

BEFORE THE
FEDERAL COMMUNICATIONS COMMISSION
WASHINGTON, D.C. 20554

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In the Matter of

Federal-State Joint Board on
Universal Service

CC Docket No. 96-45 /

COMMENTS
of the
GENERAL SERVICES ADMINISTRATION

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November 5, 2001

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Summary

Universal service is a vital issue to GSA because the ability to communicate with all members of the public is necessary to perform the work of federal agencies. GSA explains that as many individuals as possible should have access to a number of telecommunications services, but it is also important to recognize that the costs of universal service programs are increasing.

GSA recommends that the Commission adopt the list of eligible services recommended by the Joint Board. However, in view of the need to contain costs, GSA recommends that the list of eligible services not be expanded at this time.

Moreover, GSA makes several recommendations to help contain the funding requirements for universal service programs. For example, GSA explains that support for local exchange services should encompass only primary residential lines, and not additional lines within a household. Also, GSA recommends that the Commission periodically review the aggregate requirements for schools, libraries, and rural health care facilities to receive support for access to telecommunications services.

Comments submitted by large users demonstrate that some carriers have been “marking-up” their actual costs in charges to end users. This practice is confusing and inequitable for consumers, who are often lead to believe that the “universal service” charges are mandated and uniform among all carriers. GSA urges the Commission to prohibit carriers from turning universal service assessments into a “profit center.”

Services under universal service programs focus primarily on providing individuals and institutions with access to the switched network. Moreover, the programs focus on covering the costs of non-traffic sensitive network access facilities. It is inconsistent to obtain universal service contributions from carriers through assessments depending on factors other than the number of lines. Moreover, if carriers pass their costs for contributions to end users, they should employ a rate structure reflecting the fact that virtually no costs associated with network access vary with minutes of network use.

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**COMMENTS
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GENERAL SERVICES ADMINISTRATION**

The General Services Administration (“GSA”) submits these Comments on behalf of the customer interests of all Federal Executive Agencies (“FEAs”) in response to the Public Notice in CC Docket No. 96–45 (“Notice”) released on August 21, 2001. The Notice seeks comments and replies on the list of services that should be eligible for universal service support.

I. INTRODUCTION

Pursuant to Section 201(a)(4) of the Federal Property and Administrative Services Act of 1949, as amended, 40 U.S.C. 481(a)(4), GSA is vested with the responsibility to represent the customer interests of the FEAs before Federal and state regulatory agencies. From their perspective as end users, the FEAs have consistently supported the Commission’s efforts to bring the benefits of competitive markets to consumers of all telecommunications services.

Based on recommendations by the Federal–State Joint Board on Universal Service (“Joint–Board”), the Commission designated the “core” services that are eligible for universal service support:

- voice-grade access to the public switched telephone network;
- single-party local exchange service;
- dual-tone multifrequency signalling or its functional equivalent;
- access to emergency services;
- access to operator services;
- access to interexchange service;
- access to directory service; and
- toll limitation services for qualifying low-income consumers.¹

In addition to support for these services, the Commission has implemented procedures to facilitate access to all telecommunications services by eligible schools, libraries, and rural health care providers.²

The Notice asks parties to examine this list of services in view of criteria set forth in the Telecommunications Act.³ These criteria measure the extent to which the services:

- (1) are essential to education, public health, or public safety;
- (2) have been employed by a substantial majority of residential customers;
- (3) are being deployed in public telecommunications networks by telecommunications carriers; and
- (4) are consistent with the public interest, convenience, and necessity.⁴

¹ Report and Order released May 8, 1997, paras. 56-87.

² Notice, n. 2.

³ Telecommunications Act of 1996, Pub. L. No. 104-104, 110 Stat. 56, codified at 47 U.S.C. §§ 151 *et seq.* ("Telecommunications Act").

⁴ *Id.*, § 254(c)(i) (A)-(D).

While setting specific eligibility criteria, the Telecommunications Act recognizes that the scope of universal service needs is an evolving concept that the Commission must review periodically by “taking into account advances in telecommunications and information technologies and services.”⁵

In this proceeding, the Commission responds to this directive by inviting comments on what services, if any, should be added to or removed from the list eligible for universal service support, and how these services should be defined.⁶

II. THE COMMISSION SHOULD NOT MODIFY THE JOINT BOARD’S PROPOSED LIST OF SERVICES TO RECEIVE UNIVERSAL SERVICE SUPPORT.

The FEAs have a vital interest in universal service because the ability to communicate with all members of the public is necessary to perform the work of Federal agencies. Consequently, GSA has participated in this proceeding by filing comments on 15 occasions since April 1996 to set forth its positions and recommendations concerning universal service.⁷

Universal service is important, but the costs to end users are increasing. Beginning in 1998, carriers were assessed 3.19 percent of revenues for the “High Cost” and “Low Income” programs, and an additional 0.72 percent for programs

⁵ Notice, p. 1, citing Telecommunications Act, § 254(c)(1).

⁶ *Id.*, p. 2.

