

**Before the
FEDERAL COMMUNICATIONS COMMISSION
Washington, D.C.**

In the Matter of)	
)	
Federal-State Joint Board on	)	CC Docket No. 96-45
Universal Service)	
)	
1998 Biennial Regulatory Review -	)	CC Docket No. 98-171
Streamlined Contributor Reporting)	
Requirements Associated with)	
Administration of Telecommunications)	
Relay Service, North American Numbering)	
Plan, Local Number Portability and)	
Universal Service Support Mechanisms)	
)	
Telecommunications Services for	)	CC Docket No. 90-571
Individuals with hearing and Speech)	
Disabilities, and the Americans with)	
Disabilities Act of 1990)	
)	
Administration of the North American	)	CC Docket No. 92-237
Numbering Plan and North American	)	NSD File No. L-00-72
Numbering Plan Cost Recovery)	
Contribution Factor and fund Size)	
)	
Number Resource Optimization	)	CC Docket No. 99-200
)	
Telephone Number Portability	)	CC Docket No. 95-116
)	
Truth-in-Billing and Billing Format	)	CC Docket No. 98-170
)	

REPLY COMMENTS OF VERIZON

Michael E. Glover
Edward Shakin
Of Counsel

Ann H. Rakestraw
1515 North Courthouse Road
Suite 500
Arlington, VA 22201
(703) 351-3174

May 13, 2002

Attorney for the Verizon telephone
companies

TABLE OF CONTENTS

Introduction and Summary		1
I.	The Commission Should Reject the Per-Connection Coalition Proposal, As it Would Violate the Act, and Offer More Problems, but No More Benefits, Than a Revenue-Based System	5
	A. The Coalition Proposal Violates the Act	5
	B. The Per-Connection Coalition Proposal Does Not Increase the Funding Base or Reduce Consumer Contributions, but Only Unfairly Shifts the Long Distance Carriers’ Contribution Burdens to Other Carriers	7
	1. The Coalition’s Attack on the Revenue-Based Model Uses a Flawed Sensitivity Analysis, Based Entirely on “Worst-Case” Predictions, and Thereby Greatly Exaggerates the Potential Increase in Future Universal Service Fund Assessments	9
	2. The Commission Should Reject the Myth that a Purported “Death Spiral” in Interstate Revenues Requires Elimination of a Revenue-Based Approach	11
	C. The Coalition’s Per-Connection Approach Would Increase Administrative Burdens and Reduce the Accuracy of Assessments	15
II.	Any Contribution Mechanism Must Allow Carriers to Recover Their Costs	16
III.	The Commission Should Not Make Dramatic Shifts to the Allocation of Universal Service Obligations Without Further Study	17
Conclusion		19

**Before the
FEDERAL COMMUNICATIONS COMMISSION
Washington, D.C. 20554**

In the Matter of)	
)	
Federal-State Joint Board on	)	CC Docket No. 96-45
Universal Service)	
)	
1998 Biennial Regulatory Review -	)	CC Docket No. 98-171
Streamlined Contributor Reporting)	
Requirements Associated with)	
Administration of Telecommunications)	
Relay Service, North American Numbering)	
Plan, Local Number Portability, and)	
Universal Service Support Mechanisms)	
)	
Telecommunications Services for	)	CC Docket No. 90-571
Individuals with Hearing and Speech)	
Disabilities, and the Americans with)	
Disabilities Act of 1990)	
)	
Administration of the North American	)	CC Docket No. 92-237
Numbering Plan and North American	)	NSD File No. L-00-72
Numbering Plan Cost Recovery)	
Contribution Factor and Fund Size)	
)	
Number Resource Optimization	)	CC Docket No. 99-200
)	
Telephone Number Portability	)	CC Docket No. 95-116
)	
Truth-in-Billing and Billing Format	)	CC Docket No. 98-170

