Before the
Federal Communications Commission
Washington, DC 20554

In the Matter of	)	
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	)	
Federal-State Joint Board on Universal Service	)	CC Docket No. 96-45
	)	
1998 Biennial Regulatory Review - Streamlined Contributor Reporting Requirements Associated With Administration of Telecommunications Relay Service, North American Numbering Plan, Local Number Portability, and Universal Service Support Mechanisms	)	CC Docket No. 98-171
	)	
Telecommunications Services for Individuals with Hearing and Speech Disabilities, and the Americans with Disabilities Act of 1990	)	CC Docket No. 90-571
	)	
Administration of the North American Numbering Plan and North American Numbering Plan Cost Recovery Contribution Factor and Fund Size	)	CC Docket No. 92-237 NSD File No. L-00-72
	)	
Number Resource Optimization	)	CC Docket No. 99-200
	)	
Telephone Number Portability	)	CC Docket No. 95-116

COMMENTS OF THE UNIVERSAL SERVICE ADMINISTRATIVE COMPANY

The Universal Service Administrative Company (USAC) submits these Comments regarding the Notice of Proposed Rulemaking released in the above-captioned proceeding on May 8, 2001.[1] In the *Contributions NPRM*, the Commission sought comment from interested parties, specifically including USAC, on proposals to modify the Commission's rules relating to contributions to the federal universal service support

[1] *See Federal-State Joint Board on Universal Service,* Notice of Proposed Rulemaking, CC Docket No. 96-45 (rel. May 8, 2001)(*Contributions NPRM*).

mechanisms. The Commission seeks to streamline and reform both the manner in which it assesses carrier[2] contributions to the universal service support mechanisms and the manner in which carriers may recover those costs from their customers. The Commission seeks to ensure that the assessment of contributions to the universal service support mechanisms remains competitively neutral, and that the mechanisms continue to be specific, predictable, and sufficient as required by section 254 of the Communications Act of 1934, as amended by the Telecommunications Act of 1996 (the Act).[3] At the same time, the Commission seeks to ensure that carrier conduct, particularly with regard to the recovery of universal service costs from customers, stays within the bounds established by the Act.[4]

USAC is the private not-for-profit corporation that administers the universal service support mechanisms pursuant to the Commission's Part 54 regulations.[5] USAC administers the universal service support mechanisms for companies that provide service to high-cost areas, low-income consumers, rural health care providers, and schools and libraries, as well as the billing, collecting, and disbursing of all universal service support. USAC is governed by a board of directors which includes a broad representation of both industry and non-industry interests.[6] The Commission has sought comment from USAC

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[2] For purposes of these Comments, the term "carrier" is synonymous with all filers of universal service contribution worksheets. *See Contributions NPRM* ¶ 1 n.1.

[3] 47 U.S.C. § 254(d).

[4] *See* 47 U.S.C. §§ 201, 202. Section 201(b) requires that all carrier charges, practices, classifications, and regulations "for and in connection with" interstate communications service be just and reasonable, and gives the Commission jurisdiction to enact rules to implement that requirement. Section 202(a) prohibits "unjust or unreasonable discrimination" in connection with the provision of communications services. Section 202(a) also prohibits carriers from making or giving "any undue or unreasonable preference or advantage to any particular person, class of persons, or locality, or to subject any particular person, class of persons, or locality to any undue or unreasonable prejudice or disadvantage."

[5] *See generally* 47 C.F.R. Part 54.

[6] *See* 47 C.F.R. § 54.703.

regarding numerous aspects of the proposals discussed in the *Contributions NPRM*.[7] Commission regulations provide that USAC "may advocate positions before the Commission and its staff only on administrative matters relating to the universal service support mechanisms."[8] Much of the discussion in the *Contributions NPRM* concerns whether certain changes to the manner in which universal service contributions are assessed are warranted by changes in the telecommunications marketplace and are desirable to carriers and consumers as a policy matter.[9] As the neutral administrator of the universal service support mechanisms, USAC has no opinion on and cannot comment regarding the policy choices confronted by the Commission. USAC submits these Comments solely to address the administrative issues raised by the Commission in the *Contributions NPRM*.

BACKGROUND

In section 254 of the Act, Congress instructed the Commission and the states to establish universal service support mechanisms with the goal of ensuring the delivery of affordable telecommunications services to all Americans, including consumers in high-cost areas, low-income consumers, eligible schools and libraries, and rural health care providers.[10] Section 254 of the Act requires that "[e]very telecommunications carrier that provides interstate telecommunications services shall contribute, on an equitable and nondiscriminatory basis, to the specific, predictable, and sufficient mechanisms established by the Commission to preserve and advance universal service."[11]

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[7] *See, e.g., Contributions NPRM* ¶ 40.
[8] 47 C.F.R. § 54.702(d).
[9] *See, e.g., Contributions NPRM* ¶¶ 3-5.
[10] The 1996 Act amended the Communications Act of 1934, 47 U.S.C. §§ 151, *et seq*. *See* Pub. L. No. 104-104, 110 Stat. 56 (1996).
[11] 47 U.S.C. § 254(d).

In the 1997 *Universal Service Order*, the Commission decided to base contributions to the universal service support mechanisms on end-user telecommunications revenues.[12] Among other things, the Commission concluded that assessment based on end-user telecommunications revenues is competitively neutral and easy to administer.[13] The Commission also specified the entities required to contribute to the universal service support mechanisms.[14]

In the *Second Order on Reconsideration*, the Commission set forth the specific method of computation for contributions to the universal service support mechanisms.[15] Section 54.709(a) provides, in relevant part, that contributions to the support mechanisms shall be based on contributors' end-user telecommunications revenues and a contribution factor determined quarterly by the Commission based on information submitted by USAC.[16] The rule further provides that the Commission shall base the quarterly universal service contribution factor on the ratio of total projected quarterly expenses of the universal service support mechanisms to total end-user telecommunications revenues.[17] Thus, contributions are the product of a contributor's end-user telecommunications revenues multiplied by a quarterly contribution factor that is equal to

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[12] *See Federal-State Joint Board on Universal Service*, CC Docket No. 96-45, Report and Order, 12 FCC Rcd 8776, 9206 ¶ 844 (1997), as corrected by *Federal-State Joint Board on Universal Service*, CC Docket No. 96-45, Erratum, FCC 97-157 (rel. June 4, 1997), *aff'd in part, rev'd in part, remanded in part sub nom. Texas Office of Public Utility Counsel v. FCC*, 183 F.3d 393 (5th Cir., 1999), *cert. denied, Celpage, Inc. v. FCC*, 530 U.S. 1210 (2000) (*Universal Service Order*).

