1 the USF pass through charge that is on an invoice.
2 I would also encourage everyone to consider the
3 bill and remit concept with an component that allows
4 carriers to recover for their administrative fees;
5 especially, as I said, this structure which I believe will
6 cause XO to convert to, and it also allow for some time of
7 bad debt issue that's out there because these days we've
8 seen a lot of it. It's something we're dealing with --
9 we're struggling with at this time.
10 MR. GREGG: Thank you.
11 MR. COPPS: A third connection, which inevitably
12 brings up the charge that it's regressive in its impact.
13 I'd like to ask the first three speakers who
14 seemed inclined against a system like that, assume things go
15 south for you, like the previous question did, and we go to
16 a per connection regime, what specific steps might there be
17 to alleviate so of the regressive problems without
18 jeopardizing the viability of the fund and still raising the
19 dollars that are need? Then maybe, Mr. Blaszak, would you
20 like to comment on after that.
21 MR. TRAVIESO: I would have a hard time with your
22 assumption, but I will go forward because, obviously, the
23 folks don't want to argue with your assumption. I guess one
24 of the things I would urge is the cap for an extended time
25 period on all residential consumers so that at least the

1 inequity wouldn't grow. So if you had -- for example, if
2 you had a 50 cent surcharge, that it would remain 50 cents
3 for five years.
4 I think the consumers then would -- they wouldn't
5 like the surcharge, but they would have some assurance that
6 it wouldn't affect their bill for some substantial time
7 period.
8 MR. COPPS: Okay.
9 MR. EDNIE: I mean, I would say that addressing
10 the rates maybe one way to try to get around that. I don't
11 know how you do that and still be -- you would be equitable,
12 but I think that's obviously an avenue that's worth
13 pursuing. That is one mechanism to get you there.
14 MR. SHEARD: I would recommend definitely not
15 charging life line customers any kind of assessment to
16 recover contributions.
17 Also, I think we need to closely scrutinize the
18 capacity-based proposals for the residual amounts that need
19 to be collected on the higher volume users -- make sure that
20 they're being assessed fairly.
21 MR. BLASZAK: Thanks for giving me the chance,
22 Commissioner.
23 Your question really gets at a very important
24 issue -- another issue is not very popular to talk about.
25 Since I represent business users, I've got to do that.

1 I've heard a lot of talk about regressicivity.
2 I've heard a lot of talk about impact, but let's remember
3 what universal service is about. Universal service is not
4 about rate structures that are designed to simply repress
5 residential telephone rates.
6 Universal service is about maintaining telephone
7 subscribership penetration levels. The rates for the
8 underlying services are certainly an issue, but there is no
9 evidence in the record in this proceeding -- and I emphasize
10 "no credible evidence" that there will be any decline in
11 telephone subscribership levels if the COSAS proposal were
12 to be adopted.
13 I didn't hear any of the consumer advocates
14 address the issue of demand elasticity for basic telephone
15 service. The evidence in the record indicates that demand
16 elasticity for telephone service is very, very low. If we
17 are to assume that universal service is something like a
18 tax, good public finance principles and good tax policy
19 would spread that tax across as broad a base as possible to
20 avoid dead weight economic loss.
21 Now what about capping the residential rate at 50
22 cents? The Adhoc Committee supports the COSAS' proposal,
23 even though the COSAS' proposal starts by loading a residual
24 on multi-line business customers, so that the per line rate
25 is over two times as much as the residential customer would

1 pay -- almost three times as much.

2 The COSAS' proposal, as Mr. Nakahata explained,
3 would also result in those contribution levels moving up
4 proportionally by the same percentages for residential
5 consumers and business consumers.

6 Starting with that residual approach was a
7 compromised decision on the part of the business-user
8 community. The compromise is a much different compromise is
9 what we're talking about is a scheme in which residential
10 consumer contribution charges are frozen.

11 It's bad public policy, not only because it shifts
12 costs away from those who can easily afford to pay it. It's
13 bad public policy because it takes residential consumers
14 skin out of the game. This is not a free ride. Somebody
15 has got to pay for all these services folks want supported
16 through a universal services. A buck floating up with all
17 the other charges, or down as the case may be, is not too
18 much to ask.

19 Now I would ask the consumers something. Are they
20 willing to allow all rate reductions, as a result of growth
21 and demand, to flow to business users if their rates are
22 capped at a given level?

