1 director, chief tax officer for XO Communications. I just
2 like to start by saying I'm not an attorney. My background
3 is more in the finance area; more specifically, in the tax
4 and the accounting fields.
5 XO is one of a dwindling number of facilities-
6 based competitive carriers that provides a full suite of
7 telecommunications and information data services. We are
8 also the largest holder of LMDS spectra. Our customer base
9 is the multi-line business customer market.
10 For XO, at this particular point, every dollar
11 counts as we continue to struggle to continue to compete.
12 While we also firmly believe that the USF is extremely
13 important, and we are, of course, willing to contribute our
14 fair share to the program, we strongly urge the Commission
15 to keep in mind companies like ours as you work to revamp
16 the program.
17 XO has to be able to control back office costs if
18 we are going to be able to survive. A regulatory mandate
19 that forces XO to rebuild our billing systems would be
20 extremely burdensome for the company and for other small
21 telecos.
22 For this reason, XO urges you to continue to
23 provide us with complete flexibility regarding how we
24 collect the USF from our customers. In addition, XO needs
25 to be able to continue to collect a small percentage above

1 the assessment amount to account for administrative costs of
2 the program.
3 XO has never treated the USF collection as a money
4 maker. In fact, the company, historically, has paid out
5 more than it has collected from our customers over time.
6 We'd be happy to see a safe harbor established for this
7 purpose.
8 The proposed connection-based system for
9 determining carrier contributions would impose large burdens
10 and expense to our back office support functions. We
11 believe this would be true for all small- to medium-size
12 carriers. This burden becomes even more substantial if the
13 Commission elects to go with a monthly filing frequency.
14 The company currently maintains electronic systems
15 to track and record revenue for the federal and state
16 regulatory fees that are based as a percentage of revenue.
17 The system was used to build in federal and state
18 telecommunications sales and excise taxes.
19 XO also maintains a manual system for complying
20 with various line-based regulatory fees that have been
21 implemented by some state and regulatory authorities. These
22 fees include the local 911 service charges often assessed on
23 a per line basis.
24 Based on our review of the MPRM, the proposed
25 connection-based system is substantially different from all

1 of the existing structures, and would require the company
2 and maintain an additional reporting mechanism for purposes
3 of the connection-based system.
4 We believe that it would be similarly burdensome
5 and costly for XO to revamp its entire end user billing
6 system if we are required to pass through a universal
7 service cost in a manner consistent with a connection-based
8 assessment system. This cost would be a significant portion
9 of our 2003 IS development dollars.
10 To give you an example, just to talk a little bit
11 historically about the company, the company has ruled out
12 products over time. As we do that, we write these offer
13 codes and billing codes for each new product.
14 We estimate that we had to convert to a
15 connection-based billing system for the USF, our Information
16 Services Department would have to review or rewrite more
17 than 100,000 separate existing billing codes. Based on our
18 initial discussions with the IT teams, this would be an
19 extremely costly process for XO.
20 Again, XO is in a position in its life cycle where
21 we're doing everything we can to minimize the cost of our
22 back office support functions. And again, we have
23 infrastructure in place to report and recover, based on a
24 revenue approach.
25 We have to have this. We have to have this in

1 place now to comply with our tax obligations -- our federal
2 and state tax obligations -- and we've had this for years.
3 That is, in fact, how we currently manage the existing USF
4 requirements.
5 We view the new recovery structure would likely be
6 extremely complex to administer because customers routinely
7 add, drop, and change services that would continue to effect
8 the universal service connection-based contribution
9 attributable to a particular customers.
10 Each time the customer adds or deletes a charge on
11 a multi-line product, the corresponding universal service
12 codes in the customer records would have to be adjusted.
13 Again, more back office support functions, and we believe
14 this would be done within a very manual format for us.
15 The other concerns we have -- a connection-based
16 approach, coupled with the base factor that frequently
17 changes, is likely to lead to greater customer confusion.
18 Our customers are multi-line business customers. Our sales
19 force is often asked, and we are often asked to support the
20 sales force in this, what the bottom line bill is going to
21 be for a lot of these multi-line businesses.
22 In order to provide them with that information, we
23 need to know what the tax functions are going to be, the
24 regulatory fees and obviously, the big component of that is
25 the federal USF. We would encourage some type of stability

1 and consistency in any mandated recovery process.