[13] *See Universal Service Order*, 12 FCC Rcd at 8801-03 ¶¶ 46-51.

[14] 47 C.F.R. § 54.706(a) ("Entities that provide interstate telecommunications to the public, or to such classes of users as to be effectively available to the public, for a fee will be considered telecommunications carriers providing interstate telecommunications services and must contribute to the universal service support programs.").

[15] *See Changes to the Board of Directors of the National Exchange Carrier Association, Inc.*, CC Docket No. 97-21, *Federal-State Joint Board on Universal Service*, CC Docket No. 96-45, Report and Order and Second Order on Reconsideration, 12 FCC Rcd 18400 (1997) (*Second Order on Reconsideration*). *See also* 47 C.F.R. § 54.709.

[16] 47 C.F.R. § 54.709(a).

[17] *Id.*

the ratio of total projected quarterly expenses of the universal service support mechanisms to total end-user telecommunications revenues.[18]

To collect information about end-user telecommunications revenues from contributors, the Commission initially adopted a rule requiring contributors to submit a Universal Service Worksheet semi-annually.[19] Contributions were based on billed end-user telecommunications revenues from the prior year. The Commission recently released an order reducing the interval between the accrual of revenues by carriers and the assessment of universal service contributions based on those revenues from one year to six months.[20] The Commission adopted a new rule requiring contributors to submit a revised Telecommunications Reporting Worksheet, the FCC Form 499-Q (sometimes referred to herein as the Worksheet), to USAC on a quarterly basis.[21] The Worksheet explains that end-user telecommunications revenues for a particular quarter determine contributions for the second following quarter.[22] Carriers are required to submit revenue

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[18] *Id.*

[19] *Second Order on Reconsideration*, 12 FCC Rcd 18400, Appendix B.

[20] *See Federal-State Joint Board on Universal Service*, CC Docket No. 96-45, Report and Order and Order on Reconsideration, 16 FCC Rcd 5748 (rel. Mar. 14, 2001) (*Quarterly Reporting Order*).

[21] *Quarterly Reporting Order* ¶ 11. *See also* 47 C.F.R. § 54.711(a) ("Contributions shall be calculated and filed in accordance with the Telecommunications Reporting Worksheet. The Telecommunications Reporting Worksheet sets forth information that the contributor must submit to the Administrator on a quarterly and annual basis.").

[22] *See Quarterly Reporting Order* ¶ 11. After it issued the *Second Order on Reconsideration*, in an effort to reduce administrative burdens on contributors, the Commission consolidated the reporting requirements for the universal service support mechanisms, the Telecommunications Relay Services Fund, the cost recovery mechanism for administration of the North American Numbering Plan, and the cost recovery mechanism for administration of long-term local number portability into the FCC Form 499 Telecommunications Reporting Worksheet. *1998 Biennial Regulatory Review — Streamlined Contributor Reporting Requirements Associated with Administration of Telecommunications Relay Services, North American Numbering Plan, Local Number Portability, and Universal Service Support Mechanisms*, CC Docket No. 98-171, Report and Order, 14 FCC Rcd 16602 (1999). *See also Common Carrier Bureau Announces Release of September Version of Telecommunications Reporting Worksheet (FCC Form 499-S) for Contributions to the Universal Service Support Mechanisms*, CC Docket No. 98-171, Public Notice, DA 99-1520 (rel. July 30, 1999); *Common Carrier Bureau Announces Release of Telecommunications Reporting Worksheet (FCC Form 499-A) for April 1, 2000 Filing by All Telecommunications Carriers*, CC Docket No. 98-171, Public Notice, DA 00-471 (rel. Mar. 1, 2000). Because the current data collection system allocates costs among

data for each quarter by the beginning of the second month following the end of the quarter. Consequently, carriers must submit revenue data for the first quarter of each year by May 1 of that year and for each succeeding quarter by August 1, November 1, and February 1, respectively. Thus, for example, under the current rules, revenue data from the first quarter of the year must be submitted on May 1 of that year and is used to calculate universal service support contributions for the third quarter of that year. In addition, carriers continue to file FCC Form 499-A to report their annual revenues from the prior year. USAC uses the revenue data provided by carriers in the FCC Form 499-A to perform annual true-ups to the quarterly revenue data submitted by carriers during the prior calendar year.[23]

In light of significant recent developments in the interstate telecommunications marketplace, the Commission has sought comment on whether changes should be made to the existing assessment methodology described above. According to the Commission, these developments include the entry of new providers into the interexchange services market (including Regional Bell Operating Companies under section 271 of the Act), a decline in the revenues generated by certain wireline interexchange carriers in light of growing competition, growth in the wireless telecommunications sector as well as the advent of Internet Protocol telephony, and the bundling of services by carriers (such as offering flat-rate packages that include both interstate and intrastate telecommunications and non-telecommunications products and services).[24] The Commission asked interested parties to comment on whether, and if so how, to streamline and reform both the manner

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the various billing agents, USAC recognizes that any changes to the reporting and data collection process would likely have an impact on the other billing entities as well.

[23] *See Quarterly Reporting Order* ¶¶ 11-12.