23 MR. TRAVIESO: Well, I can respond to that. I
24 think our position is the market ought to deal with the way
25 these costs are recovered. I don't think our organizations

1 supports the concept of Moran's (phonetic) pricing, which is
2 you load the costs on the consumers who are least able or
3 least likely to have any kind of competitive choices, which
4 is what he's advocating.
5 But it seems to me that if the Adhoc Group have
6 agreed to be willing to pay a higher fee than the smaller
7 consumers, then that's an example of the value they put on
8 the services that they are receiving, and they're willing to
9 do that. So the market would seem to indicate to me that
10 they're willing to pay more for their phone service and for
11 universal service and they should because they make more use
12 of the interstate services than small consumers do.
13 MS. ABERNATHY: All right. I will do my quick
14 questions which goes to Mr. Travieso.
15 What you said about customers and putting
16 surcharges on bills -- it had always seemed to us, and so I
17 would like for you to discuss this a little bit further,
18 that putting the surcharge on to show that it's for USF
19 contribution, and that it's a government policy we believe
20 is important for overall penetration services across the
21 United States.
22 It had always seemed to us that, that was
23 preferably to burying the charges in rates, and then
24 withhold the information about the costs of supporting
25 universal service. But you seem to be saying the contrary.

1 That it is actually preferable to just bury it somewhere in
2 the bill.
3 Once you answer that, then my question goes to
4 Mr. Blaszak about how would that work with the COSAS'
5 proposal if you were allowed to effectively get a dollar per
6 customer, but there was no line item?
7 MR. TRAVIESO: I would respond by saying there is
8 two different things occurring. One is informing consumers
9 that there is such a thing as a universal service fund and
10 that carriers are required to contribute to it and that it
11 is a cost of their doing business, which is included in the
12 price we all pay for services.
13 The other aspect, though, is fixing it as a cost
14 which the consumer can't avoid and putting it on an access
15 line, so that -- for example, you could have your phone
16 service turned off if you can't pay all of the surcharges,
17 plus the bill that you receive in your basic service access
18 bill.
19 So I think, if consumers understand that there is
20 fund, and that carriers have to contribute, it not necessary
21 to detail the specific amount that each carrier is seeking
22 to recover from the consumer. Consumers hate surcharges.
23 You have an eight-page telephone bill now.
24 When I go to cocktail parties, and people ask me
25 what I do, the first thing they ask me to do is why can't

1 you get the phone company to send a simple bill? So to me,
2 that's an indication that they are -- consumers certainly
3 are willing to pay costs of doing business charges and not
4 have them explicitly displayed on the bill.
5 MR. BLASZAK: Commissioner Abernathy, I think the
6 COSAS' proposal, has as part of its integral nature, a
7 distinct line item charges.
8 MS. ABERNATHY: That's what I thought.
9 MS. THOMPSON: I'm going to pass in the interest
10 of time.
11 MS. JABER: I have what I hope is quick question,
12 but I would like to give everyone an opportunity to answer
13 it.
14 With respect to retaining the revenue-based
15 approach, and using collect and remit as an option, can you
16 give me some feedback there? I think it's a proposal that
17 Verizon has floated in this proceeding. It would be based
18 on allowing companies to submit projected revenues to USAC,
19 allowing USAC to look at those projected revenues and look
20 at the projected demand, creating a factor and then holding
21 the companies accountable for any shortfall in their
22 projections. Could you quickly comment on that, please?
23 Mr. Lubin, I thought you would want to say something.
24 MR. LUBIN: The use of a projection model in the
25 context of using, in effect, current revenues in a collect

1 and remit -- obviously, there are some positive attributes.
2 One is it gets rid of the lag. Two, it gets rid of the
3 uncollectible dilemma.
4 However, here is the downside. As I said before,
5 that if we did nothing, the assessment rate will go --
6 roughly, by the second quarter of '03, to roughly 9.5
7 percent, which is a two-quarter lag, a six-month lag. If
8 you then move to use current revenues or projections, then,
9 all of a sudden, you now have an assessment rate that I
10 would project probably is approaching 9.8, 9.9 percent.
11 My fear, again, is if I see an assessment rate of
12 9.8 percent, going close to 10, business users are going to
13 find ways around and not pay that number. So you're on this
14 cycle that just goes bigger.
15 So now you have to ask yourself what's a good
16 public policy of a collect and remit on a projection base,
17 which is going to be 10 percent because let's go back to
18 what does the customer see? The customer is going to see,
19 in my opinion, come -- I'll pick second quarter '03, again,
20 a number that the LEC charges in excess now of 75 cents.
21 So they're going to see a 75 cent charge on the
22 LEC side of the equation. They're going to see from
23 carrier, such as myself, something that's probably north of
24 10 percent. So when people say that this is regressive,
25 people have to ask the question, if it's going to be 75

