STATE OF MARYLAND

DOCKET FILE COPY ORIGINAL

MICHAEL J. TRAVIESO
PEOPLE'S COUNSEL

SANDRA MINCH GUTHORN
DEPUTY PEOPLE'S COUNSEL

DONALD F. ROGERS
PAULA M. CARMODY
CYNTHIA GREEN-WARREN
THERESA V. CZARSKI
WILLIAM F. FIELDS
LUANNE P. McKENNA
RICHARD T. MILLER

MARYLAND PEOPLE'S COUNSEL

WILLIAM DONALD SCHAEFER TOWER
6 ST. PAUL STREET, SUITE 2102
BALTIMORE, MARYLAND 21202
(410) 767-8150
(800) 207-4055
FAX (410) 333-3616

February 6, 2002

Ms. Magalie Roman Salas
Secretary
Federal Communications Commission
Room TW-B204
445 12th Street, S.W.
Washington, D.C. 20554

Re: Common Carrier Docket Nos. 96-262, 94-1, 99-249, 96-45

Dear Ms. Salas:

Enclosed please find the Reply Comments of the National Association of State Utility Consumer Advocates in the above-captioned proceedings. Pursuant to the Commission's filing procedures, I have enclosed an original and four (4) copies of the Reply Comments.

I have also enclosed an additional copy of the Reply Comments for receipt-stamp which I ask that you return to me in the enclosed postage-paid envelop.

Should you have any questions regarding this matter, please do not hesitate to contact me.

Sincerely,

Michael J. Travieso

Michael J. Travieso
Maryland People's Counsel
Chair, NASUCA Telecommunications
Committee as counsel for NASUCA

Maryland Office of People's Counsel
6 St. Paul Street, Suite 2102
Baltimore, Maryland 21202

(410) 767-8150

cc: Chief, Competitive Division
Qualex International

No. of Copies rec'd 0+5
List ABCDE

BEFORE THE
FEDERAL COMMUNICATIONS COMMISSION
WASHINGTON, DC 20554

In the Matter of	)	
	)	
The Remand of the $650 Million Support Amount Under The Interstate Access Support Mechanism For Price Cap Carriers	)	
	)	
Cost Review Proceeding for Residential and Single-Line Business Subscriber Line Charge (SLC) Caps	)	
	)	
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

COMMENTS OF THE MARYLAND OFFICE OF PEOPLE'S COUNSEL AND THE NATIONAL ASSOCIATION OF STATE UTILITY CONSUMER ADVOCATES (NASUCA)

Prepared by:

David Gabel, PhD
Professor, Queens College

Submitted by:

Michael J. Travieso
Maryland People's Counsel
6 St. Paul Street, Suite 2102
Baltimore, Maryland 21202
(410) 767-8150

Attorney for National Association
of State Utility Consumer Advocates
8300 Colesville Road, Suite 101
Silver Spring, Maryland 20910
(301) 589-6313

February 6, 2002

TABLE OF CONTENTS

1 Reply Comments of Maryland Office of People's Counsel (MOPC) and National Association of State Utility Consumer Advocates (NASUCA)

Pursuant to the Federal Communications Commission's (FCC) *Notice* DA-2817, dated December 4, 2001, the Maryland Office of People's Counsel (MOPC) and National Association of State Utility Consumer Advocates (NASUCA) submits these reply comments demonstrating that the FCC's use of an annual $650 million interstate access support mechanism is excessive under the current Subscriber Line Charge (SLC) Cap of $5.00. This excess would increase significantly if the FCC were to approve any increase in the SLC cap.

2 Introduction and Summary

The United States Court of Appeals for the Fifth Circuit remanded the Calls Order to the Commission for further analysis and explanation regarding the $650 million support amount.[1] The Commission issued a notice, (DA-2817) requesting comments on whether the $650 million support is a reasonable support amount. In their initial comments, many filing parties supported the $650 million value.[2] Several parties argued that the amount is insufficient and should be increased.[3] In these reply comments, MOPC/NASUCA argues that the maximum support amount should be $629 million if the FCC retains the current $5.00 residential and single-line business cap, and that the support amount should decrease to maximum of $336 million if the FCC allows the residential and single-line business SLC cap to increase to $6.50.