2 Another issue we believe exist is a

3 connection-based would also discourage the installation of

4 redundant and reserve capacity that a customer may need in

5 the future. This would reduce the overall network security

6 we believe at time when having a secure, redundant network

7 is extremely important.

8 It is also extremely complex to figure out how to

9 bill a customer that has purchased some of our newer

10 products based on what we call "burstible capacity" where

11 additional capacity is available during peak periods of

12 demand.

13 A connection-based approach may also cause

14 customers to base product selection in an effort to avoid

15 additional USF charges rather than sizing their capacity in

16 present and future needs. A revenue-based approach does not

17 have this same effect.

18 To summarize, for all of these reasons, I urge you

19 to keep in mind that the smaller telecommunications

20 companies -- keep the smaller telecommunications companies

21 in mind as you refer with these. Giving companies like XO

22 the flexibility to decide how to collect the USF from the

23 customer is a critical cost issue for use.

24 While some of the other large carriers may be

25 comfortable that they can revamp their systems, these costs

1 are a much greater percentage of our IT dollars. We cannot
2 afford to be saddled with an additional requirement that
3 requires us to build or rebuild our back office support
4 functions at this time. Thank you again for allowing me to
5 speak.
6 MS. ABERNATHY: Thank you very much, Mr. Ednie.
7 Now we move on to Mr. Sheard? I hope I said that
8 right?
9 MR. SHEARD: Yes. I would like to also thank you
10 for providing the opportunity to share my opinions and
11 observations as well as to hear first-hand the opinions and
12 observations of everybody else about this topic that is
13 vitally tied to ensuring the continuing availability of
14 affordable and reliable telecommunications services to so
15 many Americans.
16 I work for a company called Montana Independent
17 Telecommunications Systems or MITS. I-Connect Montana is a
18 division of MITS that builds and operates data centers in
19 Montana.
20 We represent independent and cooperative telecos
21 that provide a variety of services to customers who happen
22 to live and work in the very remote parts of the United
23 States. We also serve some extremely economically-depressed
24 areas.
25 These companies provide, not only basic services

1 supported by the federal universal service mechanisms, but
2 also non-supported local and long distance, wire line and
3 wireless services as well as dial-up and dedicated internet
4 access, including DSL services to nearly 150 communities
5 with populations under 2000.
6 These companies have also joined together to
7 ensure the availability and affordability of services such
8 as sonic transport, interactive video conferencing and data
9 center services.
10 Montana's rural teleco has been providing high
11 quality services in rural Montana and parts of Wyoming and
12 North Dakota since the late '40s. Our customers rely on us
13 to ensure that the services that they receive are comparable
14 in price and functionality to those enjoyed subscribers in
15 urban areas.
16 We, in turn, have relied for decades on the
17 support mechanisms, such as federal universal service high
18 cost fund, to enable us to provide access to basic local
19 service. Due to the high cost nature and the low customer
20 densities of our service areas, absent the federal support
21 mechanisms, telecommunication services would certainly not
22 be available at affordable rates in many areas and in other
23 areas would simply be unavailable.
24 I would like to make a few general comments about
25 the assessment and contribution methods. At this time, we

1 do not support any of the contribution-based assessment
2 mechanisms. We feel that the current revenue-based system
3 works very effectively in an equitable, competitively
4 neutral and generally, non-discriminatory manner.
5 We don't believe there has been any clear and
6 convincing evidence presented that the current system should
7 be replaced or that any replacement mechanism would be more
8 sustainable over time, or for that matter, more equitable,
9 non-discriminatory and competitively neutral or even less
10 administratively burdensome.
11 While we're concerned about the apparent decline
12 in the inter-exchange carrier revenue and the funding base
13 for the mechanisms, we don't believe it justifies the
14 abandonment of the current assessment mechanism.
15 Also, the Commission adopted the current
16 revenue-based contribution mechanism in the first place
17 because after a thorough, comprehensive analysis, it was
18 determined that the mechanism best met the goals and
19 policies expressed in the Act, and there is no reason to
20 change that conclusion.
21 There have been some concerns expressed over the
22 growth of the fund. However, with decisions to move cost
23 recovery out of access, increases in the federal fund were
24 inevitable and should come as no surprise.
25 We do agree that the Commission should consider

