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April 18, 2003

BY ELECTRONIC DELIVERY

Marlene H. Dortch, Secretary
Federal Communications Commission
445 Twelfth Street, S.W.
Washington, D.C. 20554

Re: *Erratum,* Federal-State Joint Board on Universal Service, CC Docket Nos. 96-45, 98-171, 99-200, 95-116, 98-170

Dear Ms. Dortch:

Earlier today, we filed in the above-referenced dockets reply comments on behalf of WorldCom, Inc. d/b/a MCI, Inc. that inadvertently omitted a signature page (page 42). Accordingly, attached please find a complete copy of those reply comments, including the previously omitted signature page.

We apologize for any inconvenience that this may have caused and request that you replace the reply comments previously filed with this complete copy. Other than including the missing page, no changes were made to this document.

Thank you for your assistance with this matter. Please do not hesitate to contact me at (202) 777-7723 if you have any questions.

Best regards,

A. Renée Callahan

A. Renée Callahan

Enclosure

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 No. 98-170

REPLY COMMENTS OF WORLDCOM, INC. D/B/A MCI, INC.

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April 18, 2003

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REPLY COMMENTS OF WORLDCOM, INC. D/B/A MCI, INC.

I. INTRODUCTION AND SUMMARY

A diverse group of commenters agree that the current federal universal service funding mechanism presents a tremendous risk to the stability of universal service. The combination of declining end-user interstate and international telecommunications revenues coupled with increasing funding requirements has led to the second highest

(unadjusted) contribution factor to date. Nor can there be any doubt that the FCC's interim rule modifications have failed to stem the tide of rising contribution factors. Recently released data for second quarter 2003 indicate that the anticipated effect of the increased wireless safe harbor was largely offset by the effect of the concurrent shift from historical to projected revenues. Indeed, projected billed revenues for second quarter 2003 under the new wireless safe harbor ($19.603 billion) were *lower* than billed revenues reported for fourth quarter 2002 under the old safe harbor ($19.620 billion).[1] Although some commenters urge the Commission to further modify the interim mechanism, such piecemeal fixes cannot address the flaws inherent in a revenue-based system.

The best way to ensure the continued viability of universal service is to adopt the connections-based mechanism proposed by the Coalition for Sustainable Universal Service ("CoSUS"). The CoSUS approach fully complies with the statutory requirement that contributions be equitable and non-discriminatory and that the support mechanism be "specific, predictable and sufficient." The CoSUS plan is more efficient than alternative proposals and, because it can accommodate changes in technology and in the way services are marketed, the CoSUS proposal is sustainable over time. There is no need to modify the CoSUS proposal as the Commission has proposed. Indeed, the FCC's proposals to alter the tier structure and to add a minimum contribution requirement are unnecessary and simply create additional problems.

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1 *See Telecommunications Industry Revenue 2001*, Table 18 (March 2003) ("*TIR 2001*"), *available at:* <http://www.fcc.gov/Bureaus/Common_Carrier/Reports/FCC-State_Link/IAD/telrev01.pdf>. Projected collected revenues for second quarter 2003 were even lower ($18.905 billion). *Id.*

No other alternative is superior to CoSUS. Faced with strong opposition, SBC and BellSouth have abandoned their original "split-connections" proposal in favor of a hybrid proposal that would assess integrated providers a flat, connections-based fee, while assessing providers of stand-alone or occasional use long distance services a variable, revenue-based fee. Like their original proposal, this variation is discriminatory, unworkable, and highly inefficient. In addition to disadvantaging one set of competitors (IXCs) by creating an artificial incentive for high-volume customers to purchase a bundled offering from an integrated provider (like SBC or BellSouth), such a mechanism would also raise the costs of long distance providers by requiring them to maintain two billing systems. In short, the SBC/BellSouth proposal should be rejected in all its variations.

Although commenters have now filed detailed number-based proposals, those proposals differ with regard to how certain services would be assessed. As a result, WorldCom, Inc. d/b/a MCI, Inc. ("MCI")[2] remains unable at this point to evaluate fully a number-based approach. As a general matter, MCI is also concerned that telephone numbers may form a less stable contribution base than connections. Despite these concerns, MCI remains open to the possibility that numbers may serve as a reasonable proxy for connections.

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[2] As of April 14, 2003, WorldCom is operating under the name of MCI.

The fact that CoSUS is superior to the proposed alternatives is confirmed by the recently released *Staff Study of Alternative Contribution Methodologies*.[3] Based on staff's analysis, the contribution factor will increase 22% over the next five years under the interim, revenue-based methodology. Over the same time period, the residential assessment under a connections-based approach would increase by only 5%. The study also reveals that each of the alternative connections-based proposals creates undesirable market distortions, including: (1) suppressed demand for high-capacity services (FCC-modified CoSUS-type proposal); (2) disproportionate fee recovery from residential consumers (SBC/BellSouth proposal); and (3) differential treatment of otherwise identical services (numbers proposal). An extension of the *Staff Study* to evaluate the CoSUS proposal (without the FCC modifications) demonstrates that the CoSUS proposal is the approach that is most stable and yields the fewest distortions.