The MOPC/NASUCA reply support estimates are superior to the other estimates filed in this proceeding because: (i) MOPC/NASUCA adjusts the support estimates to reflect the potential increases in SLCs; (ii) MOPC/NASUCA's forward-looking support estimates are consistent with the FCC's rules and economic theory; (iii) MOPC/NASUCA has correctly transformed the Synthesis Model cost into common line access costs; and (iv) MOPC/NASUCA is the only party that includes support to rural carriers in its estimates. Moreover, MOPC/NASUCA estimates did not include support for advanced services.

[1] Texas Office of the Public Utility Counsel and the National Association of State Utility Consumer Advocates v. the Federal Communications Commission, United States Court of Appeals, Fifth Circuit, No. 00-60434, September 10, 2001.

[2] See the Comments of Verizon, January 22, 2002 (hereafter Verizon Comments); Comments of AT&T Corp., January 22, 2002 (hereafter AT&T Comments); and Comments of SBC Communications Inc. (hereafter SBC Comments), January 22, 2002.

[3] See the Comments of Qwest Corporation, January 22, 2002, and Comments of CentulyTel Inc. January 22, 2002 (hereafter Comments Century Tel).

3 Arguments

3.1 The SLC Cap and the Fund Size

Support mechanisms are designed to bridge the gap between customer revenue and a cost standard. For example, Verizon asserts that the

> "$650 million universal service fund in the Calls plan is reasonable ... because it covers most of the "gap" between capped Subscriber Line Charges and the permitted CMT revenues that would otherwise be recovered through common carrier line charges and PICCs."[4]

While MOPC/NASUCA will argue below that Verizon's cost standard, allowed CMT revenues, is an improper standard,[5] Verizon's statement clearly supports the proposition that any increase in revenue or decrease in the cost standard should decrease the required support.

The customer revenue at issue in this proceeding is the revenue generated by the Subscriber Line Charges (SLCs). Currently, the residential and single-line business SLC rates are capped at $5.00 for primary lines and $7.00 for non-primary lines.[6] These caps limit revenues in study areas where the cap is less than allowed CMT per-line revenue. In its Cost Review Proceeding, the FCC will determine if the scheduled increases in the SLC cap are warranted, and if so, will allow the SLC cap to increase to $6.50. If the FCC allows the SLC cap to increase,[7] SLC revenue will increase, and the gap between revenue and cost will decrease. Therefore, any increases in SLC caps must be tied to decreases in the interstate access fund size.

In its comments in the *Cost Review Proceeding*, NASUCA estimated that the support received by residential and single-line business customers, when the SLC cap is at $5.00, is no more than $472 million.[8] Increasing the SLC cap to $6.50 decreases the

---

[4] Verizon Comments, Pages 3-4.

[5] See Section II.

[6] None of the calculations submitted by MOPC/NASUCA reflect the higher SLC revenue obtained from non-primary lines. MOPC/NASUCA strongly urges the Commission to include the higher revenue from non-primary SLCs in its determination of the required level of support.

[7] In its January 24, 2002 initial comments in In the Matter of the Initiation of Cost Review Proceeding for Residential and Single-Line Business Subscriber Line Chare (SLC) Caps, CC Docket NO. 96-262, (Cost Review Proceeding), NASUCA argues that the FCC should not increase the SLC caps. NASUCA continues to urge the FCC to adopt its recommendation to maintain the residential and single-line business SLC cap at $5.00. In these reply comments, we discuss the hypothetical situation that would occur if the FCC were to allow the SLC cap to increase.

[8] NASUCA Comments, Cost Review Proceeding, Page 53. The $472 estimate is only the support flowing to residential and single-line business customers. The $472 value is a ceiling because we have not taken into account the higher SLC charged to non-primary lines. NASUCA also estimated that, given the $5.00

support to a maximum of $252 million.[9] Because $252 million is 53 percent of $472 million, NASUCA argues that the fund size, given a SLC cap of $6.50, should be only 53 percent of the fund size when the SLC cap is $5.00. Thus, if the FCC were to adopt a $650 million fund when the SLC cap is $5.00, the fund should decrease to $345 million if the FCC allows the SLC cap to increase to $6.50.