1 modifications to the current mechanism where necessary. The
2 current system has already undergone several revisions and
3 improvements as its evolved over time. We believe that this
4 is a good path to continue on.
5 For example, several commentors have already
6 addressed how to try to fix the time lag issue. They've
7 brought up the CMR safe harbor issue, et cetera. We also
8 support the Commission's examination of broadening the USF
9 revenue assessment base by including interstate revenues
10 from entities such as ISPs, and that also gets to the DSL
11 cable disparity issue.
12 The contribution scheme should not overburden the
13 very customers the system is designed to help. We feel that
14 implementation of the connection-based system would
15 exacerbate billing impacts from other changes that are going
16 on, such as slick increases in the imposition of other end
17 user charges like number portability, 911, state excise tax,
18 surcharges, et cetera.
19 Also, although the connection-based funding
20 proposals would largely allow ISCs to escape USF funding
21 responsibility, end users would essentially experience local
22 rate increases with no certainty that the ISCs would flow
23 through their savings to toll rates; especially, to the
24 rates available in rural areas like Montana where not all
25 discount toll plans are available.

1 A few quick comments on the recovery mechanisms of
2 the contribution. We believe the Commission should take
3 actions that would restrict carriers ability to make end
4 profit on their recovery methods, and I'm referring to the
5 evidence presented by several parties that ISC toll line
6 surcharges is purported designed to recovery USF
7 contributions that ranged much higher than the assessment
8 factors.
9 The Commission could possibly establish a safe
10 harbor that would allow carriers who chose to do so, and use
11 line item surcharges to recover the contributions; plus,
12 perhaps, a specified margin for uncollectible, but no more.
13 Carriers who chose to utilize line item surcharges higher
14 than the safe harbor amount should have to provide
15 documentation to support the higher level.
16 We also believe it's appropriate for the
17 Commission to require clear labeling of any line items
18 designed to recovery USF contributions, and we do not think
19 that life line customers should be charged any amounts for
20 USF contribution recovery. Thank you.
21 MS. ABERNATHY: Thank you very much.
22 Mr. Travieso?
23 MR. TRAVIESO: Thank you very much, Madame Chair,
24 and members of the Joint Board.
25 I'm Michael Travieso. I'm on the Maryland

1 People's Council; but I'm here today on behalf of NASUCA,
2 which is a national organization of state utility consumer
3 advocates from 42 states, and I think the District of
4 Columbia. Thank you very much for the invitation, and we
5 appreciate the opportunity.
6 I would refer you to the comments that we filed in
7 writing. We filed three sets of comments and an ex parte so
8 far in this proceeding.
9 The Commission should retain a revenue-based
10 assessment system and not use a connection-based mechanism.
11 Such a system would permit some IACs to avoid paying
12 anything into the USF, and would raise the bills of 40
13 percent of residential customers that make the least use of
14 interstate services.
15 There are actually, we estimate, 25 percent of
16 consumers who make no long distance calls at all. So I
17 would differ a little bit with Bill Gillis in his
18 statements. It seems to me that it is inequitable to shift
19 the burden to consumers who make little or no use of
20 interstate services and to lower the rates of high-use
21 consumers by somewhere in the 5 to $6 range, which we think
22 this connection-based proposal would do.
23 The cause of the Commission's concern should be
24 the growth and the size of the fund, which seems to have
25 tripled in the last three years and is like to continue to

1 grow or double, I guess.

