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

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

REPLY COMMENTS OF THE AD HOC TELECOMMUNICATIONS USERS COMMITTEE

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Reply Comments

The Ad Hoc Telecommunications Users Committee (hereinafter "Ad Hoc" or the "Committee") hereby replies to comments filed in response to the Commission's December 13, 2002 *Further Notice of Proposed Rulemaking (“Further Notice”)* in the above-captioned proceedings.[1]

[1] *Federal-State Joint Board on Universal Service*, FCC 02-329 (rel. Dec. 13, 2002), 67 Fed. Reg. 79543 (Dec. 30, 2002) ("*Further Notice*").

I. Summary.

Supporting the Universal Service Fund (USF) through contributions based on the interstate and international telecommunications service revenues of providers of interstate and international telecommunications is not a sustainable mechanism for maintaining universal service. The only predictable feature of this USF funding approach is that the assessment surcharge will continue to rise. Bundling of intrastate telecommunications with interstate telecommunications and non-telecommunications goods and services with telecommunications services is happening now and will grow in the future. In an environment rife with bundling, there is no administratively feasible and rational basis for determining the portion of a provider's revenues that are properly attributable to interstate and international telecommunications services.

Those parties who couple a plea for retention of the revenue-based assessment method with assertions that any of the other proposed methods would hurt certain residential subscribers fail to address the fact that the original CoSUS proposal and the superior numbers-based method recommended by Ad Hoc and AT&T would exempt Life Line subscribers from paying any USF assessment, leaving them better off than they are under the current system. Moreover, virtually all residential subscribers would be better off under a numbers-based USF assessment methodology, particularly since the assessment is likely to be in neighborhood of $1 per month. No party can seriously argue that a $1 per month charge will cause subscribers to not afford basic telephone service.

Of the various non-revenue-based USF assessment methods that have been proposed, the numbers-based method urged by Ad Hoc and AT&T is the best alternative for producing predictable, easy to administer, non-distorting, and non-discriminatory USF assessments on providers and ultimately users of telecommunications services. The assessments that would flow through to subscribers would be affordable. Ad Hoc's numbers-based method is not afflicted with a "residual" component that would subject subscribers of the services in the residual pool to unreasonable discrimination and highly volatile assessments if key assumptions in impact modeling prove to be inaccurate.

II. Contrary To Some Commentors' Assertions, The Revenue-Based Assessment Methodology Is Not Sustainable And Should Not Be Retained.

Several parties urge the Commission to continue to assess providers' contribution obligations to the Universal Service Fund (USF) based on the providers' interstate and international revenues.[2] They argue that the Commission's decision to increase the wireless safe harbor and to use projected, rather than historic, revenues addresses the main deficiencies in the revenue-based assessment methodology. They dismiss the dangers raised by increased bundling of services and products (not all of which are telecommunications). In their view, traffic studies can be done to form a basis for allocating revenues among the various products and services that now are, and will be, offered for a

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[2] Comments of the California Public Utilities Commission (CPUC) at 4, 10; Comments of Consumers Union, Texas Office of Public Utility Counsel, Consumer Federation of America, Appalachian People's Action Coalition, Center for Digital Democracy, Edgemont Neighborhood Coalition and Migrant Legal Action Program (CU *et al.*) at 3, 8, 12-13.

single bundled price.[3] They also argue that anything other than a revenue-based assessment methodology, will raise the cost of telephone service for "[m]any low-income and elderly customers and discriminate against certain classes of carriers."[4]

The last argument listed merits a very direct response. Those who argue that anything other than a revenue-based methodology is unfair to the poor, fail to mention that proponents of connections-based or numbers-based assessment methods would exempt from USF assessments the connections or numbers associated with Life Line subscribers. Indeed, the studies that they cite seem not to account for the fact that a very substantial portion of the low income subscribers in those studies are, or are eligible to be, Life Line subscribers who would be exempt from USF assessments under the proposed numbers-based methodology.