⁷ *In the Matter of Federal–State Joint Board on Universal Service*, CC Docket No. 96-45, Comments of GSA, April 12, 1996; Reply Comments of GSA, May 7, 1996; Comments of GSA, August 2, 1996; Comments of GSA, December 19, 1996; and Reply Comments of GSA, January 10, 1997; Comments of GSA, December 23, 1998; and Reply Comments of GSA, January 13, 1999; Comments of GSA, July 23, 1999; and Reply Comments of GSA, August 6, 1999; Comments of GSA, November 12, 1999; Reply Comments of GSA, December 3, 1999; Comments of GSA, August 14, 2000; Reply Comments of GSA, August 28, 2000; Comments of GSA, February 26, 2001; and Reply Comments of GSA, March 12, 2001.

targeted to “Schools and Libraries, and Rural Health Care Providers.”⁸ Thus, the carriers’ total contribution amounted to 3.91 percent of revenues only a few years ago. However, for the fourth quarter of 2000, the total required contribution increased to 5.67 percent, and for the first quarter of the current year the assessment increased again to 6.68 percent.⁹

It is important — perhaps now more than ever — that as many individuals as possible have access to a number of telecommunications services. Therefore, GSA does not recommend that any services be removed from the supported list. However, in view of the need to contain costs, GSA recommends that the list of eligible services not be expanded at this time. Moreover, GSA urges the Commission to take several steps to define the included services more sharply and to constrain the “surcharges” that end users are asked to pay.

III. STEPS TO LIMIT THE SCOPE OF ELIGIBLE SERVICES WILL REDUCE FINANCIAL REQUIREMENTS FOR THE PROGRAM.

A. Support for local exchange services should encompass only primary lines.

In the course of this proceeding, LEC parties have urged the Commission to include secondary telephone lines as a supported service. Indeed, some LECs contend that the burdens of excluding secondary lines are substantial because of the difficulty in distinguishing between primary and secondary lines when preparing invoices for end users.¹⁰ Moreover, one LEC has argued that the Telecommunication

⁸ Federal-State Joint Board on Universal Service, *Monitoring Report*, released November 9, 2000, Table 1.9.

⁹ Comments of the Ad Hoc Telecommunications Users Committee (“Ad Hoc”), June 25, 2001, p. 34.

¹⁰ Comments of the United States Telecom Association, December 19, 1996, pp. 30-31; and Comments of SBC Communications, December 19, 1996, pp. 37-39.

Act does not distinguish between either first and second residential lines or primary and secondary residences.¹¹

GSA urges the Commission not to extend universal service coverage to secondary lines. The Industry Analysis Division reports that about 29 percent of households had at least one additional line in the household at the end of 1999.¹² Since the 29 percent is substantial, inclusion of secondary lines would significantly increase universal service funding requirements. However, since less than 50 percent of households have additional lines, the service does not meet the criterion of subscription by a “substantial majority of residential customers.”

In addition, secondary lines fail to meet the criteria of “essential to education, public health, or public safety” and “consistent with the public interest, convenience, and necessity.” Since the primary line, and possibly other means such as wireless service, provide connection to the public switched network, a secondary wireline is not necessary for safety or protection of the public.

Finally, GSA urges the Commission to find that alleged administrative difficulties in differentiating between primary and secondary lines are speculative or exaggerated. GSA believes that most billing systems either are now capable of distinguishing between primary and secondary residential lines, or can be modified to have this capability.

B. The needs of schools, libraries, and health care providers should be reviewed periodically.

The Telecommunications Act directed regulators to expand the universal service system so that elementary and secondary schools would have greater

¹¹ Comments of Pacific Telesis Group, December 19, 1996, pp. 19-20.

¹² Common Carrier Bureau, Industry Analysis Division, *Trends in Telephone Service*, August 2001, p. 8-6.

opportunities for access to advanced telecommunications services.¹³ The Commission received comments, and subsequently issued orders specifying rules and procedures for implementation of new support programs. The Schools and Libraries Corporation and the Rural Health Care Corporation were established to administer the new programs. These organizations were merged into the Universal Service Administrative Company (“USAC”) in 1999.

Although administrative responsibility has moved to an independent company, GSA urges the Commission to maintain periodic surveillance of the program to ensure that the goals are continuing to be met in the most cost-effective way. Indeed, the legislation contemplates that the Commission will perform this function because it states, “The Commission shall, within 30 months after the date of enactment of this Act, and regularly thereafter, initiate a notice of inquiry concerning the availability of advanced telecommunications capability to all Americans (including, in particular, elementary and secondary schools and classrooms) . . .”¹⁴

In 1997, the Ad Hoc Telecommunications Users Committee (“Ad Hoc”) proposed that the Commission meet this mandate by conducting a review in 2002 to evaluate how well the system is meeting the goal of providing access to advanced services to the eligible institutions.¹⁵ GSA urges the Commission to adopt this timely recommendation.

A thorough review will give the Commission the opportunity to determine whether the present cap on the contribution level should be augmented or reduced. A review will also permit the Commission to determine whether discount tiers should be

¹³ Telecommunications Act, § 706 (a)–(c).

¹⁴ *Id.*, § 706 (b) (emphasis provided.)