2 We look at the interstate minutes and total

3 interstate minutes are going up. Total revenues from

4 interstate services are going up, and I would refer to you

5 to your own report -- Telephone Industry Revenues issued

6 January 2002 -- which shows an increase from $94 million to

7 $119 million in total interstate revenues. So there is

8 money there. It is just a question of assessing --

9 broadening the base of assessments.

10 Now on the way to recover from consumers, we have

11 an eloquent, simple and completely non-discriminatory system

12 for assessing consumers, which avoids all the problems that

13 have been discussed through the day, and that is, to

14 prohibit surcharges on consumers. If you did that, you

15 would solve all of your problems.

16 There are many problems with surcharges. From a

17 consumer's prospective, surcharges and line items hide the

18 true price of services. For example, services are

19 advertised at 7 cents a minute, but if you factor in the 12

20 percent USF surcharge, the rate is really 8 cents a minute.

21 So consumers are not getting the true price signals.

22 Surcharges and line items inhibit comparison

23 shopping for similar reasons. Surcharges and line items are

24 inconsistent with the FCC's policies of truthful

25 advertising. Consumers cannot make informed decisions if

1 they don't know what the true per minute rates are and what
2 the true USF surcharges are going to be. They insulate
3 costs from competition.
4 I think this is an important point. If consumers
5 pay 6 cents per minute -- if the company pays 6 cents per
6 minute, but the consumer pays 11 cents per minute, based on
7 the mark up, then the extra nickel is not subject to
8 competition because it becomes part of a regulated
9 surcharge.
10 Nobody is looking at those mark ups. Nobody is
11 discovering whether there is any cost basis for those mark
12 ups. There is absolutely no incentive for carriers to
13 compete to have a lower or more efficient mark up because
14 they are assured collection.
15 For that reason, surcharges favor less efficient
16 carriers. Surcharges can increase the overall rates. They
17 act as a cover, for example, for other cost increases
18 because the surcharge can be marked up to cover those cost
19 increases and shield the company from competition. They
20 actually can cost subsidize the actual business that these
21 carriers are doing.
22 Eliminating surcharges eliminates concerns that
23 some carriers are overstating costs and no real recovery in
24 assessments. That's the same point I just made.
25 The state prohibited and USF surcharges --

1 Georgia, for example, has a state statute that prohibits
2 carriers from recovering by means of surcharge. They are
3 state USF contributions.
4 We believe the Commission has the legal authority
5 to prohibit surcharges. We would refer you to the
6 Commission's Truth in Billing Order, which discusses the
7 scope of your authority in this area. Also, if the
8 Commission can mandate a line item fixed fee surcharge, it
9 seems like it ought to be able to prohibit surcharges
10 altogether.
11 Finally, even if the Commission does not eliminate
12 surcharges, you should certainly eliminate any mark up from
13 USF contributions, and it's for the reasons that I've said.
14 They should be only able to recover the dollar-for-dollar
15 contributions and not mark these up.
16 They can recover whatever legitimate expenses they
17 have under our proposal and the cost of doing business.
18 They do have control. It's not an uncontrollable item
19 because almost 50 percent of that cost now constitute mark
20 ups, and that's over $2 billion a year that consumers are
21 paying just for the mark ups. Thank you.
22 MS. ABERNATHY: Thank you, Mr. Travieso.
23 Mr. Blaszak?
24 MR. BLASZAK: Thank you, Commissioner Abernathy.
25 My name is Jim Blaszak. I'm here today

1 representing the Adhoc Telecommunications Users Committee.
2 Business users, the folks who have supported universal
3 service for decades.
4 As one of my partners put it, we're the people
5 with the bull's eye on our chests. The Adhoc Committee has
6 been active in the universal service docket from its
7 inception in 1978. The Committee fully supports the
8 universal service, but the current system is fatally flawed.
9 It is not substantiable and it is inequitable.
10 Accordingly, the Adhoc Committee supports the
11 COSAS' proposal and is part of COSAS. The Adhoc Committee,
12 however, differs with the carrier members of COSAS on an
13 important issue. An issue on which we have agreed to
14 disagree. That's the issue of mark up.
15 The Adhoc Committee believes that the universal
16 service fund charges flowed through to end users by carriers
17 should not, in effect, be turned into a vehicle for cross-
18 subsidization of other carrier activities or enhanced
19 carrier profitability.
20 Now the temptation might be to think of the mark
21 up as not a problem because, after all, these charges come
22 from long distance carriers. And after all, isn't that
23 market ineffectively a competitive market?
24 I submit that there has been a market failure. A
25 market failure results with respect to the long distance