CU *et al*. Exhibit 5 details the relationship between usage and income among long distance customers. The income spectrum used in this exhibit is $10,000 up to $100,000+, and is based on a Florida PSC Survey; "Bureau of Labor Statistics, Consumer Expenditure Survey: 1997," and The Yankee Group, "Understanding Consumer Spending on Communications, December 1999." It is important to note that in the state of Florida, there are a significant number of people included in this exhibit that could be eligible for Life Line services. According to the Life Line Assistance Program and Link Up

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3 CPUC Comments at 8.

4 CU *et al*. Comments at 7-8.

Florida brochure, those eligible for the Life Line program, include anyone that can prove they are receiving any one of seven different government benefits[5]. Receipt of these benefits is based on factors including income, e.g. a low income person/family. In addition, according to the Universal Service Administration Company's consumer information site, "Lifeline and Link Up are programs that help make telephone service more affordable for low-income consumers by providing discounts on basic local telephone service."[6] The definition of a low income person according to the 2001 HHS Poverty Guidelines includes families sized one through eight persons with an income range of $8,590 to $29,730, including $3,020 for each additional family member.[7] Therefore, using the spectrum in CU *et al.* Exhibit 5 of $10,000-$100,000, about 30% of those people included in Exhibit 5 could be eligible for Life Line services. CU *et al.* also fail to provide any data to show that other residential subscribers, including the elderly, would be worse-off under the numbers-based assessment methodology favored by Ad Hoc and AT&T. Indeed, with the revenue-based assessment already at 9.1% and going higher, it is quite possible that such subscribers will face higher telephone service costs if the Commission sticks with the interim revenue-based methodology, instead of moving to Ad Hoc's numbers-based approach.[8] Not

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[5] Lifeline Assistance and Link Up Florida brochure at 2, http://www.floridapsc.com/general/publications/brochure_pdf/lifelineengl.pdf.

[6] The Universal Service Administrative Company's Consumer information site, http://www.lifelinesupport.org/li/lls/.

[7] "The 2001 HHS Poverty Guidelines", Appendix C: U.S. Census Definition of Low Income, U.S. Department of Health and Human Services, Office of the Assistant Secretary for Planning & Evaluation, http://www.fta.dot.gov/library/policy/ns/2001/appc.html.

[8] WorldCom's Comments at page 24 remind the Commission that CoSUS has demonstrated that, "[a]t every income level, the average residential USF assessment will be less

even CU *et al.* can credibly argue that a numbers-based assessment methodology, a methodology that would produce an initial assessment of approximately $1.00 per month would cause telephone service to become unaffordable for consumers who do not qualify for Life Line service, particularly given that these subscribers already are paying USF assessments based on interstate charges, which include the unavoidable subscriber line charge.

CU *et al.* continue to ignore following points made by Ad Hoc in earlier phases of this proceeding:

- Given the documented elasticity of demand for basic access service, a USF assessment starting at about $1.00 per month on residential subscribers would reduce telephone service penetration levels by less than a single tenth of a percent, *if reduced at all*.
- In Texas and New Jersey, of the households whose telephone service has been disconnected, many were disconnected because of unpaid long-distance charges and have not been reconnected because of high re-activation fees.
- SLC increases have not been shown to cause declines in telephone subscribership levels.

under the [CoSUS] proposal than under the prior historical revenues mechanism. Indeed, in the lowest income group (households with income below $15,000 per year), the average household will likewise pay $0.40 *less* for its primary residential line."

- The unrebutted evidence indicates that residential customers can afford to pay the same amount on a per number basis as business customers, both initially and prospectively, should there be growth in the USF.[9]

Ad Hoc has demonstrated in earlier pleadings in the above-referenced proceedings that there is no rational basis for Commission adoption of a Universal Service subsidization scheme that discriminates in favor of residential consumers without regard to actual "affordability," and incorporates those prior pleadings by reference into these Reply Comments.