[24] *See Contributions NPRM* ¶¶ 3-6, 12-15.

in which carrier contributions to the universal service support mechanisms are assessed and the manner in which carriers may recover those costs from consumers.[25]

The Commission requested comment from USAC on the administrative burdens raised by various proposals and posed several specific questions to USAC.[26] The comments of USAC pertain to the administrative aspects of the following issues raised by the Commission: (1) a proposed methodology to assess universal service contributions based on current or projected revenues; (2) a proposed methodology to assess universal service contributions based on collected, instead of gross-billed, revenues; (3) a proposed methodology to assess universal service contributions on a flat-fee basis, such as a per-line or per-account charge; (4) a proposal to eliminate or modify the current *de minimis* exemption to the universal service contribution requirement; (5) ways to ensure the continuing sufficiency of the universal service support mechanisms under the various proposed revisions to the current assessment methodology; (6) additional steps that should be required to ensure that carriers accurately report relevant information and make universal service contributions in a timely manner; (7) the administrative issues that would be involved in changing the existing methodology used to fund the universal service support mechanisms; and (8) the transition from the existing contribution assessment methodology to the proposed regimes.

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[25] *See id.* ¶¶ 16-49.
[26] *See id.* ¶ 40.

DISCUSSION

In the *Contributions NPRM*, the Commission has called for a "fresh look at how the universal service contribution system should operate."[27] USAC's comments are limited to a discussion of the administrative aspects of the various proposals raised by the Commission to change the contribution methodology used to fund the universal service support mechanisms.[28] USAC addresses these matters in the order that they are set forth in the *Contributions NPRM*. USAC expresses no opinion on the desirability of changing or retaining the existing contribution methodology. Because the Commission sets forth various options in relatively general terms, USAC's comments are, necessarily, somewhat general at this time. The full administrative implications of any policy changes will depend in large part on the details of any new approach chosen by the Commission. Whatever the approach ultimately selected by the Commission, USAC urges the Commission to adopt clear rules, provide clear direction to USAC and carriers, and to choose a process that is transparent, enforceable, and fully auditable.

A. Proposals to Assess Contributions Based on Carrier Revenues

The Commission has sought comment on whether universal service contributions should be based on carrier revenues other than gross-billed end-user telecommunications revenues.[29] Two of the alternatives proposed by the Commission involve modifying the universal service contribution methodology by applying a contribution factor to carriers' current or projected end-user revenues instead of historical revenues. These alternatives would require the Commission to continue to set the contribution factor quarterly based on the ratio of estimated universal service support required to total end-user

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[27] *See id.* ¶ 19.
[28] *See* 47 C.F.R. § 54.702(d).
[29] *See Contributions NPRM* ¶ 19.

telecommunications revenues.[30] The revenue base used in calculating the contribution factor would continue to be determined by USAC, as it is currently, based on quarterly filings of the Worksheet by carriers. Carriers, however, would calculate their own contributions by applying the contribution factor to their *current* end-user revenues, as opposed to their end-user revenues for the quarter ended six months previously.[31] Alternatively, USAC would bill carriers based on revenue projections regularly submitted by carriers. The Commission has also proposed basing universal service contributions on collected, rather than billed, end-user revenues.[32]

The Commission sought comment on a proposed methodology to base contributions on current end-user revenues in a previous proceeding, but declined to adopt the proposal at that time.[33] USAC filed comments on the administrative issues raised by the proposal to base contributions on current revenues.[34] USAC briefly restates below the key administrative issues raised by the current revenues proposal. USAC then addresses the proposals to base contributions on projected revenues and on actual collections rather than gross-billed revenues.

1. Current Revenues

An assessment methodology based on current revenues would require significant revisions to USAC's billing and collection procedures. If the proposed contribution methodology required periodic current revenue reports, either in addition to or in lieu of, the quarterly historical revenue reports already required, then the number of

[30] In the case of a projected revenues methodology, presumably the contribution factor would be based on projected total end-user telecommunications revenues.
[31] *See Contributions NPRM* ¶ 20.
[32] *See id.* ¶ 22.
[33] *See Quarterly Reporting Order* at ¶ 14.
[34] *See Comments of the Universal Service Administrative Company*, CC Docket No. 96-45, at 6-20 (Nov. 30, 2000)(*USAC Reporting Comments*); *Reply Comments of the Universal Service Administrative Company*, CC Docket No. 96-45, at 3-5 (Dec. 14, 2000)(*USAC Reporting Reply Comments*).

revenue filings carriers must make to USAC, as well as their overall administrative burdens associated with universal service, would likely increase. Such a methodology would increase administrative burdens and expense on USAC as well.

Currently, USAC calculates individual contribution obligations by multiplying the quarterly contribution factor by the applicable period of historical quarterly revenues as reported by carriers on their Worksheets.[35] USAC then bills contributors in equal monthly installments at a fixed amount each month. This process would need to be substantially overhauled were the Commission to adopt an assessment methodology based on "current" (*i.e.*, the immediately preceding month's) revenues.

Under such a proposal, USAC would no longer invoice carriers on a monthly basis due to the lack of current carrier end-user revenue information to calculate invoices. Instead, carriers would likely be required to use the quarterly contribution factor determined by the FCC, calculate their own bill, and pay the calculated amount to USAC monthly. The risk of inaccurate payment, non-payment, or late payment is significantly increased under this proposal. Because USAC would not invoice carriers on a monthly basis, USAC could not actively collect expected invoiced amounts.[36] USAC would only process remitted amounts and determine a carrier's obligation after the fact, in the true-up process.

If carriers were required to calculate their own monthly contributions and remit those amounts to USAC, then USAC would be unable to determine the amount owed by

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[35] *See* Background, *supra*.

