscriber line charges (SLC) of the rate-of-return carriers will increase in the same fashion as those of price cap carriers under CALLS. *See Notice of Proposed Rulemaking*, FCC 00-448, & 7 (rel. Jan. 5, 2001) (“NPRM”). Such SLC levels help ensure that costs are recovered from the parties that caused the costs to be incurred.

Second, the revised SLC levels and increased universal service support will allow significant reductions in per minute access charges. The aggregate of local switching, transport, the interconnection charge, and the carrier common line charge will drop nearly 60%, from 3.9 to 1.6 cents per minute.

Third, with the proposed increases in SLCs and portability of universal service support, more competitors are likely to enter the market, and carriers will be more likely to serve high cost areas and rural customers. This proposal to revise the SLC in order to substantially reduce access charges received the support of a number of parties, and Verizon urges the Commission to adopt these rate changes. *See e.g.*, AT&T at 5, Sprint at 6; WorldCom at 8; Global Crossing at 4 and Qwest at 2.

Although the per-minute access rate will remain higher than the rate for price cap carriers, the Commission should not order the further reductions for rate-of-return carriers that some parties urge. *See* AT&T at 6, Sprint at 6, Global Crossing at 2. As the Commission noted, MAG has explained that the percentage reductions in the per-minute access rate are similar to those in the CALLS plan. *See* NPRM at n.17. Moreover, additional access charge reductions

would not appreciably add to the benefits of the substantial reductions in the proposal, but such additional access charge reductions would necessarily increase the size of the universal service fund.

Fourth, like the CALLS plan, the MAG proposal attempts to identify and to quantify the implicit universal service support currently in access rates and substitute such support with an explicit universal service fund.

However, the MAG plan deviates from CALLS in some critical respects. While there is no reason the MAG plan should duplicate CALLS in every detail, certain deviations identified by some parties are inconsistent with existing Commission policy. *See, e.g.,* Sprint at 8-10, Qwest at 4. For example, unlike the CALLS plan, the amount of universal service support under the MAG proposal is uncapped and therefore could increase unchecked over time, as the Commission recognizes. *See* NPRM at & 18. The plan is uncapped because, as some parties point out in their comments, the amount of the Rate Averaging Support can increase based on access line demand growth, inflation, and decreases in the Composite Access Rate. *See, e.g.,* Qwest at 5, California at 3. The sum of all of these factors could, over time, cause the amount of support to increase substantially. This is because the MAG plan caps the SLC at a specified level and requires access charges to decrease over time. As a result, the only source of additional revenues is Rate Averaging Support, which will be forced upward as lines grow, as revenue per line increases with inflation, and as access charges are phased down.

An open-ended fund is not needed to ensure that a rate-of-return carrier's revenue will increase with inflation, because, as the Commission recognizes, the MAG plan already contains a formula that provides for the total amount of revenue per line to increase with inflation. *See* NPRM at & 9. In particular, MAG's proposal itself specifies that the "initial [revenue-per-line]

for each study area is adjusted for inflation, using the Gross Domestic Product-Chained Price Index ('GDP-PI') prepared by the U.S. Department of Commerce, and will be adjusted annually thereafter for inflation.”² Once implicit subsidies are removed from access charges, there is no reason to allow the amount of explicit universal service support to expand unchecked.

The Commission itself acknowledges that the universal service fund it adopted as part of the CALLS plan for non-rural carriers is limited. NPRM at & 18. In CALLS, the Commission adopted a formula which capped the fund at \$650 million annually and included an adjustment factor which, in effect, forced the individual carriers' universal service requirements to stay within that agreed-upon cap. *See* CALLS Order at & 196. While the number of rate-of-return carriers and their diversity makes the solution more complex than for price cap carriers, a capped solution is feasible and should be developed for the rate-of-return carrier fund as well.

The MAG plan differs from Commission policy for universal support in other respects, and, before adopting the MAG proposal, the Commission should closely examine these differences and make appropriate adjustments.

First, the MAG plan proposes to include Rate Averaging Support for special access services which, as the Commission points out, have not been supported services in the past. *See* NPRM at & 18. Support for special access is not part of the CALLS plan, and there does not appear to be a valid justification for adding special access to those services receiving universal service support in rural areas. Including support for special access services would unnecessarily increase the amount of Rate Averaging Support.

