Before the
Federal Communications Commission
Washington, DC 20554

In the Matter of	)	
	)	
	)	
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

REPLY COMMENTS OF THE UNIVERSAL SERVICE ADMINISTRATIVE COMPANY

The Universal Service Administrative Company (USAC) submits these reply comments regarding the Notice of Proposed Rulemaking released in the above-captioned proceeding on May 8, 2001. USAC is the private not-for-profit corporation that administers the universal service support mechanisms pursuant to the Commission's Part 54 regulations.[1] In the *Contributions NPRM*, the Commission sought comment from

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

interested parties on proposals to modify the Commission's rules relating to contributions to the federal universal service support mechanisms. USAC submitted initial comments in this proceeding at the request of the Commission.[2]

DISCUSSION

In the *Contributions NPRM*, the Commission asked interested parties to comment on how to streamline and reform both the manner in which the Commission assesses carrier contributions to the universal service support mechanisms and the manner in which carriers may recover those costs from their customers. The Commission sought comment on numerous potential modifications to the current universal service assessment system, including moving to a regime based on current or projected revenues as opposed to historical revenues, assessing contributions on collected instead of gross-billed revenues, adopting a flat-fee based contribution methodology, and several other issues concerning the method by which contributions to the universal service support mechanisms are assessed on carriers.[3] The Commission also invited commenters to submit other proposals for assessing and recovering universal service contributions that are adaptable to changes in the marketplace, maintain the competitive neutrality of contributions to the federal universal service support mechanisms, and enable the mechanisms to continue to meet the statutory requirement to be specific, predictable, and sufficient.

On June 25, 2001, USAC filed comments in this proceeding addressing the administrative aspects of potential changes to the contribution methodology for the

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[2] *See Federal-State Joint Board on Universal Service*, Comments of the Universal Service Administrative Company, CC Docket Nos. 96-45 *et al.* (June 25, 2001)(*USAC Comments*).
[3] *See Contributions NPRM* at 3-5.

universal service support mechanisms set forth in the *Contributions NPRM*.[4] Numerous other parties also submitted comments at that time. The majority of the comments focus on the competitive issues raised by the current contribution system and the desirability of changing or retaining the existing framework. These are policy matters outside the scope of USAC's comments. Because 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,[5] USAC submits these reply comments solely to address the administrative issues raised by the initial comments submitted in response to the *Contributions NPRM* and to discuss the administrative impact of proposed changes to the universal service contribution mechanism.

USAC has attempted to address the numerous administrative issues raised by commenting parties concerning the various proposed changes to the universal service assessment methodology. Some of the proposals are complex, and will require further study in order to understand more fully their administrative implications. Moreover, each proposal raises different administrative concerns and challenges. While some proposals are significantly more costly and administratively burdensome than others, none are completely administratively infeasible. USAC will continue to work with carriers and the Commission as this process moves forward in order to anticipate, address, and resolve administrative issues created by the various alternatives.

A. Proposal to Assess Contributions Based on Current Carrier Revenue

In its initial comments addressing the proposal to base the universal service support mechanisms on current revenues, USAC pointed out that adopting such a system

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4 *See generally USAC Comments*.
5 47 C.F.R. § 54.702(d).

would require USAC to make significant changes in its procedures for the billing and collecting of carrier[6] contributions. Commenting parties generally do not dispute that this proposed contribution mechanism would create significant issues regarding data collection, billing, and revenue collection. USAC articulated those difficulties in its initial comments,[7] and will discuss them only briefly here.

Adoption of this contribution methodology would increase the reporting burden on contributing carriers and the resulting administrative burden and expense on USAC. As USAC discussed in its initial comments, monthly reporting by carriers appears necessary to maintain the integrity of the support mechanisms. Submitting monthly statements, combined with monthly revenue reports, would provide important information to assist in true-ups and audits of carrier revenues. Monthly submissions would make tracking and compliance more difficult than the current quarterly submission process. Such monthly reports would substantially increase USAC's administrative costs.