3.2 The Fund Size Should be Based on the Costs Determined by FCC's Synthesis Model

AT&T argues that "there is no question that the Commission's Synthesis Model is, at least on an interim basis, appropriate for computing the annual amount of interstate access support."[10] The AT&T argument rests on the fact that the model and its inputs have been thoroughly reviewed by the FCC staff, the Joint Board, and interested parties. AT&T notes that the FCC relies on this model for determining non-rural carrier support, and that reviewing courts have upheld the FCC's use of the model.[11] Qwest also recommends that the costs determined by FCC's Synthesis Model should be used as a basis for determining the fund size.[12]

MOPC/NASUCA agrees with AT&T and Qwest that the fund size should be based on the FCC's Synthesis Model outputs. The FCC has held that universal service support must be based on a forward-looking economic cost model, such as the Synthesis Model. A forward-looking model is required because the model provides the cost incurred by an efficient carrier in the marketplace. This support provides carriers with the correct signals regarding investment, entry, and innovation. Providing support that is greater than the forward-looking cost of service would allow carriers to use the excess to offset inefficient operations or for purposes other than the provision of universal service.[13]

SLC Cap, these customers provide the carriers with a subsidy of $1,113 million. Therefore, these customers, as a group, provide a net subsidy flow to the carriers of $641 million.

Due to the protective order signed by NASUCA in the *Cost Review Proceeding* we are unable to modify our support estimates in this proceeding to reflect the higher charges to non-primary lines. This information will be contained in our February 14, 2002 Reply Comments in the *Cost Review Proceeding*.

[9] Id., Page 54. The $252 million estimate is only the support flowing to residential and single-line business customers. The $252 value is a ceiling because we have not taken into account the higher SLC charged to non-primary lines. NASUCA also estimated that, given the $6.50 SLC Cap, these customers provide the carriers with a subsidy of $2,065 million. Therefore, these customers, as a group, provide a net subsidy flow to the carriers of $1,813 million.

[10] AT&T Comments, Page 2.

[11] Id, Pages 2-3.

[12] Qwest comments, Pages 2-3.

[13] Universal Service Order, CC Docket No. 96-45, FCC 97-157, rel. May 8, 1997, Paragraphs 224-226.

The Synthesis Model is preferred to other forward-looking cost models because it is designed to provide voice grade access to the public switched network, and it is in the public domain. Voice grade service is the service level designated as part of the universal service package.[14] This engineering design ensures that the Synthesis Model estimates costs that are sufficient and not excessive. Other models that are designed to provide advanced services would generate excessive costs.

The entire model can be downloaded from the FCC's web page.[15] Any individual can run the model. The source code for the model is also provided in a file folder as part of the package that is downloaded from the web page. The source code allows individuals and parties to examine every equation and verified every action the model undertakes in estimating the forward-looking cost of service. Every input value has been released into the public domain.[16] It is therefore possible to discuss the reasonableness of these values without having to enter into a proprietary agreement.

3.3 The Fund Size Should not be Based on Embedded Revenue Levels

Verizon and SBC suggest that the fund should allow the carriers to recover the allowed CMT revenue. Verizon believes that $650 million fund is reasonable "primarily on the fact that this amount recovers more than approximately 70 percent of the 'gap' between capped Subscriber Line Charges and permitted revenues."[17] SBC echoes Verizon's argument when it states that "the purpose of the $650 million is to provide support for a portion of the difference between an incumbent LEC's actual common line revenue requirement and incumbent LEC's permitted common line end-user recovery."[18]

Verizon and SBC also assert that the difference between the allowed CMT revenue and the revenue recovered through the SLC is the measure of the implicit subsidy embedded in access charges.

These recommendations conflict with previous FCC orders and economic theory. As pointed out by the Competitive Universal Service Coalition, these recommendations do not adhere to the FCC's objective to base support on forward-looking cost. Instead, the recommendations are a make whole technique designed to maintain the historical revenue levels, rather than to establish a reasonable level support.[19]

---

[14] Id., Paragraphs 63-65.

[15] http://www.fcc.gov/ccb/apd/hcpm/

[16] In the Matter of the Federal-State Joint Board, CC Docket No. 96-45, Ninth Report and Order and Eighteenth Order on Reconsideration, FCC 99-306, rel. November 2, 1999 (Inputs Order).