REPLY COMMENTS OF VERIZON

Introduction and Summary

Any concerns the Commission has with the current system of universal service assessment can and should be addressed through minor adjustments to the revenue-based system. For example, concerns about universal service charges that are higher than the allocation factor set by the Commission can be dealt with by moving to a collect and remit procedure, setting a flexibly defined cap on charges, and basing contributions on

current revenues, to reduce problems with uncollectibles and lag times due to historic revenues. *See Verizon Comments*, at 4-10. If the Commission is concerned about a declining contribution base resulting from a migration from traditional wireline services to other modes of telecommunication, it should undertake further study to see whether it is appropriate to broaden the contribution base, or to revisit the safe harbor assessments for certain classes of carriers. Neither these concerns, nor the solutions to these concerns, is unique to either a revenue-based or connection-based assessment mechanism.

The so-called Coalition for Sustainable Universal Service (“Per-Connection Coalition” or “Coalition”) argues that the revenue-based system must be changed, because interstate revenues are declining, while “connections,” on the other hand, “will continue to grow and provide a stable, fair basis for assessments.” *Coalition Comments*, at vi. What the Coalition fails to acknowledge, however, is the very basic fact that regardless of the method of assessment, *consumers* – not “revenues” or “connections” – will ultimately pay the universal service tab. The total amount consumers pay will be the same, whether under a revenue-based or connection-based approach. And, indeed, the Coalition states that its \$1 “per-connection” proposal is designed to mirror (not decrease) the average rates currently paid for assessments.¹

Nevertheless, the Coalition is playing a shell game, hoping to sell the Commission on an impossible promise: that under their proposal, the FCC can collect more money for the universal service fund by charging consumers (especially residential consumers) less.

¹ *See Coalition Comments*, at 62 (“The average total universal service assessment paid by universal service contributors today for all telecommunications services – including local and long distance service – rendered over residential and non-paging CMRS connections today is approximately \$1 per connection”).

Under the laws of mathematics, and plain old common sense, that simply cannot be. As the Commission has itself recognized, changing from a revenue-based system to a per-connection method of assessment does nothing to reduce the average household's universal service contribution.² Thus, while the Coalition offers a chart showing a purported "decline" in charges to residential wireline customers, that merely reflects that some of the "wireline" charges have shifted from customers' long distance bills to their local, wireless and paging bills. Indeed, when read closely, it is apparent that the Coalition's proposal will, in the short term, slightly *increase* the average universal service assessment charged to residential households. *See* section I.B, *infra*.

If the Commission is concerned about the prospect of collecting universal service funds from a purportedly shrinking interstate revenue base, the only ways to address that problem are to reduce the size of the universal service fund, readjust contributions among different classes of services, and/or widen the base of participating contributors. The Coalition's proposal essentially focuses only on the second option: it reallocates the burdens among the providers of different services. It assumes a growing (not shrinking) universal service fund size, and rather than widening the contribution base the Coalition proposes to *narrow* it, by limiting collection only from the providers of "connection"-based services, and removing the possibility of recovering universal service charges through customers' long distance bills.

² *See* NPRM, ¶ 46 ("Based on publicly available data from the year 2000, and taking into account the elimination of 'circularity' from the contribution base and anticipated fund growth, staff estimates that the average household pays approximately \$1.93 per month in total contribution recovery fees under the current system. Based on the same data and assumptions, staff estimates that the average household likewise would pay approximately \$1.93 in total contribution recovery fees under the proposed connection-based assessment system." (footnote omitted)).

One of the major differences between the Coalition's proposed per-connection charge and Verizon's revenue-based proposal is that the Coalition proposes dramatic shifts in the contribution burdens among the classes of carriers.³ Verizon instead encourages the Commission to undertake a more modest shift (requiring *all* broadband providers to contribute to the schools and libraries portion of the fund), and suggests that any other changes in the allocations between carriers not be made until the Commission has had a chance to conduct further study. *See* section III, *infra*. While the Coalition proposal does not offer any advantages over Verizon's proposal, it offers several disadvantages. Most notably, it is invalid under the Act. More than 25 commenters questioned the legality of a per-connection plan that disproportionately shifts burdens from long distance providers onto local exchange carriers and wireless and paging providers, such as the proposal by the Per-Connection Coalition. And while a handful of commenters did not oppose a per-connection system outright, no one except the members of the Per-Connection Coalition supported the blatantly lopsided plan the Coalition proposed.