Commenting parties recognized that they would be required to submit information more frequently than the five annual submissions mandated under the current system, and that these additional submissions would create additional administrative expense and complexity.[8] At least one commenter suggested that this additional burden could be reduced if the form of monthly reporting were simplified.[9] USAC agrees that the current

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[6] For purposes of these Comments, the term "carrier" is synonymous with all filers of universal service contribution worksheets. *See* 47 C.F.R. § 54.711.
[7] *See USAC Comments* at 9-12.
[8] *See, e.g., Comments of Verizon Wireless* at 16 (*Verizon Wireless Comments*)(for many carriers, eight new revenue reports per year (for a total of 13 annually) would absorb an enormous quantity of personnel hours); *Comments of EPIK Communications Incorporated* at 2.
[9] Nextel indicates that it "is not advocating a system where carriers would be required to file the equivalent of the current USF worksheet on a monthly basis. Rather, Nextel envisions a simple monthly statement of revenues." *See Comments of Nextel Communications, Inc*. at 10 n. 18 (*Nextel Comments*).

form of the Telecommunications Reporting Worksheet, FCC Form 499-Q, could be simplified to some extent under a current revenues regime, but a certain level of detail would remain necessary in order to provide USAC with data that is amenable to verification and audit.

In addition, USAC indicated in its initial comments that true-ups must be performed under any of the alternative regimes proposed by the Commission, including a current revenues system. As an initial matter, there appears to be some variation among commenters regarding the meaning of the phrase "true-up." USAC has used the term in two different ways. In the first context, the term true-up is used to mean adjusting the actual collections all carriers pay into the universal service support mechanisms as compared to the collections projected by USAC on a quarterly basis. This type of true-up would be required under any contribution method, because actual collections will not always equal projections and USAC should not collect more or less than is needed to meet carriers' universal service obligations. USAC believes that this type of true-up, in which over-collections are used to reduce future collections and in which under-collections are used to increase future collections – which is the way the system currently operates – is far simpler to administer than a system where USAC would impose an additional assessment on or provide refund checks to carriers to adjust for fund sufficiency. The current true-up mechanism does not, and would not in the future, require any action by carriers, only USAC. In the second context, USAC uses the term "true-up" in connection with carrier-specific data. In that context, carriers would be required to reconcile individual carrier data to their annual audited financial information in order to maintain the integrity of the system.[10] USAC respectfully requests clear and definite mandates concerning the type or types of "true-ups" or adjustments that USAC and/or carriers will be required to make should the Commission choose to change the current contribution methodology.

Some carriers suggested that true-ups should not be required in a current revenues-based system. For example, Nextel Communications, Inc. suggested that where carriers have actual revenue data available to them on a monthly basis, they should be able to file such data and true-ups should not be required.[11] Similarly, AT&T Wireless said "[a]s part of the fund reform process, it is not enough that the Commission assess contributions based on current collected revenues. It is also essential that the Commission set the universal service contribution factor each quarter to correct for over-recovery or under-recovery from previous quarters and not require carriers to "true-up" contribution amounts."[12] USAC agrees with AT&T Wireless to the extent that the sufficiency of the Universal Service Support Mechanisms should not require individual carrier true-up contributions. However, USAC believes that an important check on the system requires at least an annual reconciliation of any interim information provided by carriers with actual final data. Not only does this annual reconciliation provide a simple process to check carrier revenue against audited and reported financial information, but it also provides the carrier with the opportunity to correct any errors it may have made in the interim periods. For carriers that have actual revenue data available to them for the

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[10] *See USAC Comments* at 12-13.
[11] *See Nextel Comments* at 9.
[12] *See Comments of AT&T Wireless Services, Inc*. at 6 (*AT&T Wireless Comments*); *see also Comments of the Association of Communications Enterprises* at 4 (*ASCENT Comments*)(where carrier contributions based on actual collected revenues no "true-up" contribution mechanism will be required).

interim reporting periods, the reconciliation process should be a simple aggregation of their periodic interim reports.