[17] Verizon Comments, Page 5.

[18] SBC Comments, Page 3.

[19] Competitive Universal Service Coalition Comments, Page 5.

The historical revenues are a mixture of three revenue streams -- the common line allowed revenues, marketing costs, and the transport interconnection charge. As Verizon acknowledges, the common line allowed revenues are not directly based on common line historical cost. Prior to 1991, this revenue stream was equal to the embedded revenue requirement associated with the interstate jurisdiction's allocated share of loop cost. Since 1991, common line revenue has been determined by the price cap formulas. It can now deviate in either a negative or a positive direction from the cost of service.[20] To the extent that this revenue stream tracks a cost standard, it is an embedded cost standard. The FCC rejected the use of an embedded cost standard because it would discourage prudent investment planning and would direct carriers to make inefficient investments that may not be financially viable when there is competitive entry.[21] For these same reasons, the FCC should reject the use of the embedded cost standard in this proceeding.

The marketing costs represent the marketing expenses assigned to the interstate jurisdiction by the separations rules and allocated to the common line and traffic-sensitive baskets by the Part 69 rules.[22] This expense is not a forward-looking expense that can be directly assigned to the Subscriber Line Charge. Incumbent LECs do not advertise the access services to end-users. Marketing expense is a cost of attracting and retaining a customer base. The FCC has found that the overwhelming majority of these costs are associated with business customers and vertical services.[23] Because these costs are associated with business customers, it is reasonable to recover these costs through the multi-line business PICC, and thus, these costs should not be recovered through the residential SLC or the universal service fund.

The Transport Interconnection Charge (TIC) revenues are a legacy of the FCC's access reform proceedings.[24] The TIC was designed to recover the difference between the revenues from the new facility-based rates and the revenues that would have been realized under the prior existing rate structure. As such, TIC costs are not part of the forward-looking cost of providing common line access service, and should not be collected from customers paying for this service or from the universal service fund that supports common line access service. Instead, the TIC revenue recovery should be assigned to the carriers overall regulatory revenue requirement. Because so many of

---

[20] Verizon Cost Submission, Cost Review Proceeding, November 16, 2001, Pages 2-3, CC 96-262, 94-1.

[21] Universal Service Order, Paragraphs 227-228.

[22] CALLS Order, Paragraphs 101-104; Part 69.156.

[23] Inputs Order, Paragraphs 403-407; See Further Comments of the National Television Association, Inc., CC Docket No. 96-45 (Appendix 3a).

[24] See First Transport Order, 7 FCC Rcd 7006.

the carriers are in a significant over-earnings position, this assignment should not increase any rate.[25]

3.4 The Synthesis Model Outputs Must be Adjusted to Reflect the Cost of Common Line Access Service

The Synthesis outputs estimate the total cost of local service and access to interexchange carriers. To transform these outputs into the cost of common line access service, five transformations must be made. First, per line common costs must be allocated among the loop, switching, transport, and signaling functions. Second, the interstate costs of loop and port must be separated from the total cost of service. Third, redundant structure cost must be removed. Fourth, traffic-sensitive loop costs must be removed from the total loop cost, and finally, wire center costs must be averaged into zone costs according to the wire centers' UNE zone designation.

In this proceeding, three parties -- AT&T, Qwest, and MOPC/NASUCA -- have used the Synthesis Model to estimate the forward-looking cost of common line access service.[26] Only MOPC/NASUCA has properly transformed the Synthesis Model outputs into the cost of common line access service.

3.4.1 Per Line Common Costs

Per line common costs are identified in the Synthesis Model as common support services expenses. They include corporate operations expenses, customer service expenses, and plant non-specific expenses. These are expenses that are reported in ARMIS accounts 6510, 6530, 6610, 6620, 6710 and 6720. The model estimate of these costs is $7.32 per line per month.[27] The model assigns all per line charges to the network interface device (NID) and through this assignment includes all per line charges in the loop basket. This practice creates biased results. The reported loop costs are too high, while the reported switch and transport costs are too low. The existence of this bias does not affect the universal service results because the universal service

[25] For a listing of the carriers' interstate jurisdiction rate of returns see NASUCA Comments, Cost Review Proceeding, January 24, 2002, Appendix A.