The majority of commenters supported a revenue-based approach, and for good reason. The Commission's concerns with the current assessment system can be addressed through minor adjustments; it is not necessary to make a wholesale move to an entirely new, untested per-connection approach, which will impose additional administrative burdens and have unknown impacts on multi-line business customers. While a few commenters advocated per-connection approaches that would be more

³ Like Verizon, the Coalition advocates that contributions be assessed on current (rather than historical) periods, and under a collect and remit approach. *See* Coalition Comments, at 47, 93.

balanced than the Coalition proposal, none of the connection-based systems currently proposed improves upon a revenue-based approach.

I. The Commission Should Reject the Per-Connection Coalition Proposal, As it Would Violate the Act, and Offer More Problems, but No More Benefits, Than a Revenue-Based System

A. The Coalition Proposal Violates the Act

Incredibly, the Coalition opens its comments by lamenting the portions of the current universal service assessment system that purportedly “discriminate” against providers of long distance services – such as the safe harbor for wireless providers (allegedly too low), and the treatment afforded providers of international telecommunications services (which also allegedly contribute too little). *See* Coalition Comments, at vi. In the next breath, the Coalition then proposes as a purportedly “nondiscriminatory” “solution” a plan that would *double* or *triple* the contributions of other carriers, in order to allow long distance providers to dramatically minimize their contributions to the universal service fund.

Verizon counted more than 25 separate sets of comments that questioned the legality of the per-connection method in the NPRM that mirrors the Coalition proposal.⁴ The Coalition proposal violates the Act’s mandate that “[e]very telecommunications carrier that provides interstate telecommunications services shall contribute, on an equitable and nondiscriminatory basis” to the universal service fund, 47 U.S.C. § 254(d), and it is one the Commission should reject.

⁴ *See, e.g.*, California Comments, at 7-8; NASUCA Comments, at 10-12; Allied Comments, at 1.

In trying to sidestep the serious legal concerns presented by its proposal, the Coalition reads the “every” carrier and “equitable and nondiscriminatory” requirements in a piece-part way that undermines the plain intent of that section. For example, in arguing that “every” telecommunications provider will still contribute, it argues that, because the larger long distance carriers AT&T and WorldCom have *some* types of “connections,” they will continue to contribute to the universal service fund. *See* Coalition Comments, at 83. However, the mere fact that those carriers will contribute *something* to the universal service fund does not mean that they will contribute on “an equitable and nondiscriminatory basis.” Under the Coalition’s proposal, they will not.

Moreover, the Coalition does not deny that many providers of long distance services – *i.e.*, those that do not have any “connections” – will contribute *nothing* to the universal service fund. *See* Coalition Comments, at 87. The Coalition tries to square this with the Act’s requirement that “every” provider of interstate revenues contribute, by essentially arguing that “every” really does not mean “every.” Seizing on the Act’s “de minimis” exception, the Coalition argues that the Commission can ignore these non-contributing carriers because the Act allows the Commission to excuse contribution from those who would offer only “de minimis” support. Coalition Comments, at 87-91. However, that argument takes the “de minimis” language out of context, and interprets it in a way contrary to the Act’s language. The Act states that the Commission may exempt carriers “if the carrier’s *telecommunications activities are limited to such an extent that the level of such carrier’s contribution* to the preservation and advancement of universal service *would be de minimis.*” 47 U.S.C. § 254(d) (emphasis added). Thus, the Act plainly excepts from the “every” contributor requirement only those carriers with

“limited” “telecommunications activities.” *Id.* It certainly does not say that the Commission can, by merely changing the formula applied, make a carrier’s assessment level so low that it *becomes* “de minimis.” Such a reading would be absurd, because it would allow the Commission to define away the “every” carrier requirement by simply changing the formula for assessment.