1 carriers. It results from the Commission's 1997 report and
2 order in which it authorized the long distance carriers to
3 unilaterally reform contracts to change fixed rates. The
4 only way they could do that without violating contracts was
5 to impose a surcharge.
6 In effect, sanctioned by the regulatory
7 authorities, and because they were then tariffing and had
8 since subsequently been required to post all of their prices
9 on their internet sites. They all knew what each other were
10 charging. Well, what are they charging? They are charging
11 at least 45 cents more -- that is, 45 percent -- 45 percent
12 more than the Commission assessment rate. Those are big
13 numbers ladies and gentlemen.
14 Well, if you think they are big numbers, and there
15 has been a market failure when they're imposed by long
16 distance carriers, let your mind move forward a bit to the
17 time when, if a connection-based proposal is adopted, these
18 charges would be assessed by local exchange carriers --
19 local exchange carriers that do not face effective
20 competition in most markets. I wish it were otherwise.
21 That is not always a popular thing to hear in
22 Washington, but my clients are in the best position to take
23 advantage of competitive choices. We chew the prospects for
24 competition, but so far, we haven't seen much of it.
25 We are concerned that if local exchange carriers

1 are also allowed to mark up their Commission assessment
2 rates, whether it's on a connection basis or whether it's on
3 some other basis, it will, in effect, turn into an instance
4 of pricing abuse because there is, so far, not one shred of
5 public data to support the long distance carriers mark ups
6 -- none.
7 Let's turn, before I run out of time, to Truth in
8 Billing. The Commission's Truth in Billing policies and
9 rules are pretty clear. The charges are supposed to
10 accompanied by clear, non-misleading explanations.
11 We have a universal connectivity charge. We have
12 a carrier universal service charge. We have a federal
13 universal service fee. Those are the labels from the three
14 largest long distance carriers. I submit that those labels,
15 to the extent that they include significant mark ups, are
16 materially misleading.
17 They are materially misleading because, for the
18 life of me, and by every good business practice my clients
19 know, no material portion of that large mark up that I have
20 referred to can be traced back to administrative costs or to
21 bad debt.
22 In conclusion, I ask you to think about this,
23 also. Yes, the universal service program is a federal
24 mandate. However, so also, are workman compensation
25 requirements, OSHA, environmental requirements -- all of

1 those requirements impose costs on businesses. They are not
2 administrative and overhead charges that consumers find in
3 their bills for goods and services as a result of those
4 governmental programs. There should be no mark up in this
5 case either. Thank you.
6 MS. ABERNATHY: Thank you, Mr. Blaszak.
7 We're going to make one quick change, Mr. Lubin,
8 because Commissioner Rowe has got to catch a plane, and I
9 want to give him a chance to ask at least one question.
10 Commissioner Rowe?
11 MR. ROWE: Thank you very much. I do apologize
12 that I have to head back to Montana.
13 I want to ask Mr. Sheard a question since he came
14 that distance as well. I was actually surprised by some of
15 the fairly aggressive proposals you made in terms of
16 limiting recovery, the mark up disclosure and other things
17 like that. I wasn't sure if maybe you shouldn't be trading
18 places with Mr. Travieso.
19 From a perspective of the small business world
20 customers that you work with, what's the reactions currently
21 to bills and anticipated changes in the bills to the
22 additional charges -- things like that?
23 MR. SHEARD: I'm told that we're getting quite a
24 few complaints every time there is another line item
25 surcharge on there. Of course, we get blamed for it whether

1 we have anything to do with it or not.

2 I agree it's an effective way to get funding for a

3 lot of good programs, but it's problematic to see that

4 expand, I guess, and we certainly don't want to be thought

5 of gaming that system and making profits on that. I don't

6 think anybody should be able to as well.