[26] NASUCA submitted its cost estimates along with a detailed explanation of these estimates in its comments in the Cost Review Proceeding. In these reply comments, we will provide summary common line cost estimates. On January 24 , 2002, in this proceeding NASUCA filed a Request for a modification of the FCC's existing protective order which governs access to, and use of, Confidential Line Count Information at the wire center level (See: April 7, 2000 Order of the Common Carrier Bureau in the Universal Service Docket, CC No. 96-45). NASUCA requested permission to submit evidence at the wire center level in this matter . The FCC has taken no action on NASUCA's request. Therefore, no wire center data is being submitted in this matter, but it is available to the FCC in the CALLS Cost Review Proceeding, CC No's 96-262, 94-1 and 96-45.

[27] For a discussion of these estimates, see the Inputs Order, Paragraphs 382-407.

program relies on the total wire center results. The too high loop result is offset by the too low switch and transport results. However, when cost of loop and port function are reviewed separately, this bias can not be ignored.

To correct for this bias in the MOPC/NASUCA analysis, per line common costs are allocated among the loop, switch, and transport baskets based on relative investment in these functions. The relative investment in these baskets was determined for each study area. Multiplying the per line common cost by the relative investment determines the per line common cost for each basket. In addition, because the model assigns 30 percent of switch investment to line port and 70 percent to end office usage, we assign only 30 per cent of the switch per line costs to the line port. Allocation of these cost according to relative investment mimics the allocation of corporate operations expense in the universal service algorithm and the Part 69 allocation of marketing prior to the re-assignment of marketing expenses.[28]

Neither the AT&T nor the Qwest cost estimates makes a correction to the model outputs to account for this over allocation of per line costs to loops. Thus, the AT&T and Qwest estimates are excessive.

3.4.2 Separating the Interstate Costs from the Total Cost of Service

The relevant separations factors are the gross allocator for loop plant and the dial equipment minutes (DEM) factor for the switch port.[29] The interstate gross allocator is 25 percent for all study areas. The interstate DEM factor varies by study area. The national average interstate DEM is approximately 13 percent and for the 80 carriers analyzed the interstate DEM factor varies from 7.57 to 27.43 percent.[30] The product of multiplying the sum of the loop plus the loop allocated per line common costs and the gross allocator is the interstate loop cost. The product of multiplying the sum of the port and the port allocated per line common costs and the DEM factor is the interstate port cost. It is this interstate wire center loop and line port cost, adjusted to properly reflect reasonable per line costs, that is the building block for determining zone and study area forward-looking economic cost that should be recovered by the SLC, and will be referred to as the SLC economic cost.

---

[28] Letter from John Ricker, NECA, to Magalie Roman Salas, FCC, dated October 1,2001, tab 3, Loop Cost and Expense Adjustment Algorithms and 47 C.F.R. Section 69.403.

[29] The rule adopted in the CALLS Order applies a 25 percent factor to both loop and port to determine the Zone Average Revenue Per line (Part 61.3(zz)). It is our understanding that the 25 percent factor applied in that rule was adopted for administrative convenience and does not affect the separation factors or the study area costs.

[30] For trends in the national average see The Universal Service Monitoring Report, CC Docket No. 98-202, Prepared by the Federal and State Staff for the Federal-State Joint Board on Universal Service in CC Docket No. 96-45, Table 8.3 Dial Equipment Minutes. The study area specific factor is available in ARMIS, 43-04, row 1213.

AT&T applies the 25 percent gross allocator to not only the loop cost, but also to the port cost.[31] Qwest uses a common 24 percent allocator to separate the interstate costs.[32] Because the national average DEM is approximately 13 percent, using these higher percentages overestimates the forward-looking cost of access service. Only the MOPC/NASUCA estimates, which use the carrier specific DEM factor to allocate port costs, include the correct amount of interstate port costs. Moreover, Qwest recognizes that the carrier specific DEM factor is the proper allocator for the port because it uses that allocator in its cost submission.[33]