¹⁵ Comments of Ad Hoc, January 10, 1997, pp. 27–28.

re-adjusted, and whether technology changes warrant additional restrictions on supported services.

IV. THE COMMISSION SHOULD PROHIBIT CARRIERS FROM “MARKING-UP” ASSESSMENTS FOR UNIVERSAL SERVICE PROGRAMS.

A recent submission by Ad Hoc in this proceeding observed that when carriers were subject to a contribution factor of 5.67 percent in the fourth quarter of 2000, some were turning universal service assessments into a “profit center” by employing surcharges on end users as great as 8.6 percent.¹⁶ Indeed, for the first quarter of the current year, when the contribution factor increased to 6.68 percent, one carrier increased the surcharge to 9.9 percent.¹⁷

Monthly invoices to end users with charges purportedly reflecting universal service contributions rarely, if ever, contain a description that permits users to understand clearly the purpose of the assessment. Often the wording is vague, employing terms such as “universal service fee” or “connectivity charge.”

By the wording and context, many consumers are undoubtedly persuaded that the stated charge is mandated and uniform among all carriers. Unlike subscriber line charges (“SLCs”) and presubscribed interexchange carrier charges (“PICCs”), the assessments on consumers to support universal service programs are not set by the Commission’s rules. Implications to the contrary are misleading. Moreover, such implications are particularly troubling because part of the assessment — a “mark-up” by the carrier — may be totally unrelated to universal service initiatives.

GSA urges the Commission to stop this practice. If a line item charge is employed to recover the costs of universal service contributions, the amount of charge

¹⁶ Comments of Ad Hoc, June 25, 2001, p. 34.

¹⁷ *Id.*

should not exceed the corresponding contribution. Moreover, carriers should be required to state unambiguously that such “surcharges” are not legally mandated and not uniform among all carriers that an end user may designate as a service provider.

V. CHARGES TO RECOVER UNIVERSAL SERVICE COSTS FROM CONSUMERS SHOULD RECOGNIZE THAT MOST FACILITIES USED TO PROVIDE THE SERVICES ARE NON-TRAFFIC SENSITIVE.

Universal service programs focus on network access. For example, in terms of funding requirements, by far the largest universal service program is for High-Cost Support.¹⁸ There are three High-Cost Support mechanisms — the Universal Service Fund (“USF”), Long-Term Support (“LTS”), and Local Switching Support (“LSS”).¹⁹ The first two of these support mechanisms, which account for the great majority of the High-Cost funding needs, are concerned exclusively with non-traffic sensitive costs.²⁰

The principal Low-Income Support programs also are concerned with the fixed costs of access to the switched network, rather than the amount of network use. For example, the Lifeline programs offers eligible households a stipend of either \$3.50, \$5.25 or \$7.00 per month, depending on the state regulatory agency’s participation in support programs, and not network usage.²¹ Also, the Link Up program covers a substantial portion of line connection charges for low-income individuals.²²

Since universal service programs focus on network access and are designed primarily to recover the costs of non-traffic sensitive network access facilities, it is not

¹⁸ Federal-State Joint Board on Universal Service, *Monitoring Report*, released November 9, 2000, Table 1.9.

¹⁹ *Id.*, p. 3-1.

²⁰ *Id.*, pp. 3-1 and 3-2.

²¹ *Id.*, p. 2-2.

²² *Id.*

consistent to obtain universal service contributions from carriers on a revenue basis. Moreover, it is especially inappropriate that carriers in turn attempt to recover the costs of their contributions — or even more — through percentage surcharges on end users that reflect usage of the network.

Ad Hoc has explained that under a revenue-based funding scheme, high-volume customers effectively subsidize low-volume customers when the goal is to have high-income customers help those at the lower end of the economic spectrum.²³ Indeed, there are a number of reasons to expect that low-income households may generate greater volumes of interstate calling than their higher-income counterparts. For example, lower-income households may have fewer substitutes, such as travel, to maintain personal ties.²⁴ Also, higher-income consumers may be more likely to own a vacation home, which would typically exhibit extremely low toll calling during much of the year.²⁵

There are parallel inequities in using percentage assessments to obtain universal service support from business and government users. Revenue-based recovery disproportionately penalizes these users, particularly larger volume users that usually spend more for usage in relation to their requirements for access facilities.

If carriers pass their costs for universal service contributions to end users, they should employ a rate structure that reflects the costs of providing the services eligible for universal service support. In addition, it is important that the Commission spread funding obligations more equitably among all users and eliminate implicit cross-subsidies in cost recovery procedures. To meet these objectives, GSA urges the

²³ Comments of Ad Hoc, June 25, 2001, p. 14.

²⁴ *Id.*

²⁵ *Id.*

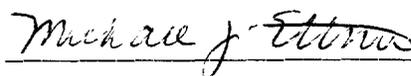
Commission to require carriers to rely on per-line charges rather than revenue-based assessments in recovering any costs of universal service initiatives from end users.

VI. CONCLUSION

As a major user of telecommunications services, GSA urges the Commission to implement the recommendations set forth in these Comments.

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