[36] The current cost of invoicing is not significant; however, a change to this method would allow USAC to eliminate those invoicing costs.

a carrier until *after* the carrier paid its bill in the subsequent month.[37] Under this methodology, the carrier collection cycle would shift by at least one month, and USAC would not know until payments were received (approximately the second month after the revenue period) whether a carrier had experienced a decline in end-user revenue.

As previously stated,[38] USAC believes that monthly reporting and monthly statements are important features to ensure timely and accurate payments by contributing carriers. A monthly statement, combined with monthly revenue reports by the carriers, will bolster the integrity of the contribution methodology. If carriers are not required to submit monthly worksheets, then USAC would receive only a remittance check each month from each compliant carrier. If a carrier miscalculated its remittance, USAC would not be able to determine whether this was the result of a calculation error or an actual decrease in end-user revenues. This uncertainty would create great difficulties in administering the universal service support mechanisms. Moreover, submittal of monthly revenue information would facilitate the true-up process and provide important information to assist in audits of carrier revenues.

Implementation of this proposal also assumes that carriers can devise and deploy the systems necessary to determine accurately their prior month's end-user revenue by the 20th of each month, properly calculate the appropriate contribution amount, and remit the correct amount to USAC on a timely basis. For example, if the period upon which the revenue contribution is based ends on January 31, the carrier must determine its

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[37] Currently, USAC invoices all carriers on or about the 20th of the month for collection of that contribution on or about the 15th of the following month. For example, invoices issued on January 20 would be due on February 15. High Cost and Low Income support payments for January are then made at the end of February. Rural Health Care and Schools and Libraries support payments for January are made beginning in mid-February.

[38] *See USAC Reporting Comments* at 10; *USAC Reporting Reply Comments* at 4.

contribution by February 20 and pay USAC the funds on or before March 1. Design and implementation of these systems would shift a burden currently on USAC to the contributors, and would remove these administrative systems from USAC's control. This proposal raises auditability concerns as well.

2. Projected Revenues

The use of projected, rather than actual, revenues as the basis for carriers' universal service contributions raises relatively few administrative concerns. The calculation process for the contribution factor could remain unchanged. Under such a system, USAC could continue to bill carriers on a monthly basis, but would do so based on carriers' *projected*, rather than historically reported, revenues. Carriers could be required to submit revenue projections on a quarterly or semiannual basis, which would parallel the current reporting system for historical revenues. As long as carriers are bound by their revenue projections and there is a true-up of projected with actual revenues at least annually, the use of projected revenues as contemplated would not appear to create significant additional administrative burdens on USAC.

In order to minimize the potential of large adjustments in the true-up process, the Commission may wish to consider whether to impose some sort of penalty or additional fee if a carrier significantly under-reports its projected revenue. Alternatively, the Commission could direct USAC and carriers to account for any adjustments resulting from a true-up by phasing in any adjustment over the course of the subsequent projection period. Thus, for example, if the Commission required two annual filings projecting revenue for the next six months (one such filing could be made in conjunction with an annual true-up), then any adjustment of large magnitude could be gradually implemented over subsequent quarters. For example, one such system could require that actual revenues within 5% of the forecasted amount would be trued-up in the immediately subsequent quarter, actual revenues within 5%-10% of the reported amount would be trued-up over the next two quarters, and adjustments above 10% trued-up over the course of the next year.[39] This approach would ease the burden on carriers of paying large true-up amounts in one lump sum. It may, however, increase the incentive for carriers to underreport projected revenues in order to delay contributions and have the use of the funds in the meantime. The incentives for delay may be particularly strong in the case of financially troubled carriers, and may have the consequence of delaying payments until a time when the carrier can no longer afford to make them. If the Commission were to adopt such an approach, it could limit the application of such a true-up mechanism to over-reported revenues and require underreported revenues to be trued-up in the immediately following month. In addition, USAC currently checks carrier-reported revenue to assess its reasonableness and relative consistency with prior revenue filings. USAC would continue to monitor carrier reporting of projected revenue as well in an effort to ensure that carrier projections were relatively consistent with historical revenue. The Commission may also consider using the current true-up mechanism to have the carriers true-up payments based on the highest or lowest two quarterly contribution factors in a given year, depending on whether the carrier over-reported or under-reported its projected revenues.

The use of projected revenues does not appear to introduce novel attempts to "game" the system as long as the annual true-up process is in place to ensure that all

[39] Thus, for example, if a carrier forecasted $100,000,000 in revenue and actually billed $115,000,000, it could be assessed based on that extra $15,000,000 over the course of the next year.

carriers pay their appropriate universal service contributions. Because the contribution factor is based on the sum of the interstate revenue of all carriers, no single carrier should be able to game the system and pay less than its competitors over time. Requiring carriers to submit both actual and forecasted numbers each quarter in addition to the annual true-up may create additional safeguards and may enable the Commission to more carefully assess market trends, but it does not appear to be necessary to obtain actual revenue more than once annually in order to administer a universal service contribution system based on projected carrier revenues. As outlined in the *Contributions NPRM,* the proposal to assess universal service contributions on carrier-projected interstate revenues – with an annual true-up to actual revenues – does not create significant new administrative concerns for USAC and provides adequate safeguards and stability for the universal service support mechanisms.

3. Collected Revenues

The Commission has also sought comment regarding whether to assess universal service contributions on collected, instead of gross-billed, end-user interstate revenues.[40] Depending on how it is implemented, it appears that this proposal raises difficult administrative issues. As discussed above, the current system based on billed end-user revenue is familiar and relatively simple to administer for USAC and carriers. It is also enforceable, in that it creates an audit trail to billing records for USAC and the Commission to review if necessary. These advantages would be retained under a contribution system based on current or projected revenues.