3.4.3 Removing Redundant Structure Cost from the Model Outputs

The Synthesis Model creates a separate feeder and distribution network. The feeder network is optimally designed given the locations of the serving area interfaces and wire centers. The distribution network is optimally designed given the location of customers. However, the model does not allow the two networks to share structure, where structure includes poles, conduits and trenches. Failure to share the structure requires the model to build redundant plant that must be removed from the estimate of common line service access cost.[34]

The existence of the dual networks is acceptable for the purposes of determining high cost model support associated with the non-rural forward-looking mechanism because that support is a function of the difference between each carrier's cost and the national average cost. The dual network will increase the cost of each carrier and the national average, and will not necessarily bias a carrier's relative cost position. In that case, the dual network will not affect the amount of high cost model support each carrier receives. However, when cost is compared to an absolute level, such as an SLC cap, the dual networks, by raising the cost of service, distort the comparison between the forward-looking cost and the SLC cap. Therefore, in this proceeding, it is necessary to remove the dual network from the model cost estimation process. The MOPC/NASUCA estimates remove the redundant plant. AT&T and Qwest do not remove this plant. Moreover, AT&T is fully aware of this problem because it filed several ex partes with the FCC that highlighted the problem.[35]

---

[31] AT&T Comments, Page 3.

[32] Qwest Comments, Page 8.

[33] Qwest Cost Submission, Cost Review Proceeding, November 16, 2001, CC 96-262, 94-1, Page 5.

[34] NASUCA submitted a detailed explanation of distribution/feeder structure sharing in its comments in the Cost Review Proceeding (at pages 49-51). In these reply comments, a brief summary of these comments is provided.

[35] Letter from Richard N. Clarke, AT&T, to Magalie Roman Salas, FCC dated February 16, 2000; and Letter from Michael R. Lieberman, AT&T to Magalie Roman Salas, FCC dated October 4, 2000.

3.4.4 Removing Traffic-Sensitive Loop Costs from the Total Loop Cost

Traffic-sensitive loop costs are related to digital loop carriers and fiber feeder systems that connect the carriers to the central office. These facilities are traffic-sensitive because the customers share them, and the investment in these facilities is sized to meet the joint customer peak-hour traffic loads.[36] These costs should not be recovered through SLCs or from universal service funds designed to recover common line costs because as the Commission has often said

> "The Commission has long recognized that to the extent possible, interstate access cost should be recovered in the manner in which they are incurred. In particular, non-traffic-sensitive costs--costs that do not vary with the amount of traffic carried over the facilities—should be recovered through fixed, flat charges, and traffic-sensitive cost should be recovered through per minute charges."[37]

In this proceeding, only MOPC/NASUCA correctly removes traffic-sensitive loop costs from the Synthesis Model costs estimates. By leaving these costs in their Synthesis Model cost estimates, AT&T and Qwest over-estimate the need for interstate access support.[38]

3.4.5 Developing the Appropriate Geographic Area for Determining Loop Costs

Support estimates will vary with the size of the geographic unit for which the cost is estimated. In general, estimating costs for smaller geographic areas generates greater support estimates. In the smaller areas, high cost loops will receive support from the

[36] NASUCA submitted a detailed explanation of why fiber feeder and digital line carrier investment is traffic sensitive in its comments in the Cost Review Proceeding (at pages 51-54, 98-103). In these reply comments, a brief summary of these comments is provided.

[37] In the Matter of the Multi-Association Group (MAG) Plan for Regulation of Interstate Services for Non-Price Cap Incumbent Local Exchange Carriers and Interexchange Carriers, Second Report and Order and Further Notice of Proposed Rulemaking, CC Docket No. 00-256, rel. November 8, 2001, FCC 01-304, Paragraph 17; 12 FCC Rcd at 15992-93 Paragraph 24.

[38] In State TELRIC proceedings, the IXCs and ILECs disagree about the level of concentration between the digital line carrier remote terminal and the central office. They do not dispute that the investment is traffic sensitive and that the level of busy-hour traffic determines the amount of facilities deployed. For example in a recent proceeding before the New York Public Service Commission, Worldcom advocated that a 6:1 concentration ratio be used between the switch and digital line carrier. Verizon advocated "a 3:1 concentration ratio, which it says represents the judgment and experience of its network engineers on the best way to balance the countervailing interests in minimizing port costs per loop through a higher concentration ratio and avoiding the call blocking that would result if a free switch port were unavailable when needed because the ratio was too high." New York Public Service Commission, CASE 98-C-1357 - Proceeding on Motion of the Commission to Examine New York Telephone Company's Rates for Unbundled Network Elements, January 28, 2002, p. 91.

fund, while in large geographic areas, the high cost loops will be averaged in with low cost loops.