As discussed in its initial comments, USAC believes that a universal service contribution approach based on current carrier revenues runs a significant risk of a funding shortfall such that a contingency reserve would be an essential feature of this type of system. The primary reason that this method is more risky is that the contribution factor is established without knowing what the reported revenue base may be. There will be a variance from collected revenues because of this factor alone. USAC has previously indicated that it believes that an initial contingency of no less than one full month of support for all of the universal service support mechanisms would be required for at least the first six months of the new system, and believes a decreased level of reserve would likely be appropriate for the subsequent one-year period.[13]

Several commenting parties suggested generally under various proposed methodologies that USAC make up any shortfalls by increasing the contribution factor in subsequent periods, rather than by establishing a reserve.[14] USAC believes that such an approach could create significant problems. First, it could result in carriers not receiving monthly universal service payments or in receiving reduced payments until a subsequent period. Some carriers depend on monthly universal service payments to meet overall customer needs and financial obligations, and other service providers depend on timely payments in order to provide required credits or payments to applicants. In addition, USAC believes that, in light of the short history with the existing mechanisms, the

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[13] *See USAC Comments at 19-20.*
[14] *See, e.g., Comments of the United States Telecom Association* at 8 *(USTA Comments);* ASCENT *Comments* at 4.

fluctuations in revenue bases reported, and the potential impact of market conditions and other events, a contingency reserve is essential in a current revenues based system.

B. Proposal to Assess Contributions Based on Projected Carrier Revenues

In its initial comments addressing the proposal to base the universal service support mechanisms on projected rather than actual revenues, USAC indicated that this methodology raises relatively few administrative concerns.[15] This is the case provided that carriers are bound by their revenue projections until the true-up process occurs and that there is a true-up of projected with actual revenues on at least an annual basis.

Commenting parties acknowledged the importance of requiring carriers to reconcile projected revenues to actual revenues on a periodic basis to account for discrepancies between revenue projections and actual carrier revenue.[16] Indeed, for some commenters, the need to true-up projected to actual revenues is a significant reason to oppose any move to a projected revenues based system.[17] Other parties supported the proposed projected revenue methodology and indicated their willingness to bear the additional burdens that a true-up to actual revenues may entail. For example, Excel Communications, Inc. indicated that, although a true-up to actual revenue would be

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[15] *See USAC Comments* at 12-14.
[16] *See, e.g., Comments of the Iowa Utilities Board at 2 (IUB Comments).*
[17] *See, e.g., Comments of Time Warner Telecom* at 5 (*Time Warner Comments*) (routine true-ups of contributions would require carriers to implement additional accounting processes); *Comments of BT North America Inc.* at 13 *(BTNA Comments*) (need for carriers to re-file or true-up their data would impose significant administrative burdens on the carriers and on USAC); *Comments of Qwest Communications International Inc. (Qwest Comments)* at 6; *see also Initial Comments of the West Virginia Consumer Advocate* at 4 (*West Virginia Consumer Advocate Comments*)(opposing projections based system because it would necessarily involve true-ups and substantial auditing by Commission or USAC to ensure carriers are not underprojecting or overprojecting revenues as a way to minimize USF responsibility).

required to ensure accuracy and fairness in such a regime, it did not believe the true-up process would be difficult or burdensome.[18]

At least one commenting party indicated that reliance on projections creates the possibility of an occasional shortfall in the funds needed to finance the universal service support mechanisms.[19] USAC does not believe a projected revenue methodology creates a substantial risk of shortfall. The primary reason that this method is less risky than the current revenue approach is that, under the projected revenue methodology, the total revenue base upon which the assessment is based is known at the time of the calculation. It differs from the current system in that projected, rather than historic, revenues are being used; the total revenue base, however, is known, as it is now. If carriers are required to pay based on their projected revenues, if carrier projections of revenues are submitted at least quarterly, and if carriers are not allowed to adjust their projections (except to true-up projected revenues to actual data when it becomes available), then USAC does not see funding sufficiency issues with a projected revenue methodology.

Several parties noted that permitting carriers to generate revenue projections could invite abuse.[20] Commenters noted that the Commission may want to consider fines or other penalties to discourage carriers from underestimating projected revenues.[21] One commenter considered the possibility of USAC making the required projections of carrier revenues rather than the carriers themselves.[22] This commenting party noted that if USAC were required to estimate carriers' projected revenues, it would put a large burden

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[18] *Comments of Excel Communications, Inc*. at 7 (*Excel Comments*). *See also* IUB *Comments* at 2 (carriers should be required to file both projected and actual revenues each quarter, in addition to an annual true-up).
[19] *Qwest Comments* at *7.*
[20] *See,e.g., Comments of Cingular Wireless LLC* at 4 *(Cingular Comments); Time Warner Comments* at 5.
[21] *See, e.g., IUB Comments* at 2; *Initial Comments on Behalf of IDT Corporation* at 3 (*IDT Comments*).
[22] *See Cingular Comments* at 4.