The Coalition essentially spins the requirement that “every telecommunications carrier . . . contribute, on an equitable and nondiscriminatory *basis*” to be a test that providers contribute on the basis of a (discriminatory) “formula” that is applied in a supposedly “equitable and nondiscriminatory” manner. *See* Coalition Comments, at 82-88. However, these are not the same. When the “formula” proposed is one that applies dramatically disproportionate burdens to different classes of carriers, it is an inherently *inequitable* and *discriminatory* formula – and, no matter how neutrally applied, the results of the formula will also be inequitable and discriminatory.⁵

B. The Per-Connection Coalition Proposal Does Not Increase the Funding Base or Reduce Consumer Contributions, but Only Unfairly Shifts the Long Distance Carriers’ Contribution Burdens to Other Carriers

By engaging in numbers games, the Coalition’s proposal appears to offer an impossible promise: an assessment method that would produce more universal service funds, while decreasing customer contributions to the fund. *See* Coalition Comments, at

⁵ One could imagine any number of unfair “formulas” that could be applied to “every” carrier in a supposedly “equitable and nondiscriminatory” manner, but that would lead to results that are not “equitable” in the sense of being fair or just. For example, one could argue that it would be “equitable and nondiscriminatory” (and administratively simple) to simply take the total size of the universal service fund, divide it by the total number of telecommunications providers, and have each contribute the same amount.

67 & n.146. Obviously, that cannot be. The Commission has acknowledged as much, and the Coalition's own data confirms that.

The Commission has predicted that, whether under a per-connection or revenue-based method, the average household contribution will remain the same.⁶ That is undoubtedly correct. Indeed, the Coalition acknowledges that under the *current* 7.28% USF contribution rate, “the average revenue-based assessment paid by contributors for wireline residential and non-paging CMRS customers is approximately \$0.96 per connection per month” – *i.e.*, \$.04 per month *less* than the per-connection charge being proposed. *See* Coalition Comments, at 62.⁷ Thus, the Coalition proposal initially would slightly *increase* charges to wireline residential and wireless customers.

As set forth below, the Coalition's attacks on the revenue-based system set forth problems that would also affect a per-connection approach. The Coalition proposal does nothing to improve upon the revenue-based system, but merely shifts costs around. And it offers significant problems (such as increased administrative costs, and concerns with accuracy) that are not present with the revenue-based system.

⁶ *See* NPRM, ¶ 46 (Commission staff estimates that, under either the current system or the proposed connection-based system, the average household would pay the same amount in total contribution recovery fees – approximately \$1.93 per month).

⁷ Verizon does not necessarily agree with the Coalition's estimates. The number of total “connections,” especially when factoring in the contribution of multi-line business carriers, is difficult to count. However, these numbers show that the Coalition plan is not designed to reduce the burden on consumers.

1. The Coalition’s Attack on the Revenue-Based Model Uses a Flawed Sensitivity Analysis, Based Entirely on “Worst-Case” Predictions, and Thereby Greatly Exaggerates the Potential Increase in Future Universal Service Fund Assessments

In attempting to undercut the viability of a revenue-based system, the Coalition picks several worst-case scenarios and combines them all to demonstrate a devastating (but inaccurate) future if universal service continues to be assessed on a revenue-based method. At the same time, the Coalition ignores the fact that, even if all of the purported disasters were to hit, many would have equally negative impacts on the per-connection system, and *all* could be addressed as easily in a revenue-based system as they could through a connection-based approach.