² MAG Plan, Exhibit 1, Detailed Description, Plan for Improved Regulation of Non-price Cap Incumbent Local Exchange Carriers at 3-4 (Oct. 20, 2000).

Second, the CALLS plan removed universal service contributions from the incumbent local exchange carriers' access rates, recovering them instead through explicit charges to end users. *See* NPRM at & 18. The MAG plan, however, does not address this issue. As some of the commenters point out, leaving universal service fund contributions embedded in access rates perpetuates implicit subsidies which should be eliminated. *See* AT&T at 8, WorldCom at 10. Otherwise, the caps on SLC levels and per-minute access rates will force the universal service support for rate-of-return carriers to come from the existing universal service fund – which is supported by price cap and all other telecommunications carriers. The result would be that combination of the SLC and universal service per-line charge for end users of price cap carriers' services would exceed the charge (which would consist of only the SLC) to users of rate-of-return carriers' services. Accordingly, the Commission should recover universal service contributions through explicit charges from end users for rate-of-return carriers in the same manner as the Commission adopted in the CALLS Order.

Third, under the MAG proposal, rate averaging support is restricted to those carriers that choose incentive-based regulation and elect to participate in the NECA pool. *See* NPRM at & 8. This result, however, is inconsistent with the principle that universal service support should be portable, because such support would not be available to all rate-of-return carriers. *See* AT&T at 10, GVNW at 4. By removing the restriction, the Commission will fulfill the goal of removing implicit universal service support from the access charges of all carriers. Furthermore, by making rate averaging support available in all areas, the Commission will avoid a disincentive for competitors to serve high-cost areas.

Finally, the MAG proposal would change section 69.104 of the current Commission rules regarding subscriber line charges (“SLCs”) in connection with Centrex service. It would charge

1/9 of a SLC for each Centrex line to bring it into rough equivalence with the charges assessed on PBX equipment.³ Such a change is appropriate, in order to avoid placing Centrex customers at a disadvantage. However, there is no reason why it should be limited to rural areas. Such a change is even more important in high-density urban areas where competition for large customers is already a reality and where the current SLC formula places Centrex services at a competitive disadvantage.

The Commission also asks the parties to comment on whether to expand those services that are eligible for universal service support to include advanced services. *See* NPRM at & 21. It should not, for two reasons. First, any expansion of supported services should not be limited to rural areas served by rate-of-return carriers but should be considered nationwide. This proceeding, however, is limited to consideration of a revised access charge plan for rate-of-return carriers. In addition, as the Commission points out, the Commission has recently asked the federal-state joint board to review the definition of universal service. *See id.* at n.41, citing *Federal-State Joint Board on Universal Service, Order*, CC Docket No. 96-45, FCC 00-440 (rel. Dec. 21, 2000). Consideration of that issue here would preempt the broader joint board consideration of this issue.

More fundamentally, there has been no showing that an expanded definition of universal service is consistent with the Act. Section 254(c)(1) specifies a four-part definition of services that should be supported. The MAG proponents have failed to show how advanced services

³ MAG Plan, Exhibit 1, Detailed Description, Plan for Improved Regulation of Non-price Cap Incumbent Local Exchange Carriers, at n.7 (Oct. 20, 2000).

meet that definition, in particular that the services have been subscribed to by a substantial majority of residential ratepayers. In addition, advanced services are competitive, with cable television, satellite, fixed wireless, and other providers competing with local exchange carriers to offer such services to the public. There is no public interest benefit in subsidizing provision of such competitive services.

Accordingly, the Commission should move quickly to review the MAG plan. It is a comprehensive solution to the thorny issues of access reform and universal service for rate-of-return carriers which, with the minor modifications suggested herein, can provide a CALLS-like solution for these companies.

Respectfully submitted,

Michael E. Glover
Edward Shakin
Of Counsel

Lawrence W. Katz
1320 North Court House Road
Eighth Floor
Arlington, Virginia 22201
(703) 974-4862

Attorney for the Verizon
telephone companies

March 12, 2001

THE VERIZON TELEPHONE COMPANIES

The Verizon telephone companies are the affiliated local telephone companies of Bell Atlantic Corporation (d/b/a Verizon Communications), including the telephone companies formerly affiliated with GTE Corporation. These are:

Contel of the South, Inc. d/b/a Verizon South Systems
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.