on USAC and raise the specter of carrier appeals whenever carriers believed that USAC had over-estimated their contribution obligations. USAC agrees, although it should be noted that USAC currently estimates revenues for carriers that violate FCC regulations by not filing an FCC Form 499.[23] USAC believes, however, that carriers are in the best position to project their own revenues and if it is apparent that a carrier is abusing the system, the best approach is to refer the carrier to the Commission for enforcement or to assess a penalty as discussed in USAC's initial comments.[24]

C. Proposal to Assess Contribution Based on Collected Revenues

The Commission also proposed assessing universal service support contributions on collected, instead of gross-billed, end-user interstate revenues. In its initial comments, USAC pointed out that this proposal raises difficult administrative issues, depending in part on how it is implemented. USAC indicated that it would be important for the Commission to identify consistent, fair, and enforceable accounting standards for determining "collected revenues" in order for carriers to participate in and USAC to be able to administer such a system. It noted that, if the Commission decided to assess contributions on a cash basis, it would be easier to administer the system initially but that current audit controls would be lacking because cash collections generally are not part of carriers' standard financial reporting processes.[25]

A number of commenting parties expressed similar concerns. For example, Verizon Wireless indicated that its accounting system tracks billed end-user revenue, not collected revenue, and it believed that other carriers have similar accounting system

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[23] USAC proposes that should such a method be adopted that it use common industry segment growth factors for at least the first year before attempting to apply individual company factors.
[24] *See USAC Comments* at 12.
[25] *See USAC Comments* at 15.

designs.[26] It noted the importance of carriers creating new accounting systems to track the relevant collections data because, without such systems, the calculation and reporting of collected revenues would be a subjective process, and some carriers might tailor their reports in ways that unfairly minimize their contributions.[27] Several commenting parties made the related point that a methodology based on collected revenues may increase the opportunities for carriers to game the system, including, for example, adjusting the timing of write-offs and the allocation of subsequent collection of previous write-offs in order to minimize reported revenues.[28]

Certain commenting parties proposed variations on the collected revenues methodology in an effort to reduce the problem of potential accounting manipulations and the lack of an audit trail. Qwest proposed basing universal service assessments on "net booked" revenues rather than collected revenues.[29] Qwest described "net booked" revenues as the revenue that a carrier enters into its accounting books, less any uncollectible revenues reflected in those books. Qwest maintains that a system based on net booked revenue would provide more reliable and verifiable data than one based on collections, because net booked revenue must be maintained consistent with Generally Accepted Accounting Principles, is subject to audits, and is used in financial records that are publicly disclosed to potential investors. Although it appears that a net booked

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[26] *Verizon Wireless Comments* at 14-15.
[27] *Verizon Wireless Comments* at 15. *See also Comments of National Exchange Carrier Association, Inc.* at 7 (*NECA Comments*)(Using collected revenues might also increase burdens on both carriers and USAC since uniform standards would need to be established to determine whether and when revenues should be declared uncollectible. By comparison, billed revenues are easy to determine from carrier accounting records, and more amenable to verification by auditors and/or the administrator; *BTNA Comments* at 11 (listing anticipated problems in determining "collected revenues" under current data reporting system).
[28] *See, e.g.,Comments of Home Telephone Company, Inc.* at 5 (*Home Comments*)*; Comments of the Organization for the Promotion and Advancement of Small Telecommunications Companies* at 4(*OPATSCO Comments*).
[29] *See Qwest Comments* at 3.

revenue system would have many of the features and controls USAC believes are essential, and that such a methodology could work for larger carriers using independent auditors subject to Generally Accepted Accounting Principles, it is not clear to USAC whether all carriers are subject to the same level of independent audit and would be able to use the system proposed by Qwest.