The following example illustrates this phenomenon. A study area has three wire centers, and each wire center has 100 lines. The wire center costs are $10, $20, and $30, respectively. The national average cost is $20 and the fund will support all costs above the national average. If support is calculated at the wire center level, this study area will receive support for its $30 wire center. However, its study area cost is $20, and if support is determined as the difference between the national average and study average, then this study area will receive no support.

While there will always be some averaging, the question to be determined in this proceeding is what is a reasonable amount of averaging. Three different averaging techniques have been proposed. First, AT&T divided study area lines into three zones, each with an equal number of lines. For most study areas, this averaging technique would imply that there would be a need for significant support in a high cost zone, little required support for the medium cost zone and no need for support in the low cost zone. However, as Qwest points out there is no basis for AT&T's technique except that it appeared reasonable to AT&T.[39]

Qwest, on the other hand, runs the Synthesis Model in its density zone mode. The FCC does not use the density zone mode in its non-rural forward-looking support mechanism, and has never released the results of running the model in the density zone mode. Qwest must have converted the wire center results into density zone results, even though it claims that the density zone runs are publicly available.[40] After converting the results, Qwest focuses on the two least-populated zones in the analysis, the 0 to 5 lines per square mile density group, and the 6 to 100 lines per square mile density group. It determines support requirements as the difference between costs in these two density zones and a $7.00 per line standard for residential and single-line business customers, and a $9.20 standard for multi-line business customers.[41] To verify these results, MOPC/NASUCA converted the January 2000 results file for Qwest-Wyoming from a wire center results file to a density zone results file. MOPC/NASUCA found that the Wyoming state average cost was $33.70, and that the cost in the highest density zone was $15.20. However, the cost in the lowest density zone was $210.55, and the cost in the next lowest density zone was $65.91. The ratio of lowest density zone cost to the state average is approximately 6.25 and the next lowest density zone is approximately twice the state average. These extremely high cost areas drive the Qwest support estimate to an unreasonably high amount of $978 million. These calculations illustrate the point that picking the geographic area over which to determine cost is an important factor in determining the support level. Isolating extreme conditions

[39] Qwest Comments, Page 6.

[40] Qwest Comments, Page 9.

[41] Qwest Comments, Page 8.

will increase the support. Qwest, however, does not provide a reason for adopting its choice of geographic area other than that choice will increase the size of the fund.

The MOPC/NASUCA support estimates, on the other hand, are based on the difference between SLC rates and UNE zone cost. The UNE zone cost is the weighted average of the wire center cost in each UNE zone. Each wire center was assigned to a particular UNE zone based on a list obtained from the universal service fund administrator. These are the assignments that the administrator uses to determine zone average revenue per line, zone above benchmark revenue, and interstate access universal service support.[42] Because MOPC/NASUCA's technique for determining the geographic areas over which to determine cost is consistent with the FCC's rules for determining interstate universal service access support, it is the reasonable technique for determining the size of the fund in this proceeding. Furthermore, the MOPC/NASUCA proposal provides a consistent classification between UNE prices and USF support and thereby minimizes the arbitrage problems associated with Qwest's proposal.[43] On the other hand, AT&T's and Qwest's techniques are arbitrary and perhaps capricious, and are not consistent with the procedures the FCC's uses to determine zone cost and zone support.

3.5 The Fund Size Should be no more than $629 million if the Residential and Single-Line Business SLC is $5.00, and $336 million if the Residential and Single-Line Business is Increased to $6.50.

NASUCA estimated that subscribers receive $472 million in support when the residential and single-line business SLC cap is at $5.00, while this estimate decreases to $252 million if the FCC allows the SLC cap to increase to $6.50.[44] These estimates were for 76 study areas identified as price cap, non-rural study areas with UNE zones formed from a group of wire centers. The estimates do not reflect the higher SLC charge to non-primary lines. If the higher charges were included in the calculations, the required level of support would be significantly reduced.