7 MR. ROWE: Thank you.

8 MS. ABERNATHY: Thank you, Commissioner Rowe.

9 Mr. Lubin?

10 MR. LUBIN: Thank you very much. My name is Joel

11 Lubin, Regulatory Vice President, Government Affairs, AT&T.

12 Thank you for giving me the opportunity to speak

13 at this public meeting on universal service contribution

14 methodology. AT&T fully supports universal service, but the

15 current system is not sustainable. It is not competitively

16 neutral, and it is not customer friendly.

17 In fact, it is unnecessarily complex, confusing

18 and costly to administer. The simple question -- if the

19 assessment rate is 7.3 percent, why does AT&T have an 11.5

20 percent collection rate for residential users? I will

21 explain, but I first want to emphasize AT&T is not making a

22 profit on a line item. If it were, we wouldn't be working

23 so hard to fix it.

24 Let's take an example, assume a carrier has been

25 assessed USF based on $100 million of interstate retail

1 revenues and the USF assessment rate is 7 percent.
2 Therefore, the carrier owes USAC $7 million -- 7 percent of
3 $100 million. Say that carrier is only able to recovery its
4 $7 million from a $50 million revenue base. The carrier
5 would only collect 7 percent of $50 million or $3.5 million.
6 Yet, it must still pay USAC the $7 million.
7 In order to recovery its four USF obligation from
8 a smaller revenue base, this carrier would need to charge 14
9 percent of the $50 million to produce the $7 million, which
10 is what the carrier owes USAC. So let's explain why this
11 carrier is assessed $100 million; but, yet, has a recovery
12 base to recover it on of $50 million.
13 The difference is caused by several things. First
14 and foremost, the six month lag whereby long distance
15 revenues continue to decline between the assessment period
16 and the recovery period because there is a six-month lag.
17 Also, there is a USF assessment on USF revenues, which
18 fortunately will be fixed July 1, 2002.
19 Another reason is there is uncollectibles. This
20 is due to customers not paying their bills. Finally, we
21 have something called an "unbillable revenues" associated
22 with local exchange carriers who perform the billing
23 function for this carrier. Either the rep refuses to put a
24 USF line item on the bill or they would charge an exorbitant
25 fee for billing it.

1 Although the FCC has taken a number of steps to
2 ameliorate some of these issues, there are still major flaws
3 with the current system. If the FCC does not undertake much
4 needed changes to the assessment mechanism, I estimate that
5 by the second quarter of 2003, we will see an assessment
6 rate exceeding 9.5 percent. This will no doubt cause a
7 significant increase in my company's USF line item.
8 I also estimate that the LEC USF line item will
9 rise from the current average of 51 cents per line per month
10 to exceed 75 cent per line per month. The COSAS' plan will
11 eliminate these problems that force a high assessment rate
12 and the disparity between the assessment rate and the
13 recovery rate.
14 The COSAS' plan has a collect and remit feature,
15 which eliminate the lag and the uncollectible issues such
16 that the carrier remits what he or she collects.
17 Second, assessing connections minimizes customer
18 confusion, the number of collection points and the number of
19 simultaneous billings necessary to recover the USF
20 assessment from a single customers.
21 COSAS has one USF charge per residential customer,
22 not two or three as the SBC Bell South or as many as four if
23 a customer also has a dial-around user for
24 international-specific calling points. COSAS eliminates
25 direct billing issues previously discussed because only the

1 carrier with the end user connection would be assessed and
2 recover the USF from the customer.
3 The COSAS approach minimizes carrier transaction
4 costs. The only mark up that would be required is for a
5 recovery of carrier administrative costs, such as reporting,
6 billing and collecting universal service fees. The mark up
7 should be reflected in an FCC-prescribed safe harbor.
8 COSAS produces an efficient and sustainable
9 solution to preserve the universal service. The problem
10 with the SBC Bell South plan is that for a given customer,
11 there would be multiple USF line items; thereby, raising
12 transaction costs.
13 For example, you would have three or four
14 administering USF line items for a single customer, while
15 long distance carriers would have an additional cost because
16 they would need to purchase customer-line information by
17 customer for the residential customer and the business
18 customer.
19 Under the SBC Bell South treatment of dial-around
20 and pre-paid card services, USAC would have to administer
21 both a connection plan and a revenue-based mechanism,
22 increasing overall costs. What's the bottom line? The
23 current mechanism is broken. It needs to be fixed. We
24 should do everything humanly feasible to fix it by January
25 2003.