Similarly, Time Warner Telecom expressed its willingness to move to a collections-based system provided it was implemented in an equitable and verifiable way and without significantly increasing administrative burdens.[30] It suggested that each carrier report on the Telecommunications Reporting Worksheet, FCC Form 499, a percentage of uncollectible revenues based on the carrier's most recent financial statements that comply with Generally Accepted Accounting Principles. That percentage would then be applied to the carrier's gross-billed revenues to determine the collected revenues of the carrier, which would then serve as the revenue base for universal service support contributions. USAC believes that Time Warner's suggested approach, which would partially address the issue of ensuring that carriers are motivated to state accurately their uncollectible rate, is administratively feasible.

At least one commenting party noted that, under a collected revenue regime, some carriers may not have data on collected revenues available by applicable reporting dates.[31] In these cases, it suggests, carriers should have the option to report billed revenues for the period and true-up billed and collected revenues when that information becomes available. Giving carriers the option of reporting billed or collected revenues would mean that certain carriers would be operating under different rules and would

[30] *See Time Warner Comments* at 6.
[31] *See, e.g., Comments of Primus Telecommunications, Inc.* at 5-6 (*Primus Comments*).

significantly increase the administrative and audit burden for USAC. Moreover, such a regime would significantly increase the potential for carrier gaming of the contribution system. Clear guidelines on the timing for such reporting would be required.

D. Proposals to Assess Contributions on a Flat-Fee Basis

The Commission also sought comment on proposals to assess universal service contributions on a flat per-unit basis, such as a flat per-line or per-account charge.[32] Commenting parties vigorously debated the legality and wisdom of such an approach; such concerns are policy matters outside the scope of USAC's reply comments. Many parties did, however, address the administrative aspects of a flat-fee assessment methodology.

In its initial comments, USAC noted that a flat-fee based contribution methodology featuring multiple assessment schemes depending on different classes of users would present significant administrative hurdles.[33] Many commenters echoed these administrative concerns,[34] most noting that a system of different charges for different types of services, accounts, carriers, and/or customers would likely be required in order to implement fully a flat-fee methodology. As stated by one party, revenue subject to universal service assessment "is generated through the provision of hundreds, if not thousands of different types of service offerings."[35] Another party pointed out that "the universe of services subject to contribution requirements is not at all simple, uniform or

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32 *See Contributions NPRM* ¶¶ 25-30.
33 *See USAC Comments* at 15-17.
34 *See, e.g., Verizon Comments* at 5-6; *Time Warner Comments* at 3-4; *Comments of Arch Wireless, Inc.* at 5-6; *BTNA Comments* at 7-10; *IDT Comments* at 4-5; *National Telephone Cooperative Association Initial Comments* at 3 (*NTCA Comments*); *Home Comments* at 5-6; *Cingular Comments* at 6-7; *NECA Comments* at 2-6; *Excel Comments* at 3-6; *Comments of BellSouth* at 1-4 (*Bell South Comments*).
35 *IDT Comments* at 5; *OPATSCO Comments* at 5-7.

comparable."[36] One commenter pointed out that the Commission likely would need to adjust such a system periodically in order to accommodate new services and technologies.[37]

Assessing contributions based on lines served would also generate issues concerning the proper count of lines and allocation of lines or customers to particular carriers, as well as creating difficulties in USAC and FCC verification of carrier line count data.[38] Parties echoed USAC's concern that, because carriers' customers and lines may change frequently, and because more than one carrier may provide service to a particular line, a flat-fee system would require some type of pro-rata allocation of lines or accounts between carriers.[39] Some carriers also proposed innovative approaches for dealing with some of the issues raised.[40] One commenter noted that carriers would be required to file both line count or account information in addition to the revenue reporting that would continue for the other, revenue-based, assessment mechanisms that presumably would remain unchanged.[41]

As stated in its initial comments,[42] to the extent USAC is required to keep track of numerous categories of assessments and user types per carrier, administrative costs and complexity, as well as carrier gaming opportunities resulting from differing customer and service classifications, would increase accordingly. Moreover, USAC would be required