One fundamental problem with the Coalition’s theory that it is “possible” the universal assessment factor would grow dramatically in the near future, is that the Coalition has resorted to a sensitivity analysis that is fatally flawed. The Coalition analysis only looks at the worst case scenario at every step, and it looks at each issue in isolation. It then combines all worst case scenarios, rather than looking at the possible interactions that are likely to occur, many of which tend to compensate for each other.

Thus, although the Coalition argues that is “possible that the contribution factor could climb to 13 percent by 2006,” Coalition Comments, at 18, that argument is based on a sensitivity analysis that, on its face, states it only occurs if *all* of the worst possible outcomes of several separate contingencies occur.⁸ The Coalition sensitivity analysis sets forth several potential changes that, if they occurred individually, would only raise the

⁸ See Declaration of Daniel Kelly & David Nugent (“Kelly/Nugent Declaration”), ¶ 38, at Coalition Comments, Attachment 4 (stating that the contribution factor could go to 12.9% if “the largest change in each sensitivity run is selected”).

universal service contribution factor to between 8.1% and 9.3%. *See* Kelly/Nugent Declaration, ¶¶ 26, 28, 31, 34, 37. It is only by combining *all* of the Coalition’s pessimistic assumptions that the Coalition can offer the doomsday prediction that it is “possible” that the contribution rate will go up to as high as 12.9%. *Id.*, ¶ 38.

Not only is the possibility that all of these negative trends will occur at once incredibly remote, it is also ultimately irrelevant. As stated above, regardless of the method of assessment, the actual amount charged per *household*, on average, will be the same under either a per-connection or revenue-based system. For example, the largest individual hike in the universal service assessment factor (which led to a predicted raise to as much as 9.3%), occurred when the Coalition assumed a growth in the size of the universal service fund. *See* Kelly/Nugent Declaration, ¶ 37. However, such a growth in the size of the universal service fund would increase the assessment to residential consumers under a per-connection approach as much as it would under a revenue-based assessment method.⁹ From the customer’s standpoint, then, if the size of the universal service fund increases, the *only* difference between a revenue-based system and a per-connection approach is that: (1) any increase will be recovered entirely through increasing charges to local service bills and wireless and paging bills, rather than having a proportional share of the charges occur on the long distance bill; and (2) rather than allowing carriers flexibility to charge the universal service assessment as either a

⁹ Again, that is a necessary result of the fact that if the USF grows, consumers’ contributions must also grow, regardless of the assessment mechanism used. The Coalition proposes that all future increase be borne proportionately among all connections (residential, wireless, and multi-line business). Coalition Comments, at 15. As Verizon pointed out in its opening comments, the Commission should not require business customers to shoulder all future increases in the universal service fund. *See* Verizon Comments, at 14-17.

percentage or a flat fee, it will always be a flat rate. That fundamental truth cannot be disguised by converting the potential hike into a “per-connection” assessment that is written as a flat fee (rather than a percentage), or broken up into several parts (*e.g.*, wireline, wireless, paging, and business), or by showing only decreasing wireline rates without showing the corresponding increases in charges to the wireless, paging, and business customers.

2. The Commission Should Reject the Myth that a Purported “Death Spiral” in Interstate Revenues Requires Elimination of a Revenue-Based Approach

The Coalition uses the phrase “death spiral” more than ten times in its comments to describe the purported decline in interstate revenues. However, merely repeating the “death spiral” mantra does not make it true or relevant to the debate. As other commenters have pointed out, when the actual numbers are examined, there are some fluctuations in the contribution base, but there is no evidence yet of a large scale, systematic decline. *See, e.g.*, NASUCA Comments, at 4-6; NTCA Comments, at 5.