The Commission previously has confronted the contention that "network externalities" justify extracting subsidies from high volume, business users to benefit residential consumers. There is no denying that this approach in the past resulted in high volume business users bearing costs that residential consumers caused carriers to incur. Nor is there any denying that this approach caused significant economic inefficiency that hurts all consumers.[10] Competition and economics prevented perpetuation of that approach with respect to access charges and long distance rates. The Commission concluded that economic efficiency concerns and the possibility of bypass required movement to a more cost-causative access charge scheme.[11] With respect to the problem now before the Commission, new technology, i.e., internet service and wireless offerings, and the competition made possible by such new technology and bundled offers,

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9 Ad Hoc Comments at 14-15.

10 *See*, *MTS and WATS Market Structure* (Access Order), 93 F.C.C. 2d 241, 252 (1983), *modified on recons.*, 97 F.C.C. 2d 682 (1983), *modified on further recons.*, 97 F.C.C. 2d 834 (1984), *aff'd in part sub nom. NARUC v. FCC*, 737 F.2d 1095 (D.C. Cir. 1984).

11 Id.

will cause interstate and international telecommunications revenues to inevitably decline. As has been pointed out, that effect, in turn, will cause a revenue-based USF assessment rate to climb and produce even greater incentives for customers to do business in ways which will mitigate the impact of the revenue-based USF surcharge. Once again, competition and technology will allow subscribers to avoid or mitigate uneconomic pricing in the form of revenue-based USF assessments.

AT&T's comments stand in stark contrast to those of other parties who merely assert that traffic studies can and should be done to interstate telecommunications service revenues to bundled service offerings. AT&T correctly states that, "Any proposed method of identifying interstate telecommunications revenues within a bundled package is arbitrary and administratively unworkable."[12] Rates for various service capabilities differ among calling plans and among thousands of customer-specific deals. Calculating an "average" rate for telecommunications services and determining the mix of telecommunications services within a bundle that includes numerous capabilities will prove to be immensely complicated, indeed, practically impossible. The mix of interstate telecommunications in bundles will also vary from provider to provider and certainly from customer to customer. Some bundles will be heavily voice with many different rates that depend on types of access, features used and countries to and from which customers place calls. Other bundles will have more data transport services with significant variations in

[12] AT&T Comments at 15-18.

type of data service, e.g., any of several types of switched data service versus dedicated channels, with speeds and capabilities varying in the respective pools of switched and dedicated data services. The mix of services and the applicable rates are acute as stand-alone problems and as part of the larger bundling problem. Providers are bundling, and will bundle, their interstate telecommunications services with intrastate telecommunications services, outsourced management services, telecommunications equipment, information services, internet access service and services and capabilities not yet part of bundled packages, but that will become components of package deals. It is unimaginable that the Commission will be able to rationally, and in a legally defensible way, determine from provider-to-provider what portion of each provider's revenues are attributable to interstate and international telecommunications services.

Revenue-based support for the USF must be replaced with a sustainable, economically sound and legally defensible assessment methodology. The question presented by the *Further Notice* and the comments is which of the other proposals best serves the requirement and goals of section 254 of the Communications Act of 1934, as amended.

III. Including A Residual Methodology, However Characterized, In A USF Assessment Methodology Has Not Been Justified.

Several parties advocate assessment methodologies that include residual assessment mechanisms. These methodologies would be unlawfully discriminatory with respect to some subscribers; would likely produce volatile rate changes; and would be unfair to some providers or would fail to address the underlying deficiencies associated with a revenue-based USF assessment methodology.

WorldCom supports the connections-based methodology previously proposed by the Coalition for Sustainable Universal Service (CoSUS).[13] The CoSUS proposal would assess residential, single line business and wireless connections at an arbitrary rate per connection. The USF contributions attributable to such assessments would be subtracted from the USF funding requirement. The balance of the USF funding requirement would be recovered through assessments on multi-line switched connections and on special access connections. The resulting assessment per base unit of capacity applied to multi-line and special access connections would be approximately three to four times higher than that applicable to residential, single line business and wireless connections. CoSUS offered no justification for this approach. Nor does WorldCom. WorldCom simply argues that the CoSUS proposal is superior to the historic revenue-based assessment methodology.