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36 *BTNA Comments* at 8.
37 *Time Warner Comments* at 4.
38 *See NECA Comments* at 4-6; *BellSouth Comments* at 3; *West Virginia Consumer Advocate Comments* at 3.
39 *See, e.g., NTCA Comments* at 3; *OPATSCO Comments* at 6.
40 *See Comments of WorldCom, Inc.* (*Worldcom Comments)*, discussed *infra; AT&T Comments*, discussed *infra*, *Sprint Comments*, discussed *infra.*
41 *See NTCA Comments* at 3. Under a flat-fee universal service system, carriers would still be required to report their prior year's revenue to the data collection agent for the Telecommunications Relay Service, North American Numbering Plan, and local number portability administration programs, unless the Commission determines that similar changes to those mechanisms are warranted.

to develop completely new billing and collection systems, and would also need to implement new audit systems, all of which would require significant one-time investments. USAC would still be required to bill and collect from carriers on a monthly basis, making any future overall reduction in administrative costs unlikely.[43] Although these administrative and audit concerns are difficult and a flat-rated system would represent a dramatic change from the current methodology, USAC could implement such a methodology if called upon by the Commission to do so. However, USAC urges the Commission to carefully consider the transition process to such a methodology in order to ensure the continued viability of the Universal Service Support Mechanisms during such a change.

Numerous commenting parties argued in favor of a flat-fee based universal service assessment methodology and attempted to address the administrative issues created by such a methodology in varying ways.[44] These parties argued that a flat-fee assessment scheme could, depending on how it is designed, be straightforward and simple to administer. The variations on a flat-rated assessment methodology proposed by AT&T, WorldCom, and Sprint warrant particular USAC attention at this time.

AT&T's proposal would require each interstate carrier to submit quarterly to USAC a verified accounting of its assessable amounts (lines or revenues) in a revised FCC Form 499. USAC would then estimate the total federal support that will be needed

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42 *See USAC Comments* at 17.

43 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, current customer accounts, or any other type of "current" data.

44 *See, e.g., WorldCom Comments* at 23-26*; Comments of Sprint Corporation* at 10-16 *(Sprint Comments); AT&T Comments* at 13-15*; Comments of the Ad Hoc Telecommunications Users Committee* at 26-34 (*Ad Hoc Comments*); *Nextel Comments* at 6-9; *Comments of Z-Tel Communications, Inc.* at 2-7 *(Z-Tel Comments)*; *Telstar International, Inc.'s Comments in Response to the Federal Communications Commission's May 8, 2001 Notice of Proposed Rulemaking* at 4-9.

for the following quarter, as it does today. Based on this estimate, USAC would then develop a factor that is equal to the ratio of the federal support requirement to the total assessable amounts for the period. Each interstate telecommunications carrier would then be required to apply the USAC factor to its current assessable monthly amounts. Under this system, carriers would be required to submit a monthly statement of their prior month's assessable amounts and a contribution based on application of the assessment rate to those amounts.[45] While the AT&T proposal would address a number of administrative issues associated with a flat fee based system, it would require an increase in the number of data submissions required by carriers, and would be significantly more complex and costly to administer than the current methodology.

WorldCom proposes that the Commission base carriers' universal service contributions not on a per-line or per-account basis, but instead "on the basis of the number and capacity of connections carriers provide to end-user customers to connect to the public switched telephone network or the public Internet or to otherwise originate or terminate interstate traffic."[46] WorldCom further proposes that the Commission set specific monthly assessment rates for residential, pager, and single-line business customers. WorldCom suggests that the assessment obligation would fall on the carrier that has the relationship with the customer for whom the connection is made, not on a carrier that is merely provisioning a line for another carrier. WorldCom proposes that the remainder of the contributions be made by the remaining business connections at the assessment levels required to satisfy the needs of the universal service support

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[45] *See AT&T Comments* at 10-11.
[46] *See WorldCom Comments* at 4-5, 16-17.

mechanisms, and sets forth a three-level system for facilities other than traditional switched access lines.

WorldCom acknowledges that attempting to identify and allocate the contribution obligation among carriers that may be associated with a particular line is a complex and uncertain endeavor.[47] Under WorldCom's "connection" based approach, the carrier from whom a customer obtains wireline or wireless connection is responsible for contribution. WorldCom notes that such a system avoids problems related to allocating responsibility for "lines" under a per-line charge. In order for the system proposed by WorldCom to be workable, the types of "connections" and the various assessments associated with those connections would need to be clearly defined – an administrative issue inherent in any per-line, per-account, or per-connection methodology. Moreover, differentiating between types of users such as residential and small business is becoming increasingly difficult.