1 cents versus a buck, it's only a quarter increase. For that
2 quarter increase, you get rid of a 10 percent -- north of 10
3 percent assessment on retail, interstate toll revenues.
4 So if people are complaining that they want to be
5 able to compare and shop and compare price per minute to
6 price per minute -- all of a sudden, you don't have to worry
7 about that if you had the dollar.
8 My point is, you only have a quarter increase.
9 Now people say, well, even a quarter -- it's a quarter
10 increase. We exempt life line. So in a given month, there
11 could be millions of people that see a quarter increase.
12 But here is the next point. The next point is,
13 let's track those customers who, in a given month, are zero
14 users. If I look at those users over five months, the first
15 month they're at zero. So I track the zero user for six
16 months.
17 The next month they maybe zero again. The next
18 month they maybe $20. The next month they may be $30, and
19 the next month they're back down to zero. We did a study
20 just like that. We didn't do it when it went to 75 cents
21 because, quite candidly, I didn't appreciate how fast demand
22 was falling. I didn't remove and go to projections, which
23 makes it even worse.
24 It turns out, if I look at it for a six-month
25 period for a zero users in one month, that their even better

1 off as well. So I think you have to keep coming back and
2 asking the question -- relative to what? If it's a buck
3 relative to 75 cents, and I get rid of a double-digit line
4 item on the bill -- why isn't that good public policy?
5 MR. TRAVIESO: I would like to make a comment. I
6 think that a better solution to the falling revenues issue
7 is to broaden the contribution base, as I suggested earlier.
8 If you did that, and you picked up an extra 20 or $25
9 million in interstate and assess the carriers that provided
10 those services, everybody's rate would go down.
11 The concern that you have about the percent
12 assessment and consumer's understanding that there is a huge
13 surcharge being levied on them would be ameliorated by doing
14 that. So even if you kept a line item, but you increase the
15 contribution base, the percent assessments would go down
16 fairly substantially, and you would have a contribution base
17 that would capture substitution of wireless minutes -- for
18 example, for ISC minutes, which definitely happening in the
19 marketplace.
20 MS. ABERNATHY: Mr. Blaszak?
21 MR. BLASZAK: Thank you, Commissioner Abernathy.
22 The problem is more fundamental than simply
23 expanding the contribution base. That sounds like a very
24 attractive approach at first blush because it buys you time,
25 but it doesn't serve one of the underlying problems.

1 When these numbers get to be substantial,
2 businesses -- and I suspect sophisticated consumers -- are
3 going to look for a way to mitigate the impact of these
4 numbers on their budgets.
5 Mr. Nakahata talked about bundling. There is no
6 denying the fact that bundling is happening. You see in the
7 MCI Neighborhood plan. You see it in the wireless buckets
8 of minutes plans. It effectively include equipment, also
9 because sometimes you get the phone free if you'll sign up
10 for a couple of years.
11 In the dealings I do for corporate clients, I see
12 bundling, also. They are components to the deal. There are
13 prices for managed services. There are prices for riders.
14 There are prices intrastate minutes. There are prices for
15 interstate minutes. Carriers look at the overall business
16 proposition. That's what my clients look at, also.
17 The beauty of the connection-based approach,
18 again, as Mr. Nakahata pointed out, everybody needs a
19 connection. There is no avoiding the connection. It's the
20 best way to sustain the universal service fund. Something
21 my clients very much want. They favor universal service.
22 We've supported every element of the Commission's universal
23 service program, but the current system is broken, and it is
24 not fixable by simply including internet access providers.
25 MR. MARTIN: Well, I want to follow the same kind

1 of pattern that my first two colleagues did in their
2 questions.
3 Let me make entirely sure I understand, starting
4 Mr. Lubin, if you assume that you lose on advocation of the
5 connection-based charge, I don't take it from your answer to
6 the previous question, then you would give up on the collect
7 and remit or projection model? You would still be
8 supportive of making that change, wouldn't you?
9 MR. LUBIN: If there was no ability to get a
10 connection-based --
11 MR. MARTIN: Right. That was my assumption of the
12 question.
13 MR. BLASZAK: Right. A collect and remit on
14 current revenues, which is a form of projection, is better.
15 However, it does not address what I call the "unbillable
16 issue." So if by that you mean, collect and remit is I no
17 longer have to pay for that which I cannot collect on
18 because the party will not bill it for me, if they're doing
19 the billing, then that solves that problem as well. If we
20 do not solve that problem --
21 MR. MARTIN: So it would take both of those
22 aspects?
23 MR. LUBIN: Correct.
24 MR. MARTIN: And then, just very quickly.
25 Mr. Blaszak, assuming that it was capped -- the residential