Ad Hoc has previously explained that the Commission cannot, on legal or policy grounds, justify USF assessment methodology whereby the assessment rate for multi-line business connections is higher than the assessment rate generally applicable to residential connections for the same unit of capacity.[14]

Moreover, in discussing the Staff's impact analysis, Section V of these Reply Comments explains that the first of the connections-based assessment

[13] CoSUS no longer exists. Its initial membership consisted of Ad Hoc, AT&T, e-TUG and WorldCom. Last year Ad Hoc and AT&T separately announced their support for a numbers-based assessment methodology and thus no longer could support the CoSUS proposal.

methodologies proposed by the *Further Notice*, which is essentially the CoSUS proposal with modified capacity tiers, would shift an unreasonable amount of the USF funding burden to special access service. The shift occurs because of (1) the proposed capacity tiers and (2) the fact that Method One utilizes a residual component to keep the assessment on residential, single line business and wireless connections unnecessarily low.

Local exchange carriers' support for the second alternative assessment methodology set forth in the Further Notice fails to explain that at least one of the proposed variations to this methodology also is infected with an unjustifiable residual mechanism. Ad Hoc will not repeat the long distance carriers' meritorious objections to this alternative assessment methodology. [15] Instead, Ad Hoc endorses for the most part the long distance carriers' criticisms.

USTA proposes an alternative assessment methodology, a methodology that would require carriers to assess end users on their retail relationships for access to the network and for transport services. USTA goes on to explain part of the methodology as follows:

> Contributions would be based on the number of connections to the network, a connection unit that is assigned a monetary value,[10] and the multiple of units (or a factor) assigned to the service provided (i.e., based on the bandwidth capacity of the service).
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> [10] USTA is not advocating, at this time, any particular monetary value that should be assigned for a contribution unit.[16]

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[14] Ad Hoc Comments at 13-17.

[15] *See*, Comments of Sprint Corporation at 12-15, Comments of WorldCom at 38-42, and Comments of AT&T Corp. at 47-54.

[16] Comments of United States Telecom Association at 7.

In this methodology, the residual amount to be assessed to transport providers would be that portion of the USF funding requirements not met by the assessments on providers of access alone or access and transport combined. The size of the residual, of course, will depend on the ever growing USF, the number of access connections, the number of instances in which a provider supplies both access connections and transport service to its customers and, as USTA puts it, the monetary value of the contribution unit. This methodology could unjustifiably discriminate against (1) transport providers who do not also offer local exchange service and (2) high volume users who do not purchase transport from their local exchange carriers. It is, however, virtually impossible to evaluate the economic effect of the discrimination because neither the number of connections nor the monetary value of the contribution unit are known.[17] The number of variables introduces a level of volatility and uncertainty that would make sensible procurement and budgeting decisions by corporate telecommunications users virtually impossible.[18]

IV. Capacity Tiers Should Not Produce Uneconomic Distortions.

Three parties support an approach to setting capacity tiers that would produce distorted, uneconomic telecommunications purchasing decisions. USTA

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[17] Qwest proposes a similar methodology that also is infected with a residual calculation component, and thus, also is objectionable. Comments of Qwest Communications International Inc., Appendix A.

