

Before the
FEDERAL COMMUNICATIONS COMMISSION
Washington, DC 20554

In the Matter of

Access Charge Reform

CC Docket No. 96-262

Price Cap Performance Review for Local
Exchange Carriers

CC Docket No. 94-1

Low-Volume Long Distance Users

CC Docket No. 99-249

Federal-State Joint Board On Universal
Service

CC Docket No. 96-45

REPLY COMMENTS OF VERIZON¹

Most commenters agree that the Commission should rely on its existing record to address the Court's inquiry on remand and that this record justifies retaining the \$650 million amount for the interstate access support mechanism. *See, e.g.*, AT&T, 2; CALLS Coalition, 1-2; SBC, 2. As Verizon and others pointed out, the \$650 million fund was never intended to be a precise quantification of the implicit subsidies in access charges. Rather, the Commission determined, in light of the cost analyses on the record, that it was a reasonable amount for the five-year transitional period during which the CALLS plan would be in effect. The CALLS plan is a transitional mechanism designed to achieve several access reform and universal service objectives pending a Commission decision at the end of the five-year period whether competition

¹ The Verizon telephone companies ("Verizon") are the affiliated local telephone companies of Verizon Communications Corp. These companies are listed in Attachment A.

is sufficient to adopt deregulation as the next logical step.² The \$650 million fund would recover most of the revenues that would not be recovered from subscriber line charges due to the caps in the CALLS plan. In so doing, it would replace a reasonable estimate of the implicit subsidies in carrier common line charges and presubscribed interexchange carrier charges (“PICCs”) during the course of the plan. The Commission need not formally adopt any particular study to decide that the studies on the low end of the estimates confirm its decision to adopt this amount as a transitional mechanism. As Verizon noted, the \$650 million amount is reasonable because it leaves a “cushion” to avoid recovering more through the universal service fund than the “gap” between permitted revenues and capped subscriber line charges.

Qwest argues that the fund should be increased to \$950 million, based on its own study of the implicit subsidies in access charges. *See* Qwest, 7-10. Qwest’s approach suffers from two drawbacks. First, it reaches the \$950 million estimate by including only the two least-densely populated (and highest cost) density zones in each study area. *See* Qwest, 8. This overstates the amount of support that is needed from the federal fund to replace implicit subsidies in federal access charges for each study area, since the CALLS plan allows subscriber line charges to be deaveraged within a study area.³ The Qwest approach fails to reflect the fact that higher density (lower cost) zones currently have averaged subscriber line charges that exceed the costs in those zones. The Commission adopted the deaveraging rule specifically to address this implicit support flow between low cost and high cost areas within a study area as part of an integrated plan for either phasing out implicit subsidies or explicitly funding them. Therefore, there is no

² *See Access Charge Reform*, 15 FCC Rcd 12962, ¶ 35 (2000) (“*CALLS Order*”).

³ *See CALLS Order*, ¶¶ 113-115.

need to address such support flows again through the universal service fund. Second, a \$950 million fund would be inconsistent with the CALLS plan, since it exceeds the amount of revenues in PICCs and carrier common line charges.⁴ Therefore, the Qwest study exceeds the amount that is needed to achieve the Commission's objective of substantially reducing these charges. *See CALLS Order*, ¶¶ 64, 77.

CUSC and CenturyTel raise issues that are outside the scope of this proceeding. CUSC argues (at 3-6) that the issue of the size of the federal universal service fund should be rolled into the Commission's response to 10th Circuit remand of the Commission's order on the high cost fund for non-rural carriers.⁵ CenturyTel raises a similar issue, arguing (at 9-10) that the 10th Circuit's decision requires the Commission to take into account in the CALLS plan the effect on intrastate implicit universal service support flows when state access charges mirror changes in interstate access charges. CenturyTel also argues (at 6-10) that the Commission should address the impact on the fund of new price cap carriers seeking CALLS support, such as rate-of-return carriers that adopt price cap regulation or that purchase exchanges from price cap carriers.

None of these issues should be addressed here. The CALLS order replaces the implicit universal service support flows within interstate access charges with an explicit universal service funding mechanism – it does not deal with the separate issue of how to provide federal support for universal service at the state level, which is covered by the high cost fund. CenturyTel is correct in observing that the *CALLS Order* did not explicitly address how entry of new carriers

⁴ The industry recovers about \$651 million from PICCs and about \$147 million from carrier common line charges. *See* Telcordia Technologies, June 25, 2001; Rollup of Key Indicators, Revenue Deltas, and Exogenous Costs from the 6/18/01 Annual Filings.

⁵ *See Qwest v. FCC*, 258 F.3d 1191 (10th Cir. 2001).

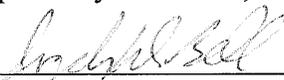
into price caps affects the distribution of universal service support. However, the Commission is already addressing the issue of universal service support for rate-of-return carriers that elect price caps in the further notice of proposed rulemaking on the “MAG” universal service plan for rural carriers. *See Multi-Association Group (MAG) Plan for Regulation of Interstate Services of Non-Price Cap Incumbent Local Exchange Carriers and Interexchange Carriers, Second Report and Order and Further Notice of Proposed Rulemaking*, 16 FCC Rcd 19613, ¶ 271 (2001). These issues need not and should not be addressed again in this docket, which is limited to the issues remanded by the 5th Circuit regarding the Commission’s decision to adopt a \$650 million universal service fund in the CALLS plan.

Conclusion

For the foregoing reasons, the existing record is sufficient to affirm the Commission’s decision to adopt a \$650 million universal service for the CALLS plan.

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Respectfully submitted,

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THE VERIZON TELEPHONE COMPANIES

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

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