Basing universal service contributions on collected revenue, however, would introduce complexity and would likely require numerous additional rules to define the

[40] *See Contributions NPRM* ¶ 22.

precise scope of revenues that are subject to contribution. Under such a system, it would be essential to identify consistent, fair and enforceable accounting standards for determining "collected" revenues. Introducing detailed accounting rules to deal with allowances for uncollectibles, write-offs, and other bad debt issues, along with deferred revenue and other revenue recognition variances, would make this a much more difficult process for the carriers and for USAC. Implementation of such a system would significantly increase USAC's administrative costs. Without such guidelines, however, a system based on collected revenues could be highly vulnerable to numerous accounting and timing manipulations.

A more straightforward way to implement this proposal would be to assess contributions on a cash basis; *i.e.*, funds received by carriers for telecommunications services would be reported and, when totaled, would comprise the contribution base. Although this would be relatively simple to administer, some of USAC's current audit controls would be lacking because cash collections generally are not part of carriers' standard financial reporting processes. USAC would need to develop additional audit tools in order to ensure the integrity of a contributions system based on collected revenues.

Moreover, using collected revenue as the basis for assessment could result in higher quarterly contribution factors, with companies who had more effective collections processes effectively subsidizing those carriers with a higher uncollectible rate.

B. Universal Service Contribution Assessment On a Flat-Fee Basis

The Commission has also sought comment on a proposal to assess universal service contributions on a flat-fee basis, such as a per-line or per-account charge. In such a regime, the Commission would establish a flat per-line or per-account assessment on a quarterly basis using projected or historical line-counts or numbers of accounts reported to USAC either on a quarterly or annual basis. Each month, carriers would be required to contribute a flat-fee based on the carriers' line counts or number of accounts. The amount of the per-line or per-account charge would be the same regardless of the amount of revenue or traffic associated with any particular line or account.[41]

Moving from a revenue-based universal service contribution scheme to one based on a flat end-user charge would create significant administrative hurdles. Among other things, the Commission would be required to establish clear rules regarding which types of companies are subject to the contribution requirement[42] and which carriers are responsible for certain customers or classes of customers. These issues could quickly become very complex. For example, it would be difficult for USAC to determine which carrier was responsible for a customer if a local exchange carrier provides unbundled network elements to an interexchange carrier that then resells the service to another carrier that ultimately "serves" the end-user customer. In addition, for entities that do not have "lines" in the traditional sense (for example, pre-paid calling card providers or operator service providers), either separate per-customer assessments would need be developed or, alternatively, these carriers would not be assessed. If the Commission determined that it was appropriate that these carriers not be assessed, it would decrease the number of carriers that USAC would need to bill and from which it would need to collect and would mitigate the increase in administrative expenses. A

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[41] *See id.* ¶¶ 25-30.

[42] Under the definition suggested by the Commission, for example, payphone providers would not be required to contribute. Were the Commission to retain this definition, USAC's uncollectible rate would likely decrease, as those companies have tended to be the most delinquent contributors to the universal service support mechanisms. *See* Appendix A attached hereto, which provides USAC's accounts receivable aging by type of contributor as of February 28, 2001.

number of these carriers have consistently failed to make their universal service contributions and therefore have been the subject of significant USAC collection efforts and enforcement action by the FCC.[43] In addition, carriers' customers and lines may change frequently, which would likely require some type of pro-rata allocation of lines or accounts between carriers.

USAC would be required to develop completely new billing and collection systems, and would also need to implement new audit systems. USAC would still be required to bill and collect from carriers on a monthly basis, making any reduction in administrative costs unlikely.

One issue identified by the Commission is whether assessments should vary based on different types of lines and different types of users.[44] Introducing multiple assessment schemes could enable carriers to manipulate the manner in which they classify themselves in order to "shop" for the most preferential universal service assessment. To the extent USAC is required to keep track of numerous categories of assessments and user types per carrier, administrative costs and complexity increase accordingly. In addition, verification of line or account numbers by USAC might prove difficult. As with any of the proposals, there would need to be transparent and auditable processes created for this system. In addition, the administrative issues raised regarding the current revenue proposal discussed above would also be presented by any flat-fee methodology using current line counts or customer accounts.

C. *De Minimis* Exemption

The Commission has sought comment on the whether the current *de minimis* exemption to the universal service contribution requirement should be eliminated or

[43] *See* Appendix A.
[44] *See Contributions NPRM* ¶ 30.

modified in some manner.[45] USAC offers no comment on the policy question of whether to alter the *de minimis* framework. However, the Commission expressly sought comment from USAC on the administrative burdens associated with processing additional filings from *de minimis* carriers.[46]

USAC currently collects universal service contributions from more than 2,200 carriers, while more than 2,500 carriers are classified as *de minimis*. As a general rule, the amount of administrative resources USAC expends on universal service collections is disproportionately spent on the smaller carriers that are required to contribute. Thus, it is likely that eliminating the *de minimis* exemption would significantly increase USAC's administrative costs to collect from the remaining smaller carriers. Assuming no other significant changes to the contribution methodology, USAC estimates that the additional administrative expenditures associated with processing and collecting from carriers formerly relying on the *de minimis* exemption would exceed $500,000 annually at a minimum, and could be substantially higher.[47]

A carrier's *de minimis* status can change during the course of the year. Currently, carriers that are just below the *de minimis* threshold at the beginning of the year often contribute to the universal service support mechanisms in order to ensure that if they exceed the threshold during the course of the year, their incremental contribution is not large. USAC has encouraged carriers in this effort by ensuring that any carrier that is assessed less than $10,000 in a calendar year receives a prompt refund of its contribution

[45] *See id.* ¶ 31.
[46] *See id.*
[47] The Telecommunications Relay Service and North American Numbering Plan Administration funding mechanisms have minimum contribution levels for all contributing entities regardless of size, and that a minimum contribution level creates certainty for carriers and would be simpler to administer than one without a *de minimis* threshold.

along with interest attributable to those funds for the year. USAC has found that this slight additional administrative burden of collecting and returning these funds is offset by the goodwill of the affected carriers and the simplicity that monthly billing and payments bring to the process.