Moreover, even if there were a systematic decline in interstate revenues, it could be addressed just as easily through a revenue-based system as through a per-connection approach. What the Coalition points to as a “decline” in revenues is largely the result of migration of customers from traditional wireline services to competing modes of telecommunication. *See* Coalition Comments, at 21-22.¹⁰ Indeed, the primary “solution”

¹⁰ Without this migration or “leakage” to other modes of competition, mere declines in interstate revenues (such as those caused by price competition) would not present a problem to the universal service assessment mechanism. Suppose, for example, that a customer pays \$50 per month for local and long distance service, which includes \$25 per month in long distance charges, plus an additional \$1.50 per month for universal service charges for those services. The customer’s total bill would be \$51.50. If, due to

the Coalition proposes for addressing this decline is shifting a large portion of the wireline charges to providers of wireless and paging services. However, the Commission should not accept such a “solution” until it first examines in detail what, if any, shift would be appropriate. *See* section III, *infra*. If the Commission believes that it is appropriate to increase the contributions of these providers, it can do so within a revenue-based system.

The Coalition proposal argues that interstate revenues are in a “death spiral” but that “overall connections will continue to grow and provide a stable, fair basis for assessment.” Coalition Comments, at v-vi. However, this argument is again nothing more than a shell game. Customers, not “connections,” will ultimately pay the universal service bill. The amount charged will stay the same regardless of the manner of assessment. Any problem with “leakage” of customers from wireline services is one that exists – and must be addressed – whether the system of assessment is revenue-based or based on units (such as per-connection or per-line). Likewise, unless the Commission makes multi-line businesses make up for all future shortfalls (which it should not, *see* Verizon Comments at 14-17), any future increases in the size of the universal service fund will be felt by all consumers, whether assessed on a revenue-based or per-connection method.

The Coalition’s comments highlight the potential effects on a revenue-based system that would occur with “leakage” and an increasing universal service fund size,

price competition, the monthly long distance bill dropped from \$25 per month to \$20 per month, the USF contribution *factor* might increase in order to still get the mathematical formula necessary to result in a \$1.50 contribution from that customer, but the amount of the USF contribution would remain the same, and the customer’s overall bill would be lower (\$46.50, instead of \$51.50).

while masking how these same issues would increase customer charges under a per-connection mechanism. For example, the Coalition’s chart regarding “Projected Per Line Payment of Wireline Residential Customers,” Coalition Comments at 68, makes it appear that, under a revenue-based system, consumer charges would dramatically climb, while a per-connection charge would cause those charges to dramatically decline. *See* Coalition Comments, Chart 2, at 68. However, there are several problems with that chart. The major problem is that, by definition, it focuses on the “per line” charge customers would incur under a revenue-based and connection-based mechanism, rather than the *overall* charges each household would pay. Thus, while the chart appears to depict a dramatic decline in the “projected per *line* payment” by the average wireline residential customer in the first year (from approximately \$1.50 to \$1.00), there is no real decline in overall charges to residential customers, but only a *shifting* of universal service charges from customers’ long distance bills to their wireless and paging bills. *See* Coalition Comments, at 68-69.

Using the assumptions in the Coalition’s Attachment 5 analysis, Verizon has estimated how the “per-connection” method would work for each customer segment, as compared to the current assessment system. When making an apples-to-apples comparison, it is easy to see the true effects of the Coalition approach. For the household with one wireline “connection” and one wireless “connection,” the Coalition plan initially would *increase* the household assessment from \$1.89 to \$2.00 per month. The most dramatic difference is that the universal service assessment for long distance would decrease to \$0, while other charges would increase to make up for that change.

	Current Assessment	Coalition Proposal
Residential Long Distance	\$1.00	\$0.00
Residential Local Service	\$0.44	\$1.00
Wireless	\$0.45	\$1.00
Combined Wireline & Wireless	\$1.89	\$2.00
Paging	\$0.08	\$0.25
Wireline Business	\$4.26	\$5.14

Another error in the Coalition’s “wireline” chart is that it appears to assume that any “leakage” in the interstate revenues will be addressed solely through proportional increases in charges to wireline customers. *See* Coalition Comments, at 67-70. Again, the Coalition’s proposal addresses this “leakage” only by increasing the percentage of contributions from the providers of wireless and paging services. That is not a “solution” unique to a per-connection approach. Several commenters who supported a revenue-based system advocated revisiting the wireless safe harbor, or otherwise broadening the contribution base. *See, e.g.*, Verizon Comments, at 23-25; NTCA Comments, at 5-10; Joint Comments of Home Telephone Co., Inc., et al., at 11-12.¹¹ And unlike a revenue-based system, under the Coalition model, any future increases in the universal service assessment would have to be paid by residential customers through increased charges to local service and wireless and paging services, without flexibility to assess any portion of the charges to customers’ long distance bills.