[18] Although Ad Hoc has indicated that it will not repeat the long distance carriers criticisms of the second alternative connections-based assessment methodology set forth in the *Further Notice,* Ad Hoc is compelled to note that USTA's proposed variation of the second methodology would put long distance carriers at a competitive disadvantage as soon as local exchange carriers are able to provide a suite of nation-wide voice and data services. While that day certainly has not arrived, it will come.

supports use of the fourteen capacity tiers identified in the October 10, 2002, *ex parte* that SBC and BellSouth filed in this proceeding.[19] SBC and BellSouth state that they can support the Commission's proposed four-tier capacity structure, provided that the capacity tiers "[b]ear a reasonable relationship to the amount of interstate telecommunications revenues generated by standard arrangements in each tier of service."[20] According to SBC and BellSouth, this approach avoids the need for a residential cap and an arbitrary distinction between comparable residential and business end users.[21]

It appears as though the SBC and Bell South capacity tier proposal would substantially increase the USF assessments associated with higher capacity services. For example, a DS3 circuit that is assumed to be priced at the average price of illustrative circuits shown on page twelve of Ad Hoc's Comments, i.e., $3278, would be assessed $187 more per month with a base capacity charge of $1.00 per month than the current assessment of $298, using a 9.1% assessment rate. If the base capacity charge were $2.62, the difference would be $972. An increase of $972 obviously will increase the point at which subscribers opt for higher capacity services. Put differently, a regulatory decision would materially affect purchase decisions and allocation of economic resources.

The Commission has sought to assure that charges that are compelled by regulatory decision do not distort service selection decisions. If the Commission were to adopt the SBC / BellSouth capacity tiers it almost certainly would

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19 USTA Comments at 8-9.

20 Joint Comments of SBC Communications Inc. and BellSouth Corporation at 12.

21 Id. at 12-13.

introduce significant economic distortion into the market. The same would be true if the Commission were to use the modified four tiers suggested in the *Further Notice* combined with a base capacity charge of $2.62.[22]

Furthermore, as explained in Section V below, the four capacity tiers proposed by the *Further Notice* would dramatically and unreasonably shift contribution burden to special access service, and thus eventually to special access customers. The multiple tiers suggested by USTA, SBC and BellSouth would appear to shift a crushing subsidy burden to special access.

Neither the SBC / BellSouth proposed tiers nor the four tiers suggested in the *Further Notice* are necessary to protect residential consumers. The numbers-based proposals suggested by Ad Hoc and AT&T would, on the hand, leave virtually all consumers better off than they are under the current revenue-based USF assessment scheme and would not produce undesirable uneconomic distortions.

V. Comments on Staff's Impact Analysis.

Analysis of the Wireline Competition Bureau Staff Study of Alternative Contribution Methodologies reveals that assessment levels flowing from Method One are extremely sensitive to changes in assumptions used in the modeling exercise.[23] The assessments that would flow from use of Method Two are less sensitive than Method One, and the Method Three results are still less sensitive

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22 *See* WorldCom Comments at 34-37.

23 Based upon a $1.00 going in price for wireline residence and single line business and wireless phones, the residual component of Method One would need to recover in excess of 50% of the overall US funding requirement. Since the residual component is recovered from a much

than Method Two to changes in the modeling assumptions. The Staff Study presents *one* possible outcome for each of the three methods, based upon the results of *one* set of initial demand and growth modeling assumptions. Missing from Staff's reported results is any analysis or insight into the sensitivity of the results of the various methods to the assumption embodied in Staff's modeling. As such the results are interesting, but not overwhelmingly informative, as to the range of outcomes likely to occur following implementation of any one of the plans.

Review of Staff's modeling confirms Ad Hoc's prior views that a USF assessment and collection plan that includes a "residual" component (in particular Method One) shifts enormous risk onto that segment of the rate paying population that will be paying the residually set price. The Commission should not adopt Method One as outlined in the *Further Notice,* particularly when the numbers-based assessment methodology suggested by Ad Hoc and AT&T would leave residential consumers better off than they are under the current assessment methodology and contains no residual component.

A. The Staff Report Showcases The Complexity Of Modeling Potential Price Levels Resulting From The Connections-Based Pricing Methods.