D. Limited International Revenues Exception

The Commission has sought comment on whether to modify the limited exception to its contribution requirements for carriers with a low percentage of interstate end-user telecommunications revenues.[48] This proposal does not raise significant administrative issues and therefore USAC will not address it.

E. Sufficiency of Universal Service Support Under Various Proposed Methodologies

One of the key considerations in evaluating changes to the contribution methodology is the potential effect such changes would have on the sufficiency and integrity of the universal service support mechanisms, including whether funding shortfalls might result under any of the proposed new schemes. The Commission sought comment on ways to ensure the sufficiency of the universal service support mechanisms under each of the proposed contribution assessment methodologies, whether a reserve should be established to guard against an unexpected shortfall in universal service contributions, and whether an alternative method to ensure fund sufficiency would obviate the need to create a reserve fund.[49]

As discussed in its previously-filed comments,[50] USAC believes that a universal service contribution approach based on current carrier revenues runs a significant risk of

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[48] *See Contribution NPRM* ¶ 32.
[49] *See id.* ¶¶ 33-36.
[50] *See USAC Reporting Comments* at 7-8.

a funding shortfall such that a contingency reserve would be an essential feature of such a system. The Commission should consider, however, the extent to which it is desirable for USAC to collect and maintain significantly greater amounts than may ultimately be necessary to satisfy universal service obligations. In light of the short history with the existing mechanisms, the fluctuations in revenue bases reported, and the potential impact of market conditions and other events, USAC believes that an initial contingency of no less than one full month of support for all of the universal service support mechanisms would be prudent.[51] After an initial eighteen-month period, USAC recommends an evaluation of the sufficiency of the contingency. A similar contingency would be required under a flat-fee assessment methodology, which, because as proposed it would be based on current data, raises the same sufficiency issues as the current revenue methodology.

The other proposed funding methodologies do not appear to raise significant fund sufficiency issues beyond those that exist today. If carriers are required to pay based on projected revenues, if the projected revenues are submitted at least quarterly, and if the carriers are not allowed to adjust their projections, then USAC does not see sufficiency issues with a projected revenues contribution methodology. Similarly, there do not appear to be additional sufficiency issues raised by a collected revenue scheme.[52] Were the Commission to adopt any of these proposed approaches, USAC recommends

[51] The most recent monthly carrier billing, June 2001, for the universal service support mechanisms totaled approximately $465,755,000. USAC recommends that an initial contingency reserve at this level be maintained for at least the first six months of the methodology. For the year following this six-month period, USAC recommends a contingency of 10% of the quarterly support amount.

[52] Of course, if the Commission based the collections methodology on current, rather than historic collections, it would raise the same sufficiency issues as the current revenue methodology.

maintaining the 1% contingency that exists today for uncollectible accounts under a flat-fee or collected revenue policy

The Commission has sought comment on the methodology it should use, for purposes of establishing a quarterly contribution factor, to estimate collected revenues, line counts, or accounts.[53] For example, the Commission has asked whether estimates of collected revenues, line counts, or accounts should be based on historical data or trends from prior periods or on future projections. Alternatively, the Commission seeks comment on whether to require carriers to submit annual and/or quarterly estimates of collected interstate and international end-user revenues, line counts, or accounts which would serve as the basis for quarterly assessments. The Commission seeks comment on the relative merits of basing quarterly assessments on the carriers' own estimates as opposed to Commission estimates.[54]

In USAC's experience as administrator of the universal service support mechanisms, the most reliable way to establish the contribution factor is to use information actually reported by carriers and to assess carriers based on that information. As discussed above, the information reported by carriers could be based on projections, as long as carriers were ultimately assessed based on their own projections with adjusting true-ups being filed and accounted for at the same point each year. USAC believes it would be sensible for the Commission to continue to align the filing of universal service data and the establishment of assessment rates with the tariff process that has existed for

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[53] *See Contribution NPRM* ¶ 36.

[54] *See id.* Because the current data collection system allocates costs among the universal service support mechanisms, the Telecommunications Relay Services Fund, the cost recovery mechanism for administration of the North American Numbering Plan, and the cost recovery mechanism for administration of long-term local number portability, USAC recognizes that any changes to the reporting and data collection process would likely have an impact on the other billing entities as well.

many years at the FCC. Thus, USAC would continue to file funding information with the Commission on a quarterly basis.

Finally, the Commission has sought comment on whether USAC could use available funds from one component of the universal service support mechanisms to cover a funding shortfall in another funding component.[55] Consistent with Commission direction, USAC currently does not formally segregate contributions into separate accounts. USAC does, however, maintain separate accounting records for each support mechanism. On occasion, USAC has used funds allocated to one support mechanism to cover small, temporary shortfalls in another.[56] In USAC's judgment, this temporary accounting allocation does not obviate the need for a contingency reserve. USAC believes that a reserve would be required because USAC cannot predict that the availability of funds at any given point in time would be sufficient to cover any potential shortfalls. Although USAC currently has a significant fund balance attributable to the Schools and Libraries Support Mechanism,[57] that may not always be the case in the future. There is no assurance that the balance currently available in the Schools and Libraries Support Mechanism will continue to be available or that it will be large enough to cover potential shortfalls in other universal service support mechanisms.

F. Carrier Reporting Requirements

The Commission sought comment on whether the existing reporting requirements for carriers would need to be modified for each proposed contribution methodology and

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[55] *See Contributions NPRM* ¶ 35. At the Commission's request, USAC has refrained from short-term borrowing from private financial institutions.

[56] *See USAC Fund Size Projections for the Third Quarter 2001 and Contribution Base for the Second Quarter 2001*, at 6 (May 2, 2001)(*USAC Third Quarter 2001 Report)* (identifying that USAC had allocated funds from Low Income Support Mechanism to ensure no shortfall in High Cost Support Mechanism payments in 2000).