Under Sprint's plan, the Commission would divide carriers into three market segments (wireless, interexchange carriers, and local exchange carriers). The Commission would then determine an interstate allocator for each segment, which represents the proportion of that group's interstate revenue to its total revenue based on available data. Using these allocators, USAC would determine the total estimated interstate revenues for each group and the relative proportionate funding requirements each group will bear. The funds from each group would then be collected by carriers through a per-line (or per-number in the case of wireless) assessment on customers. Carriers would remit to USAC what they collect from their customers.[48] Sprint's proposal would reduce the reporting requirements currently imposed on carriers, but, as

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[47] *See WorldCom Comments* at 24. *See also, e.g., Qwest Comments* at 9.
[48] *See Sprint Comments* at 8-10.

with any of these proposals, significant operational and transition details would need to be addressed. In addition, the Sprint proposal would require the Commission to classify carriers into categories that would determine their assessment levels, a difficult endeavor in the current telecommunications marketplace. Such classifications also create more opportunities for carrier gaming, as carriers may try to manipulate the system in order to change their classification if there are economic benefits to their doing so.

Other parties' proposals differ in varying degrees. Ad Hoc argues for a non-traffic sensitive, flat-rated charge that would apply to every line connected to the public switched network.[49] Because Ad Hoc's plan would limit the per-line count to local exchange and wireless carriers, it notes that its proposed system would apply to carriers who already maintain line count data and billing systems to calculate a monthly charge per line.[50] Z-Tel Communications proposes a hybrid system of a flat-fee for residential accounts and the current revenue assessment for other types of customers.[51] Such a system could be administratively straightforward but, as noted earlier, a system that allows different carriers to select different contribution methodologies creates significant administrative issues, invites gaming, and potentially allows abuse. Z-Tel suggests that the Commission would set the residential fee every two years. USAC believes that this interval creates a significant risk of over- or under-collection, and suggests that the Commission would want to revisit the residential fee on at least an annual basis.

Although numerous commenting parties noted the difficulties with line counts, advocates of a flat-fee system counter that, because the Commission has already addressed measurement issues such as PBX trunk and ISDN equivalencies, a monthly

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[49] *See Ad Hoc Comments* at 27.
[50] *See Ad Hoc Comments* at 31-32.

flat-fee would not be unduly burdensome to calculate and collect.[52] Parties propose that the relevant line count should be the line count that carriers are using now to assess subscriber line count (SLC) charges.[53] AT&T argues that line counts are much less variable than interstate and international revenues, and therefore that switching to a flat-rate assessment would enhance the stability of the system.[54] Similarly, WorldCom argues that "connectivity is not subject to such drastic market changes" as interstate revenues.[55] In USAC's experience there is fluctuation in interstate revenues, at least some of which is seasonal in nature. USAC's experience with collecting line count information for the non-rural high cost mechanism, however, is that line counts continue to grow in total, although there are fluctuations on a carrier-by-carrier basis.

With respect to wireless carriers, certain commenting parties argue for a system that would impose a flat fee per activated mobile phone on wireless carriers.[56] This proposal creates administrative issues similar to those noted for flat-fee systems generally, as well as additional audit issues.

In order to address its stated concern that individual carriers currently bear the risk of non-recovery of their contributions from end-users, AT&T proposes that the Commission adopt a mandatory prescribed flat-rate pass-through, with carriers remitting to USAC only the contributions that they collect.[57] Similarly, Sprint proposes a contribution system in which carriers collect assessments on a per-line (or per-number for

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[51] *Z-Tel Comments* at 2 (addressing flat-fee system as applied to residential customers only).
[52] *See Ad Hoc Comments* at 27.
[53] *See Ad Hoc Comments* at 27.
[54] *See AT&T Comments* at 13.
[55] *See WorldCom Comments* at 20.
[56] *See Nextel Comments* at 6-9; *Ad Hoc Comments* at 27.
[57] *See AT&T Comments* at 3-5.

wireless carriers) basis and remit what they collect to USAC.[58] These features raise no special administrative concerns for USAC, but could raise significant issues regarding the sufficiency of the contributions to support mechanisms. Because the support mechanisms as a whole would now bear the risk of uncollectibles under AT&T's plan, USAC believes a contingency reserve along the lines of that discussed above in the current revenue section would be necessary.