¹¹ Verizon does not necessarily agree with the specific proposals made by others, but only uses them to demonstrate that there are methods of addressing a shrinking contribution base through a revenue-based system.

C. The Coalition’s Per-Connection Approach Would Increase Administrative Burdens and Reduce the Accuracy of Assessments

As several commenters pointed out, a per-connection assessment method would cause significant administrative concerns not present in the current system.¹² Even the Coalition itself argues that there should be a one-year transition for certain services, in order to allow carriers time to “develop the necessary systems” because “converting to a connection- and capacity-based system will require carriers to deploy scarce IT resources for the development of new contribution and collection systems.” Coalition Comments, at 58.¹³ And because carriers will still be required to report revenues for other regulatory needs, the change from a revenue-based system will not result in any administrative cost savings.

Moreover, when the specifics of the Coalition proposal are examined, it is apparent that a “per-connection” assessment method is not as simple as it sounds. For example, the Coalition has proposed that in order to address the problem with uncollectibles, assessments should be based on a gross number of connections billed during the month, reduced by “a historically based uncollectibles factor or percentage.” Coalition Comments, Attachment 1, at 2. While it is undoubtedly important for the Commission to ensure that carriers are not required to contribute to the universal service

¹² See, e.g., Verizon Comments, at 11-20; Allied Comments, at 7-8; GSA Comments, at 6.

¹³ See also Coalition Comments, Attachment 1, at 3 (“During the transition year, carriers offering interstate and international special access and private line connections would be required to develop systems capable of providing monthly reports on the number and capacity of these connections, using the three capacity tiers identified in the Coalition proposal”). The Coalition proposes that during the first quarter, the “current revenue-based assessment would continue to apply to interstate special access and private line services,” based on the previous quarter’s USF contribution factor. Coalition Comments, at 58-59, and Attachment 1, at 1.

fund based on uncollectible connection-based fees, the Coalition offers no suggestion of how carriers would be able to calculate “a historically based uncollectibles factor,” or how such a factor would be applied.¹⁴

II. Any Contribution Mechanism Must Allow Carriers to Recover Their Costs

A handful of commenters argued that the Commission should not allow carriers to recover costs in administering the universal service assessment. *See, e.g.*, Consumers Union Comments, at 21; Ad Hoc Comments, at 19-22. As Verizon pointed out in its initial comments, by moving to a revenue-based system that is based on a collect and remit approach, and which uses current (rather than historical) revenue data, the Commission can *reduce* carriers’ need to recover these costs. *See* Verizon Comments, at 10. However, whatever method of assessment is used, it must allow carriers to recover the costs associated with administering the universal service fund.¹⁵

¹⁴ For example, would the Commission require that an average be applied to a whole industry segment, or allow the “factor” to be assessed on a carrier-by-carrier basis? Would it be a carrier-wide average, service-wide average, or class-of-customer average? It could make a difference, for example, if the “historically based uncollectibles factor” were different for residential customers and multi-line business uncollectibles, if multi-line businesses are assessed on a residual basis.