[57] *See USAC Third Quarter 2001 Report* at 23-24.

on the administrative burdens that would be imposed by any such changes.[58] Under the current system, carriers report gross-billed end-user telecommunications revenues quarterly (on FCC Form 499-Q) and annually (on FCC Form 499-A).[59] Although the specific reporting required will depend on the details of any approach adopted by the Commission, significant carrier reporting will be required under any of the new proposed contribution methodologies. The required changes to carrier reporting requirements, and the likely administrative burdens that such changes would impose, are discussed in general terms below for each proposed contribution methodology.

As USAC has previously indicated to the Commission,[60] adoption of a contribution methodology based on current contributor revenue would significantly increase the reporting burden on contributing carriers and the resulting administrative burden on USAC. As discussed above, monthly reporting appears necessary to maintain the integrity of the support mechanisms. Thus, if simple Telecommunications Reporting Worksheets (or their equivalents) were submitted each month detailing end-user revenues and the calculation performed by each contributing carrier to determine its monthly contribution, USAC would be responsible for verifying and reconciling more than 2,200 such submissions each month. Any errors would require follow-up and adjustment. Worksheets would also have to be reconciled for carrier merger and acquisition activity occurring during each monthly reporting cycle. Monthly submissions would make tracking and compliance more difficult than the current quarterly submission process, and would substantially increase USAC's administrative costs.

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[58] *See Contributions NPRM* ¶¶ 37-38.

[59] USAC notes that it has increased its 2001 operations budget by approximately $510,000 to handle the new FCC Form 499-Q filings required under the *Quarterly Reporting Order* adopted by the Commission in March 2001. *USAC Third Quarter 2001 Report* at 4.

[60] *See USAC Reporting Comments* at 11-14.

Further, if carriers are allowed to adjust prior reported revenues in the current month, they will necessarily be required to submit an increased or reduced contribution amount. As discussed above, a substantial decline in remitted amounts could lead to a potential shortfall in the support mechanisms. USAC's current practice enables contributors that adjust their revenue reports to receive billing adjustments in the subsequent quarter so that the integrity of the support mechanisms is not placed in jeopardy. To avoid any potential problem, USAC believes that at least one of the quarterly filings of FCC Form 499-Q (or its equivalent) should continue and these filings should be the only opportunity for carriers to report adjustments to previously filed reports. USAC would then allow carriers to include the appropriate debit or credit in the first month of the following quarter's submittal or would process the appropriate debit or credit as part of the true-up process.

The other approaches suggested by the Commission – projected revenue, collected revenue, and flat-fee basis – appear at this time to require administrative processing by USAC that is roughly equivalent to USAC's administrative under the current contribution methodology. The actual administrative activity required will depend on the details of any new methodology adopted by the Commission.

The Commission has sought comment on whether USAC should perform quarterly and/or annual true-ups on data submitted by carriers.[61] As discussed above, USAC believes that true-ups must be performed under any of the alternative regimes proposed by the Commission. True-ups on an annual basis appear sufficient. Multiple adjustments during a year will significantly increase USAC's audit and oversight

[61] *See Contributions NPRM* ¶ 37.

responsibilities with little corresponding benefit. USAC requests clear Commission guidance on timing of true-ups and the assessment of any penalties or credits.

G. Enforcement and Auditing Issues

The Commission invited comment regarding whether it should require additional steps to ensure that carriers accurately report relevant information and contribute in a timely manner. The Commission specifically asked whether USAC should have additional oversight responsibilities to monitor carrier compliance with reporting and contribution requirements.[62]

The proposals to allow carriers to contribute to the universal service support mechanisms based on current data – whether revenues, line-counts, or accounts – raise significant issues regarding compliance and enforcement. The other proposals suggested by the Commission appear to raise issues similar to those confronted by USAC and the Commission today.

USAC currently assesses late fees on carriers for delayed reporting and delayed contribution. In addition, USAC is empowered with substantial audit and oversight authority.[63] USAC currently audits carrier revenue to determine whether carriers are accurately reporting revenues consistent with the rules. USAC believes that, regardless of the methodology ultimately adopted, it is essential that USAC have broad authority to audit pertinent reporting information.

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[62] *See id.* ¶ 39.
[63] 47 C.F.R. § 54.707 provides in pertinent part that "[t]he Administrator shall have authority to audit contributors and carriers reporting data to the Administrator. The Administrator shall establish procedures to verify discounts, offsets, and support amounts provided by the universal service support programs, and may suspend or delay discounts, offsets, and support amounts provided to a carrier if the carrier fails to provide adequate verification of discounts, offsets, or support amounts provided upon reasonable request, or, if directed by the Commission to do so."

Collection efforts present another enforcement issue. Current collection efforts are significant. Such efforts would increase if the Commission chose to eliminate the *de minimis* exemption and would decrease if certain carriers that historically have failed to pay into the support mechanisms were no longer assessed contributions.

The Commission also sought comment on proposals that would minimize the potential for carrier "gaming."[64] As discussed in the context of the various proposals above, USAC believes that an annual true-up of data submitted by carriers, coupled with broad audit authority, would minimize the incentive and ability of carriers to game the system, particularly by under-reporting in the early months of a year in an attempt to reduce current contribution requirements. Gaming opportunities increase as the contribution assessment methodology becomes more complex, and there may be unforeseen gaming opportunities and incentives created by a new methodology.

H. Administrative Burdens on USAC

The *Contributions NPRM* expressly requested comment from USAC on the administrative burdens associated with modifying the current mechanism for assessing universal service contributions.[65] USAC has structured its discussion of the administrative issues associated with the various Commission proposals in a manner that parallels their discussion in the *Contributions NPRM.*

One area not covered elsewhere, however, is USAC's comment on the costs associated with implementing the proposals and ensuring that carriers accurately report required information and contribute in a timely manner.[66] The proposals presented in the *Contributions NPRM* do not permit USAC to quantify with precision the additional

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[64] *See Contributions NPRM* ¶ 39.
[65] *See id.* ¶ 40.
[66] *See id.*

administrative costs associated with the various proposals discussed by the Commission. If more details become available in the comment cycle or through *ex parte* presentations, USAC may be in a better position to assess administrative costs. USAC will work closely with the Commission and carriers in an effort to assess administrative cost implications as additional implementation details emerge.