The parties advocating a flat-rated system also addressed the transition to any new assessment methodology. In order to address some of the administrative concerns with a transition from the current system to one based on flat-rated methodology, AT&T proposes a two-stage process. AT&T argues that the Commission should immediately adopt a flat per-line assessment for residential, wireless and switched voice business customers. AT&T suggests that the Commission should then seek comment on the optimal design for a flat-rate mechanism for businesses that use special access.[59] USAC reiterates that there are significant administrative difficulties with any system based on multiple assessment methodologies. Similarly, WorldCom proposes that residential wireline and wireless connections, pagers, and single-line business connections transition immediately (i.e., within two months) to its proposed new system.[60] Such a timetable would pose significant administrative challenges for USAC and carriers. For business connections, WorldCom advocates a one year transition period in order to allow carriers to develop the necessary systems needed to implement the new assessment

[58] *See Sprint Comments* at 8.
[59] *See AT&T Comments* at 14.
[60] *See WorldCom Comments* at 6.

methodology.[61] Without further details, it is difficult for USAC to be more specific concerning transition issues at this time.

[61] *See WorldCom Comments* at 6, 20-21.

E. Miscellaneous Administrative Issues

Commenting parties raised a number of administrative issues in connection with the current or proposed universal service support contribution systems that are not addressed elsewhere in these reply comments. USAC addresses these points below.

Certain parties noted that the current FCC Form 499 creates reporting difficulties for wireless carriers.[62] At least one commenter argued that the FCC Form 499 should be released for public comment.[63] USAC would support any effort to clarify data reporting requirements should the Commission believe such an effort is warranted.

The Commission currently sets the contribution factor quarterly. The United States Telecom Association has proposed instead setting the contribution factor annually to ease reporting requirements and align this process with incumbent local exchange carrier tariff filings.[64] Moving to such a system would be easier for USAC to administer but such a system would require a larger contingency reserve. With an appropriate minimum reserve, an annual contribution factor would not present fund sufficiency issues.

Several commenters suggested that the Commission should permit national wireless carriers with separate affiliated corporate entities to file a single revenue report for any given reporting period.[65] USAC has no administrative objection to such a modification, provided that it is clear what the billed entity is and that the billed entity retains responsibility for payment of the universal service contribution.[66]

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[62] *See, e.g., Nextel Comments* at 3.
[63] *See, e.g., Primus Comments* at 7.
[64] *See USTA Comments* at 3.
[65] *See, e.g., Verizon Wireless Comments* at 18; *Cingular Comments* at 8; *Comments of the Cellular Telecommunications & Internet Association* at 3.
[66] USAC suggests that a consolidated filing should meet certain minimum requirements:

1) The filing entity clearly lists each of the entities for which it is reporting;

Sprint notes that, under the current revenue reporting system, errors made in quarterly reports can only be corrected in the next report. Specifically, according to Sprint, there is no provision for correcting errors more than three months in arrears.[67] USAC notes that errors made in quarterly reports may also be corrected in the annual FCC Form 499-A.

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2) A single entity oversees the management of the individual legal entities;
3) A single entity sends bills to customers and these bills identify a single entity (or trade name) as the service provider, rather than identifying the individual legal entities;
4) All revenues are posted to a single general ledger or, to the extent that separate revenue & expense accounts exist, they are derived from the consolidated set of books;
5) Customers contact a single operator/manager rather than the individual legal entities;
6) The filing entity acknowledges that process served on the entity would represent process served on each, all or individual legal entities, as identified in the process;
7) The filing entity represents that it would document and resolve all slamming and other complaints that might be served on either the filing entity or on any of the individual legal entities; and
8) The filing entity represents that it is responsible for all universal, TRS, LNP, NANPA, and regulatory fees for the individual legal entities.

USAC acknowledges the Commission may have additional reasons for requiring separate filings and therefore, such consolidation may be available only to certain industry segments.

[67] *See Sprint Comments* at 6.

CONCLUSION

USAC welcomes the opportunity to assist the Commission as it considers alternatives to the existing contribution 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
ADMINISTRATIVE COMPANY

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