¹⁵ Ad Hoc’s arguments appear to fundamentally misunderstand the reason for carriers’ costs. Carriers do not experience increased costs based on uncollectibles because the USF assessment *causes* customers not to pay, *see* Ad Hoc Comments at 21; rather, it is because when certain customers do not pay their assessment, the shortfall must be made up by other customers. Verizon’s proposal largely eliminates those costs related to uncollectibles, but there will always be costs associated with administering the fund. Ad Hoc is also incorrect in arguing that uncollectibles and administrative costs “represent no more than general ‘costs of doing business,’” *id.* at 20, because there are costs that are specific to (and would not be incurred without) the universal service fund. Thus, contrary to Ad Hoc’s argument, it would not be “misleading” to characterize these costs as part of universal service fees. *Id.*

If carriers are not allowed to recover costs associated with the universal service fund, carriers likely would be forced to recover the costs in other ways, such as by increasing rates charged to customers. This would result in an “implicit subsidy” of universal service, which the Act was expressly designed to eliminate. The Act requires that universal service support “should be explicit and sufficient to achieve the purposes of” universal service. 47 U.S.C. § 254(e). Without a mechanism for carriers to recover their administrative costs, universal service charges will be neither “explicit” nor “sufficient.”¹⁶

III. The Commission Should Not Make Dramatic Shifts to the Allocation of Universal Service Obligations Without Further Study

The Commission has specifically sought comment on “whether minimizing the reallocation of contribution obligations among industry segments should be a goal in moving to a per-connection assessment system, and, if so, the extent to which such reallocation should be minimized.” NPRM, ¶ 59. While it is not necessary for the Commission permanently to freeze the current contribution percentages among industry segments, any such adjustment should be based on study of what adjustments are appropriate. The Commission should not simply accept a dramatic shift in contributions among industry segments that results from a change in the mechanism of recovery.

As stated above, the Per-Connection Coalition’s proposal achieves an initial lowering of the wireline rate only by shifting a large portion of a household’s universal service charges from the long distance bill to the wireless and paging bill. Of course, the

¹⁶ Moreover, these costs would be especially burdensome if the Per-Connection Coalition proposal was adopted, as they would be imposed on only certain classes of carriers (the LECs and wireless and paging providers), while other carriers (long distance providers) would have much lower burdens.

Commission can revisit whether to reallocate contributions among different industry segments without going to a per-connection approach. Verizon’s initial comments proposed making *all* broadband providers (including cable modem, satellite, and fixed wireless providers) contribute to the schools and libraries portion of the universal service fund, as a way to broaden the contributor base and thereby reduce the burden on wireline customers. *See* Verizon Comments, at 23-25; Verizon Title I Broadband Comments, at 42-45. Similarly, other commenters suggested revisiting the wireless safe harbor, or other ways of broadening the contribution base, while staying within a revenue-based system. *See, e.g.*, NTCA Comments, at 5-8; USCC Comments, at 9-12.

Any change in relative contributions, however, should be through thoughtful study of what burdens are *appropriate* for each segment; dramatic industry shifts should not be the byproduct of the mechanical implementation of a “formula” that treats providers *unequally*.¹⁷ In other words, if the Commission wishes to revisit the allocation of universal service charges among different industry segments, it should have a separate proceeding to determine what, if any, adjustments *should* be made to broaden the base of contributors, or whether it would be appropriate to revisit the safe harbor assessments for certain classes of carriers. It should not implement dramatic shifts as an afterthought in the proceeding designed to determine what the *mechanism* of assessment should be.

¹⁷ Indeed, in the future a pure per-connection method would give less flexibility to adjust these factors than a revenue-based system, because long distance services and others without traditional “connections” to end users would be removed from the contribution equation.

Conclusion

The Commission should not change to a per-connection approach at this time, particularly one that is unfair and discriminatory, and thus invalid under the Act, such as the one proposed by the Per-Connection Coalition.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Ann H. Rakestraw", written over a horizontal line.

Ann H. Rakestraw

Michael E. Glover
Edward Shakin
Of Counsel

1515 North Courthouse Road
Suite 500
Arlington, VA 22201
(703) 351-3174

May 13, 2002

Attorney for the
Verizon telephone companies