I. Transition

The Commission has sought comment on how to move from the existing contribution methodology to the proposed new regimes.[67] Transition planning is crucial to maintaining continuity in universal service support payments. For example, USAC collects funds each month less than two weeks before those funds are scheduled to be paid to carriers participating in the High Cost Support Mechanism. Thus, a smooth transition to any different methodology chosen by the Commission will be essential in order to ensure the continued predictability and sufficiency of support to eligible carriers. Although the details of any transition will in large measure depend on the nature and extent of the modifications to the existing system, at this time USAC can offer some general comments concerning transition to any new methodology.

If changes to the current universal service contribution methodology are made, USAC believes that, depending on the modifications, a transition contingency may be desirable in order to prevent a universal service funding shortfall. One option would have USAC collect a monthly contribution amount under the old and new methodologies, which, along with the contingencies discussed above, should allow seamless operation of the support mechanisms during the transition. A second option would be to establish a large initial contingency reserve, of at least two months of support payments, and to

[67] *See id.*¶ 41.

collect a small additional contribution each month to align the collection times so that sufficient funds are available for disbursement each month. The contingency would be reduced by the same amount of the additional contribution so that, at the end of the period, only the ongoing contingent amount would remain. USAC believes that the contingency could be reduced over time. Finally, USAC respectfully urges the Commission to take enforcement action against any carrier that unilaterally attempts to implement any revised methodology, and to reaffirm that all carriers must continue to comply with the existing methodology until any transition is complete.

J. Other Proposed Contribution Assessment Methodologies

In addition to the proposals discussed above, the Commission invited commenters to suggest other alternative assessment methodologies.[68] USAC will reserve further comment at this time, and will address the administrative implications of any other proposed contribution assessment methodologies put forth by commenters in its reply comments.

K. Recovery of Universal Service Contributions

The Commission has sought comment on whether to limit the flexibility previously afforded carriers in the recovery of universal service obligations.[69] This aspect of the *Contributions NPRM* does not raise administrative issues for USAC and therefore USAC will not address it.

CONCLUSION

USAC welcomes the opportunity to respond to the Commission's request for comment as the Commission considers alternatives to the existing contribution

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[68] *See id.* ¶ 16.
[69] *See id.* ¶¶ 42-49.

assessment methodology for the universal service support mechanisms. USAC stands ready to assist the Commission and carriers as this process moves forward.

Respectfully submitted,

UNIVERSAL SERVICE
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June 25, 2001

UNIVERSAL SERVICE ADMINISTRATIVE COMPANY

ACCOUNTS RECEIVABLE AGING by INDUSTRY TYPE

As of February 28, 2001

		Over 150 Days	Over 120 Days	Over 90 Days	Over 60 Days	Over 30 Days	Total Outstanding	Percent of Total
Toll Resellers	TRES	$21,859,349.70	$1,572,045.96	$1,904,400.96	$3,246,876.42	$5,276,725.99	$33,859,399.03	52.40%
Prepaid Calling Card Providers	PRE	3,844,354.02	460,359.60	1,159,018.40	1,766,988.66	2,455,120.05	9,685,840.73	14.99%
Interexchange Carriers	IXC	3,129,190.77	254,753.89	1,094,391.56	249,098.61	2,309,737.38	7,037,172.21	10.89%
Operator Service Providers	OSP	4,682,435.88	438,474.59	427,151.12	442,348.61	570,549.79	6,560,959.99	10.15%
Payphone Service Providers	PAY	2,159,732.86	106,354.39	146,458.45	319,958.85	190,292.87	2,922,797.42	4.52%
Paging Service Providers	PAG	553,838.54	95,535.58	143,786.51	159,387.24	695,899.10	1,648,446.97	2.55%
Cellular/PCS/SMR Providers	CEL	473,571.80	(127,889.63)	108,151.84	206,711.06	952,103.66	1,612,648.73	2.50%
Competitive Access Providers	CAP	(523,074.05)	205,701.91	(76,516.53)	316,592.49	1,053,673.23	976,377.05	1.51%
Local Resellers	LRES	444,310.32	6,001.61	210,926.99	60,969.68	106,973.78	829,182.38	1.28%
Other Mobile Providers	OTHM	329,720.84	2,094.22	2,166.41	217,036.64	45,075.39	596,093.50	0.92%
Other (Local/Toll) Providers	OTHL	170,299.21	1,151.80	1,191.55	1,191.55	11,474.01	185,308.12	0.29%
Shared Tenant Service Providers	TEN	44,708.63	370.06	382.86	548.23	115,614.02	161,623.80	0.25%
Private Service Providers	PRIV	100,213.04	20,643.45	20,802.45	20,955.11	(9,525.09)	153,088.96	0.24%
Wireless Data Providers	DAT	0.00	0.00	0.00	0.00	349.62	349.62	0.00%
Local Exchange Carriers	LEC	(125,264.50)	(4,004.22)	410.49	29,776.41	(18,395.15)	(117,476.97)	-0.18%
Satellite Service Providers	SAT	(369,200.27)	51,982.63	52,409.28	52,787.00	38,410.44	(173,610.92)	-0.27%
Other Toll Providers	OTHT	248,538.93	16,377.88	16,431.60	(1,627,416.61)	20,011.53	(1,326,056.67)	-2.05%
		$37,022,725.72	$3,099,953.72	$5,211,563.94	$5,463,809.95	$13,814,090.62	$64,612,143.95	100.00%

CERTIFICATE OF SERVICE

I hereby certify that a copy of the foregoing filing was served this 25th day of June 2001, by hand delivery, to the persons listed below.

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