1 contribution of the connection-based was capped and that 50
2 cent fee, as some of the others were talking about earlier,
3 does that mean that you no longer would support the proposal
4 to go to a connection-based fee or would you still support
5 it, even if it was capped for five years at 50 cents per
6 resident?
7 MR. BLASZAK: We will not support it,
8 Commissioner.
9 MR. MARTIN: Thank you.
10 MS. ABERNATHY: Commissioner Dunleavy?
11 MR. DUNLEAVY: I just have a very basic question.
12 All the good ones have already been asked. Would you
13 disconnect the customer if they refused to pay the USF
14 charge?
15 MR. LUBIN: Would I disconnect the customer --
16 MR. DUNLEAVY: Would you refuse to give service if
17 a customer unilaterally said I'm not going to pay this --
18 whether it was collect and remit or whether it was a
19 connecting charge -- would you?
20 MR. LUBIN: The dilemma with that in competitive
21 market is that customers, if they so elect not to pay their
22 bill, and then, I disconnect service, they have choices of
23 many other carriers. That is why, unfortunately, my
24 uncollectible are higher than the incumbent LEC because if
25 the incumbent LEC makes that offer, then a customer doesn't

1 have a choice, and then they pay.

2 This is another reason why the most efficient way

3 of managing this process is that the party who has the

4 connection to the network becomes the collection agent.

5 MR. DUNLEAVY: Does the FCC right now have the

6 authority to require somebody to pay that USF fee?

7 MR. LUBIN: Not to my knowledge.

8 MR. DUNLEAVY: Okay, thank you.

9 MR. LUBIN: That's probably worth checking, but

10 not to my knowledge.

11 MS. ABERNATHY: Thanks to everyone on the second

12 panel for taking the time for educating us. It was very

13 helpful. I think we will allow Dr. Gillis -- and I don't

14 know if Ms. Wallman is still here -- maybe five or seven

15 minutes to tell us a little bit of your observations as a

16 result of what you've heard today before we terminate the

17 meeting. Thank you.

18 MS. WALLMAN: I had four points that I wanted to

19 mention having heard the presentations this afternoon.

20 The first is a theme that I heard that I think is

21 worrisome, and you may find it so as well. That is, the

22 validation of a point that Dr. Gillis made in his

23 presentation about how regulatory choices or patterns, not

24 only influence, but sometimes dictate business choices and

25 consumer choices.

1 This is really -- through the history of
2 regulation in this area and in the competition area has been
3 a cycle of allowing, then identifying and then addressing
4 different forms of arbitrage in a system. Not all arbitrage
5 is bad in the sense that it has a negative effect on
6 consumer welfare.
7 That for example the emergence of competitive
8 access providers. That had a positive effect on consumer
9 welfare. In many ways, the Commission's policies have
10 encouraged that kind of arbitrage.
11 Here, I think, you have heard several
12 presentations in which the problem we are addressing today
13 has been identified as coming from market trends. The fact
14 that people may find it more convenient and efficient to use
15 their cell phones for long distance calling, for example,
16 but reinforced by arbitrage -- by people making choices
17 about what services to take and how to use them and how to
18 allow them to be billed to them.
19 Now Mr. Nakahata's example, I thought was very
20 telling. That is exacerbating the arbitrage. So I think an
21 important choice that the Board needs to make in thinking
22 about his is do you think this is a bad form of arbitrage,
23 and do you want to do something about it?
24 There are positive effects of some kinds of
25 arbitrage, as I mentioned. The fact that some internet

1 protocol telephony has been outside the contribution base
2 may have had a positive effect over these last six years in
3 bringing access charges down.
4 But now you're confronted with the choice of
5 whether the consumer benefit that went with that is worth
6 continuing in light of the fact that the contribution base
7 is being evacuated. If we're all in this together as users
8 and providers, then that's a difficult choice that the Board
9 will have to face and address.
10 I was persuaded by Mr. Altshcul's point about the
11 sensibility of knowing something about the budget before you
12 figure out where you're going to get the money to pay for
13 it.
14 But I think that there are choices suggested today
15 that would allow the Board to make recommendations about a
16 collection mechanism that would be sufficiently flexible to
17 adapt to future needs as they may go up or down in the
18 system.
19 The impact on low incomes -- two observations.
20 Number one, the correlation or not between low volume and
21 low impact is knowable. There is data in other dockets that
22 the Commission, and certainly, the Board could request of
23 the parties who have it. You can look at that data yourself
24 and decide whether there is a correlation.
25 I tend to believe, based on things that I've seen