The extremely complicated modeling of demand assumptions encompassed in the Staff model showcases the difficulties inherent in determining realistic estimates of the quantities of various units that might be

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smaller base of connections, the resulting residual assessment level is highly sensitive to assumptions relative to the overall size of the fund, and the quantities of residual connections.

assessable if the Commission implements a connection-based plan. Forecasting demand is difficult under the best of circumstances, but as detailed review of the Staff report and accompanying spreadsheet reveal, there are several factors that add to the difficulty in this case. Complicating the forecasting process is the fact that in many cases the most recent demand available is already a year out date – with the result that the forecast for year 2004 demand (a period only slightly more than a half a year in the future) would in many cases be predicated upon quantity information from year end 2001 with the 2004 forecast built upon a year 2002 and a year 2003 forecast.

Even more troubling, however, is that for a large portion of the units being modeled, no accurate demand picture exists for any period. Nobody knows with certainty how many units existed two years ago; nobody knows how many units exist today; and most certainly nobody knows how many units will exist one or two years from today. This is the situation Staff faced for modeling virtually all of the non-residential and non-wireless demand. Neither the Commission, nor any other entity, presently tracks special access or private line demand in a manner that is remotely useful for determining quantities of facilities that would fall into each of the capacity tiers identified in the NPRM. Likewise, no accurate count exists of the proportion of total business multi-lines that would correctly be identified as "Centrex" lines (assessed as $1/9^{th}$ of a unit) rather than the standard business trunks.

The estimated assessment rates flowing out of the Staff's modeling efforts represent estimates of what the assessment rates under any one of the methodologies *might* be. Prior to making a policy decision based upon the outcome of the Staff's modeling, the Commission must evaluate how likely it is that the *actual* assessment rates that would flow from its plan would mirror the Staff's modeling, and to do that it is necessary to evaluate how sensitive the methods are to variations in estimated connection count and fund size estimates.

B. Varying Assumptions Within The Staff's Model Reveals That The Residually Priced Connection Charge In Method One Is Much More Sensitive To Changes In Demand Than Either Method Two or Method Three.

Ad Hoc's investigation of the significant differential between the per-unit connection charge for the residually-based elements of Method One contained in the Staff Report of $2.6189 ($2.62) for 2004 – the initial year of the plan – and the $4.00 to $5.00 estimates that Ad Hoc had modeled for the similar CoSUS plan reveals that virtually the entire differential is explained by the re-weighting of special access units. Starting with the Staff's modeling, holding everything constant but the weightings applied to special access connections (changing the weighting from the four tiers proposed in the *Further Notice* back to the three tiers contained in the original CoSUS plan) results in an increase in the residual connection rate of $2.15 per month, raising the rate from $2.62 to $4.77 (an 84% increase!) for the assumed first year under Method One. Clearly the residual assessment rate flowing from the use of Method One is extremely sensitive to the adjustments in the residual connection counts, and in particular to the tiered weighting structures for special access connections.

Performing the exact same exercise with Method Three (re-weighting the special access counts from those proposed in the *Further Notice* to those initially proposed as part of the CoSUS plan) resulted in a substantially smaller change than with Method One. Where the re-weighting caused a $2.15 change in the assessment using Method One, it caused only a $0.06 per unit increase using Method Three – raising the estimated rate from $1.00 to $1.06.

The table below reveals the impact on the first year per unit assessment flowing out from the Staff's modeling of Method One and Method Three varying selected assumptions in the model.[24] In addition to evaluating the impact of changing the weighting of special access connections, additional sensitivities were run, with less dramatic, but nonetheless instructive results. A sensitivity run that increased the fund size for 2004 using the same growth rate the fund experienced in the previous twelve months (approximately 9%, rather than reducing it to 3.6% as is done in the Staff's modeling) added somewhat over $300,000,000 to the estimated fund requirement for 2004. The result was an increase of $0.30 (11%) to the residual per unit charge under Method One (new estimated rate $2.92), versus an increase of only $0.05 (5%) under Method Three. The table below demonstrates the similar results of other sensitivity runs.

[24] Ad Hoc has not performed all of the same sensitivities upon Method Two, but the analysis we did undertake reveals that Method Two is less sensitive than Method One, and more sensitive than Method Three – meaning the results would fall somewhere between the Method One and Method Three results shown in the table below.

