

service. In particular, we agree with the Joint Board that advanced services should not be added to the list of services at this time.

II. MCI Agrees with the Joint Board that it is Premature at this Time to Provide Federal Universal Service Support For Advanced Services.

As MCI discussed at length in its comments and reply comments to the Joint Board on this matter, it is premature to provide federal support for advanced services at this time.³ MCI agrees with the Joint Board that advanced services fail to meet the threshold legal requirement that triggers whether a service must be supported. This legal requirement requires that the service have characteristics that are substantially related to the four “factors” that Congress outlined in section 254(c)(1): (1) the service is “essential” to education, public health, or public safety; (2) the service is subscribed to by a “substantial majority of residential customers;” (3) the service is being deployed in public telecommunications networks; and (4) the decision to support the service is in the public interest.⁴ Advanced services currently have an insufficient nexus with these legal requirements.

First, we agree with the Joint Board that advanced services are not “essential” to education, public health or safety.⁵ We agree that advanced services are not “essential” for consumers to reach education, public health, or safety resources when those resources are readily accessible through voice telephone or dial-up connections to the Internet.⁶

³ See WorldCom Comments, *In the Matter of Federal-State Joint Board on Universal Service*, CC Docket No. 96-45, filed Nov. 5, 2001 (WorldCom Comments) and WorldCom Reply Comments, *In the Matter of Federal-State Joint Board on Universal Service*, CC Docket No. 96-45, filed Jan. 4, 2002 (WorldCom Reply Comments). MCI will not repeat here the entirety of our arguments. We refer the Commission to our Comments and Reply Comments for a full discussion of why, on both a legal and public policy basis, advanced services should not be added to the list of supported services.

⁴ 47 U.S.C. § 254 (c)(1).

⁵ Federal-State Joint Board on Universal Service, Recommended Decision, CC Docket 96-45, FCC 02-J1, rel. July 10, 2002 (Recommended Decision), ¶ 12.

⁶ Id.

Second, the services are not subscribed to by a “substantial majority of residential customers.”⁷ As the Joint Board points out, only 10.8 percent of the population subscribes to advanced services.⁸ This is hardly a “substantial majority.”

Third, although advanced services are being deployed in networks, that factor alone is not enough to create a legal requirement to support the service under federal universal service rules. Fourth, we agree with the Joint Board that neither public policy nor the public interest favors adding advanced services to the definition at this time. We share the Joint Board’s concerns that adding advanced services to the definition of supported services would be contrary to the public interest due to the high cost of requiring the deployment of such services.⁹ Indeed, a simple cost/benefit analysis reveals high costs and uncertain benefits. For example, one possible estimate for the cost of advanced services support has been provided by the National Exchange Carrier Association (NECA), which estimates that the cost of upgrading rural networks to provide advanced services would be approximately \$11 billion.¹⁰ As MCI has discussed in the contribution methodology reform docket, universal service currently is in a death spiral whereby universal service funding demands are increasing at the same time as the contribution base is declining. The universal service support mechanisms would not be able to withstand the high costs of adding advanced services to the list of supported services. At the same time, the benefits of subsidizing advanced services deployment

⁷ WorldCom Comments at 11-12.

⁸ Recommended Decision, ¶ 13.

⁹ Recommended Decision, ¶ 15.

¹⁰ See WorldCom Comments at 18-19, discussing NECA Rural Broadband Cost Study: Summary of Results, June 21, 2000 (NECA Rural Broadband Cost Study) at 2. This estimate was derived from two studies: (1) a detailed engineering study that was completed by a sample of companies that had or were in the process of upgrading their exchanges to broadband capability; and (2) a deployment study to estimate the percentage of lines that would not be upgraded to broadband capability by 2002. *Id.* at 3. MCI takes no position as to whether NECA’s estimate is accurate. We offer it solely for the purposes of illustration.

cannot be easily defined or sized, because we still do not know the extent to which a need for broadband will be unmet. In fact, many analysts cite the inherent lack of demand for broadband services rather than supply shortages as the primary determinant of the low penetration rate. Advanced services are quite new, and the technology itself is still evolving. Furthermore, market forces appear to be encouraging broadband deployment at a reasonable pace, and there seems to be no shortage of federal, state, and local government initiatives aimed at spurring broadband deployment.¹¹ A multi-billion dollar price tag for something for which consumer demand is lacking and proven benefits are unclear warrants a wait-and-see approach at this time.

Finally, MCI agrees with the Joint Board that providing universal service subsidies for advanced services is not competitively neutral, potentially benefitting only carriers offering certain types of services and thus placing the government in the improper position of picking technology winners and losers. Some carriers, including a number of carriers that receive support today, are technologically incapable of providing advanced services throughout the geographic area for which they have been deemed an ETC pursuant to section 214(e). These carriers therefore would be ineligible for any federal universal service support. Such a result would undermine the success of existing universal service programs, would be harmful to consumers, and would undermine the intent of Congress as expressed in section 254 as well as the policies of this Commission.

In addition, there may be providers of advanced services that are unable to provide the complete list of services currently supported by universal service or that provide services in a way not contemplated by the rules governing the designation of

¹¹ See WorldCom Comments at 29-37, listing dozens of local, state, and federal programs encouraging broadband deployment.

ETCs. These carriers would be rendered ineligible for federal universal service support destined for advanced services. These might include wireless carriers or cable television companies. Again, the effect of including broadband services within the definition of universal service would be discriminatory and not competitively-neutral.

III. The Commission Should Use this Proceeding to Catalogue the Issues That Must Be Solved To Add Advanced Services to the Supported Services List.

In its periodic review of whether advanced services should be included in the definition of universal service, MCI recommends that the Commission undertake an analysis that involves answering the following questions. This list of questions is not intended to be exhaustive, but rather, to represent the key issues that regulators must answer adequately before implementing universal service subsidies for advanced services.

- Are advanced services being subscribed to by a substantial majority of residential customers? What is the meaning of the phrase “through the operation of market choices by consumers?”
- Are certain, identifiable segments of the population not subscribing to advanced services? Why are these segments not subscribing? Price? Availability of service? Little or no perceived value?
- Are advanced services “essential” to education, health care, or public safety? If so, in what way?
- What are the market trends regarding adoption rates of advanced services? Have advanced services been adopted at a rate comparable to other technologies? Are there signs that the growth rate is slowing, and if so, why?

- If the federal government were to subsidize advanced services through universal service, what services would be subsidized? How would “advanced services” be defined for universal service purposes?
- What would the direct costs of any subsidization be? By how much would the size of the federal universal fund increase? How would this affect carrier federal universal service line charges? Would the costs outweigh the benefits?
- What would the indirect costs of subsidization be, e.g., would the subsidies be technology and competitively neutral? How would subsidies affect competition?
- What changes to the existing funding mechanism would need to be made?
- What are the alternatives to federal subsidies, and would they produce equal or better benefits with less costs? What about greater state and local government intervention? Community-based programs? Increased incentives for private investment? Market forces?
- If universal service support were provided for advanced services, how would the support levels be determined? Would a cost model be necessary?
- Is the addition of advanced services consistent with the ETC requirements of Section 214? What waivers to ETC requirements would be necessary to provide for a competitively neutral universal service fund that included advanced services?

IV. Conclusion.

For the reasons discussed above, the Commission should adopt the Joint Board’s recommendation to not add or remove any services to the current list of services supported by universal service.

Respectfully submitted,

/s/

Lori Wright

MCI

1133 19th Street, N.W.
Washington, D.C. 20036
(202) 736-6468

April 14, 2003