1 over the years, that there is a weak correlation between the
2 two, but that's knowable. The Board can look at that and
3 decide for itself.
4 Second, it's a serious issue. A few dollars here
5 and there actually matter to people, but it may be possible
6 to mitigate it through some of the low income programs.
7 Then, finally, the suggestion that was made about
8 the bifurcation of the fund. I tend to doubt that, that
9 would support the stability of the fund. To suggest that
10 part of it belongs in the general tax bases harkens back to
11 the first principle's point that was often made about
12 universal service -- why are we doing any of this on network
13 charges? Why don't we do the whole thing on general budget,
14 which would then be subject to periodic appropriations?
15 So I tend to doubt that a bifurcation would
16 contribute to the stability that we're talking about
17 maintaining for universal service.
18 MR. GILLIS: I don't mean to trivialize the very
19 important decision that you are needing to make regarding
20 the collection mechanism, but a thought was going through my
21 mind that the decision process parses out somewhat with what
22 I need to do this weekend in discussion with my wife on
23 whether or not get a new car or fix up our existing one.
24 Actually, I want a truck, but that just complicated story.
25 (Laughter.)

1 MR. GILLIS: Fixing up the existing car is
2 certainly an option as an existing mechanism. I think we
3 had a balanced group before us today that suggested maybe
4 that's the way to go.
5 The trade-off in parsing out that decision, which
6 I think is one of your first level decisions you need to
7 make in approaching this question is you can fix up the
8 existing vehicle -- but one of the concerns that I had,
9 listening to the panel, goes back to what I said in the
10 opening comments is, if you fix up the existing vehicle,
11 you're going to have the tendency to want to nurse it along
12 and not get too aggressive in what you would want to carry
13 in that vehicle or take some long trips.
14 This is my view -- you have some long trips you're
15 going to need to take over the next couple of years, and
16 that's something to consider versus buying a new vehicle,
17 which involves some risk. If you can put off the decision
18 for a couple of years, then that's good. The environment
19 will be probably better known. The budget requirements will
20 be better known.
21 But again, the reality of life is that it's always
22 changing. There is always tomorrow. There is never any
23 certainties.
24 With respect to the new car, broadly, you have two
25 brands to choice brand -- the RXC brand and the LEC brand.

1 They, not completely -- for example, the small telephone
2 company likes, I think, for everyone one to keep -- of
3 fixing up the existing car.
4 But the concern seems to be from the LEC version
5 is they didn't want their existing customers paying for any
6 of the gas. That's a concern that the LEC had a solution,
7 but their solution, potentially, is complicated. So the
8 question is, can the vehicle even get down the road if you
9 don't have a collection mechanism to pay for the gas.
10 I think that pertinent questions from
11 Commissioner Copps were important as well regarding would
12 this new vehicle even be legal and would just be tied up in
13 the courts. They are important questions to be asked in
14 making these choices.
15 Ultimately, what I'm suggesting to you in parsing
16 this out, and what I would recommend as you approach the
17 question, is the first threshold question is, based on the
18 evidence before you, do you want to focus on fixing up the
19 existing car. If that is your focus, then you can avoid a
20 bunch of questions.
21 Or is it better to think about going down the road
22 and getting a new car and just biting the bullet, which
23 raises a whole bunch of other questions. I think they are
24 answerable. They are questions that can be answered. I do
25 believe, as I said in the beginning, that doing nothing

1 isn't an option. So it's really a question of where you
2 want to make the investment.
3 MS. ABERNATHY: Thank you very much for coming
4 back and give us a brief summary.
5 Since I opened the process, I'll allow Chairman
6 Thompson a few words about some advice you might have to the
7 parties how presented to us today.
8 MS. THOMPSON: I appreciated everyone's comments
9 today, and everyone spending most of Friday afternoon here.
10 I was sitting here thinking about the comments
11 that Ms. Wallman made at the beginning about consensus
12 building and what a difficult issue this is and how helpful
13 it would be in thinking that those of you sitting there in
14 the audience and the room know more about the implementation
15 of the details of these alternatives that we have been
16 discussing than any of us do.
17 I wanted to encourage you to take what you heard
18 today -- some of you may not have had a chance to hear all
19 the different perspectives directly today or see the faces
20 associated with the, but I wanted to encourage you to
21 continue to try and build some kind of consensus on this
22 issue if that's possible.
23 MS. ABERNATHY: Thank you again, everyone. This
24 meeting is adjourned.
25 //

1 (Whereupon, at 4:39 p.m., the hearing in the
2 above-entitled matter was concluded.)
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CASE TITLE: PUBLIC MEETING ON UNIVERSAL SERVICE CONTRIBUTION METHODOLOGY

HEARING DATE: JUNE 21, 2002

LOCATION: WASHINGTON, DC

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