Staff Modeling Serves to Underscore the Relative Sensitivity of the Residually Based Method 1

	Residential and Wireless Units		Residually Priced Business Units	
	Method 1	Method 3	Method 1	Method 3
Results as modeled by Staff				
Rounded up to the nearest cent	$1.00	$1.00	$2.62	$1.00
Scenarios:				
Reset special access weightings to initial CoSUS proposal levels	$1.00	$1.06	$4.77	$1.06
Assume fund size grows at 2002-2003 rate until 2004	$1.00	$1.05	$2.92	$1.05
Assume residence connections overstated by 10%	$1.00	$1.04	$2.88	$1.04
Assume business connections overstated by 10%	$1.00	$1.05	$2.92	$1.05
Assume fund size grows faster, bus connections overstated	$1.00	$1.11	$3.25	$1.11
Assume total units overstated by 10%	$1.00	$1.11	$3.21	$1.11

Staff Study reveals that under Method 1 use of Special Access Weighting proposed in NPRM would result in almost $^{1}/_{3}$ of entire USF burden being collected from special access connections.

Results from the Staff's model reveals that using the new weightings found in the *Further Notice* and using the $2.62 per unit USF assessment developed in the model and June 2004 forecast demand levels, more than $2-billion of the USF funding requirement will be collected from special access connections in 2004 under Method One.[25] At pages ten through twelve of it's Comments in response to the *Further Notice*, Ad Hoc cautioned against the use of the Commission's revised weightings for connections-based charges in excess of the $1 range anticipated from Method Three. Analysis of the proportion of total revenues that would be collected from special access facilities using Method One as detailed in the *Further Notice* underscores that concern.

Using the special access tier weightings proposed in the *Further Notice* and applying those weightings to the special access counts estimated by the Staff in its analysis, special access connections account for 60% of all assessable business connections. Using the special access weightings proposed by CoSUS in its initial plan, special access connections would account for less than 30% of all business connections. The dramatic increase in the number of connections serves to mask the overall magnitude of the assessment that would be levied on business customers. The dramatic increase of special access connections incorporated in Method One as modeled by the Staff means that the $2.62 per connection residual assessment rate developed using that methodology is not equivalent to the estimates in that range that accompanied the original CoSUS filing. The $2-billion that would come from special access connections alone would be burdensome and unjustified, particularly when contrasted against the fact that the totality of USF assessments that would be attributable to the combined residential, single line business and wireless lines is

[25] The Staff model incorporates 64,000,000 weighted connections per month (Spreadsheet accompanying staff model, sheet "Lines", cell AJ 528). A $2.62 per month charge assessed on 64,000,000 weighted connections would generate $2,012,160 per year in USF funds, almost 31% of the $6.5-Billion fund requirement estimated by the Staff in their modeling.

$3.2 billion. If the Commission wishes to implement an unreasonably discriminatory anti-business USF assessment methodology, Method One with capacity tiers proposed in the *Further Notice* should be its choice. Ad Hoc trusts that this is not the Commission's intention. Accordingly, Ad Hoc urges the Commission not to adopt Method One with the proposed capacity tiers.

VI. Conclusion.

A revenue-based assessment methodology is unsustainable and unnecessary to protect needy residential consumers. Of the three connection / number based USF assessment methods proposed by in the *Further Notice*, Methods One and Two suffer from serious defects that disqualify them as viable replacements for the current revenue-based assessment methodology. On the other hand, the numbers-based assessment approach suggested by Ad Hoc would be sustainable, would leave residential consumers better off than they are under the revenue-based assessment scheme, would not induce uneconomic service selection decisions, would be stable and easy to administer, and would best satisfy all statutory requirements.

In view of the foregoing and its February 28, 2003 Comments, Ad Hoc urges the Commission to adopt a new USF assessment methodology that is consistent with Ad Hoc's suggested numbers-based proposal.

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