In addition to these 76 study areas, another 105 study areas are governed by the rules adopted in the CALLS Order. These 105 study areas include four price cap non-rural study areas with UNE zones below the wire center level, and 101 rural price cap study areas. These study areas receive $157 million in interstate access support.[45]

---

[42] See FCC Rules, Sections 61.33(zz), 54.805(a), and 54.807(c).

[43] Most States set deaveraged TELRIC rates based upon the cost of a serving a group of wire centers, rather than on a density basis. Under the Qwest proposal in this proceeding a CLEC could obtain a UNE loop in a low cost TELRIC rate zone but receive support because selected customers within the wire center are in a high cost density zone. Alternatively, a customer could be located in a high cost TELRIC rate zone but a low cost density zone. Neither has Qwest addressed how the fund administrator would determine which end-users are located in a particular density zone.

[44] NASUCA Comments, Cost Review Proceeding, January 24, 2002, Pages 53-54.

Adding the $157 million current funding for study areas for which there is no zone forward-looking cost estimate to the $472 million support estimate for the 76 study areas with zone forward-looking cost estimates generates NASUCA's the maximum sufficient support estimate of $629 million. To determine the maximum sufficient support estimate if the SLC were allowed to increase to $6.50, NASUCA multiplies the $629 million estimate by the ratio of $252 million and $472 million, 53 percent. This calculation reduces the support to study areas without forward-looking zone cost estimates by the same percentage reduction in support that study areas with forward-looking zone cost estimates will receive.

3.6 The Interstate Access Fund Should Not Support the Provision of Advanced Services

The goal of the interstate access fund is the "preservation and advancement of universal service".[46] Moreover, "a carrier that receives such support shall use that support only for the provision, maintenance, and upgrading of facilities and services for which the support is intended."[47] The FCC has defined universal service as voice grade service. It does not include the provision of advanced or vertical services in its definition of universal service.[48]

CenturyTel argues that the fund should be expanded because when it purchases rural exchanges these exchanges are often substantially depreciated, out-dated and require significant investment to provide advance and vertical services.[49] These reasons are not legitimate reasons for increasing the fund size. If the investments have been depreciated then the net book investment is low and the purchase price should reflect this low net book investment. If the investments are dilapidated, the purchaser's due diligence findings should indicate the low value of the plant and the purchaser should take that low value into consideration in its offer price for the facilities. The universal service fund should not reimburse carriers for speculative and exorbitant purchase prices. Finally, if the additional investment is for advanced and vertical services, services not supported by the universal service fund, then the customers of these additional services should pay for the additional investments. It is not the job of the universal service fund to underwrite investments that provide these additional services.

---

[45] The four non-rural study areas are Qwest-Wyoming, Arizona, Montana, and Colorado. Because these study areas do not have wire center zones, the Synthesis Model can not determine the forward-looking cost for these study areas. For support estimates and the rural price cap study areas see table xxx.

[46] Telecommunications Act of 1996, Section 254(b).

[47] Telecommunications Act of 1996, Section 254(e).

[48] Universal Service Order, Paragraphs 58-87.

[49] CenturyTel comments, Page 3.

4 Conclusion

In these reply comments, MOPC/NASUCA has shown that the maximum support amount should be $629 million if the FCC retains the current $5.00 residential and single-line business cap, and that the support amount should decrease to a maximum of $336 million if the FCC allows the residential and single-line business SLC cap to increase to $6.50.

The MOPC/NASUCA support estimates are superior to the other estimates filed in this proceeding by AT&T and Qwest because: (i) MOPC/NASUCA reduces the support estimates associated with potential increases in SLCs; (ii) MOPC/NASUCA's forward-looking support estimates are consistent with the FCC's rules and economic theory; (iii) MOPC/NASUCA has correctly transformed the Synthesis Model cost into common line access costs; (iv) MOPC/NASUCA reduces the support estimates associated with potential increases in SLCs; (v) MOPC/NASUCA is the only party that includes support to rural carriers in its estimates; and (vi) MOPC/NASUCA estimates did not include support for advanced services.