1 The COSAS' plan reduces the overall USF paid by
2 residential customer wire line users. Today, the average
3 residential customer pays $1.44 versus the COSAS' plan of a
4 dollar. If the current plan is not changed, a few years
5 from now the residential users will be paying in excess of
6 $2 less than a dollar under the COSAS' plan of connections
7 continue to grow as expected. That is to say, the dollar
8 per line will decline in time.
9 Finally, an observation. Some parties complain
10 that there is a surcharge, and you can't compare one
11 carrier's long distance rates versus another. If, in fact,
12 we go to a connection-based plan, a competitively neutral,
13 equitable and non-discriminatory -- in fact, you will be
14 able to compare plans because there will no longer be a
15 surcharge necessary on the rates, and you will see a truer
16 comparison if that is an issue that concerns parties. Thank
17 you for listening.
18 MS. ABERNATHY: Thank you very much. Now we will
19 start to my left with questions. I think because of the
20 time, and it's late on a Friday, we'll go with one question
21 per commissioner. Mr. Gregg?
22 MR. GREGG: Thank you.
23 Mr. Travieso, Mr. Sheard, Mr. Ednie, as I
24 understand, none of you all support the connection-based
25 proposal or any of the connection-based proposals before us.

1 If, however, we assume we are going to a connection-based
2 system, what type of recovery system would you support?
3 I'll start with Mr. Travieso.
4 MR. TRAVIESO: Thank you, Mr. Gregg. The beauty
5 of the NASUCA proposal is that it doesn't depend on the
6 assessment mechanism. So if you decided to change the
7 assessment mechanism, you could assess, based on lines
8 reported to you by companies; but you could still prohibit
9 the companies from assessing the consumer.
10 So the same result would occur. There would be
11 competition in the marketplace regarding mark up and the
12 efficiency with which companies manage their universal
13 service.
14 I might point out, I think it's important for
15 regulators to look at other industries -- the electric and
16 gas industries have bad debt. The bad debt is in rates. If
17 they're competitors and they're competing against utilities,
18 they have bad debts as well, and the bad debts are factored
19 into their prices.
20 So I don't think it's either necessary or
21 appropriate to put these types of costs into a fix
22 surcharge, and it's inconsistent with historical rate-making
23 principles because it's a single item rate-making process,
24 which never gets looked at.
25 MR. SHEARD: I guess I would recommend that if --

1 in general, to err on the side of providing the greatest
2 flexibility to the carrier that the carrier can chose to
3 recover the contributions in any way it sees fit.
4 But if a carrier decides that a line item
5 surcharge is the best way to recover their contributions, it
6 may be warranted to maintain some kind of oversight over
7 that to make sure that's not abused, and that, that
8 information being passed to the consumer is accurate and so
9 forth.
10 MR. EDNIE: I guess I would be in favor of any
11 system that allowed the carrier a certain amount of
12 flexibility. I would also favor a bill and remit concept
13 within the pass through -- the charge.
14 As I said earlier, my background is more in the
15 area of tax, and I know the USF is not a tax per say, but
16 there are a lot of similarities to it. In the tax world, we
17 have this concept of bad debt. You're acting as a trustee
18 in the tax world, and you bill a tax and you remit a tax and
19 you don't collect it, you're allowed to take a credit.
20 They also have very similar concepts to allowing
21 you -- albeit, they're capped, many states allow you to
22 recover some of your administrative costs. When you remit
23 taxes, you will keep 1000 of $100,000 that you billed. So I
24 guess my position would be I would support anything that was
25 flexible. I do believe there are competitive elements to