It is imperative that the Commission act expeditiously to adopt the connections-based approach proposed by CoSUS, preferably by the end of this year, so that a viable universal service collection mechanism can be implemented no later than January 2005.

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[3] *Staff Study of Alternative Contribution Methodologies*, attached to Public Notice, "Commission Seeks Comment on Staff Study Regarding Alternative Contribution Methodologies," 18 FCC Rcd 3006 (2002) (FCC 03-31) ("*Staff Study*").

II. DISCUSSION

A. Diverse Commenters Agree that the Current Contribution Mechanism Is Flawed.

In addition to MCI, a diverse group of commenters agrees that the interim assessment mechanism is not sustainable.[4] These commenters acknowledge that, among other shortcomings, a revenue-based mechanism is not competitively neutral, and that it does nothing to address the problems caused by bundled service offerings.[5] They also agree that the FCC's recent interim tweaks to the system will not address the twin trends of rising funding requirements and declining end-user interstate and international revenues.[6] Although a number of commenters suggest that the interim rules will retard growth of the contribution factor,[7] preliminary data appears to confirm that these changes

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[4] *See, e.g.*, AT&T Comments at 11-20; International Prepaid Communications Association ("IPCA") Comments at 4-5; Qwest Comments at 3; SBC/BellSouth Comments at 7-8; Sprint Comments at 4-6; TelStar Comments at 4; USTA Comments at 3. (Unless otherwise indicated, all citations to comments are to pleadings filed in the above-referenced dockets on February 28, 2003; all citations to *ex parte* submissions are to filings in the above-referenced dockets on the date indicated.)

[5] *See, e.g.,* Qwest Comments at 3; SBC/BellSouth Comments at 7-8; Sprint Comments at 4-6; USTA Comments at 3.

[6] *See, e.g.,* Qwest Comments at 3; SBC/BellSouth Comments at 7-8; Sprint Comments at 5-6; USTA Comments at 3. Use of the term "interstate" to describe the type of telecommunications revenues that are assessable for USF purposes should be read throughout these comments to include international revenues.

[7] Not surprisingly, many of these comments are from wireless and paging providers and their trade associations. *See, e.g.,* American Association of Paging Carriers Comments at 4-5; Allied National Paging Association Comments at 5-6, 12; Arch Wireless Comments at 4-5; AT&T Wireless Comments at 4; CTIA Comments at 2-3; Nextel Comments at i, 21-22; TracFone Comments at 6-7, 11-12; Verizon Wireless Comments at 2-3, 5-7; WebLink Comments at 8-9.

have not stabilized the fund. Moreover, as explained below, additional proposed modifications would not remedy the flaws inherent in a revenue-based mechanism.

1. *In the Very Near Term, the Current Revenue-based System Will Cease to Be Sufficient.*

As MCI demonstrated in its initial comments, growing universal service funding requirements coupled with declining interstate and international end-user revenues threaten the continued viability of a revenue-based contribution mechanism.[8] Although a handful of commenters claim that end-user interstate and international telecommunications revenues continue to form a stable contribution base, those commenters ignore or mischaracterize relevant data.

No party disputes that total universal service support is increasing. Since 1999, NASUCA reports that USF funding requirements have grown by almost 150%.[9] This trend is likely to continue because, with one exception, the high cost programs (which account for over half of total funding requirements) are not subject to hard caps and each of these programs is growing.[10] In addition, the Office of Management and Budget ("OMB") has predicted that "the total USF will grow by $400 million by 2005, and by

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8 *See* Comments of WorldCom, Inc. at 6-11 ("MCI Comments"). When comments were initially filed in this proceeding, WorldCom, Inc. was doing business as WorldCom. As noted above, however, WorldCom is now doing business as MCI. Thus, WorldCom's comments will be referred to throughout as the comments of MCI.

9 NASUCA Comments at 13. As discussed below, MCI disagrees with NASUCA's conclusion that fund growth is solely responsible for increasing contribution factors.

10 AT&T Comments at 11.

almost $800 million by 2008."[11] Adding credence to this prediction is the recent recommendation by the Joint Board that the FCC expand the default federal eligibility criteria for the Lifeline and Link-Up support programs.[12] If adopted by the Commission, this recommendation alone would increase the universal service fund size by about $105-$123 million in 2004.[13]

At the same time, interstate revenues continue to shrink. The FCC's recent *Telecommunications Industry Revenues* report indicates that the revenues of interexchange carriers ("IXCs") decreased from $87.3 billion in 2000 to $81.3 billion in 2001, and that preliminary data indicate that IXC revenues again declined in 2002, to $69.9 billion – a drop of 20% from 2000 levels.[14] Other sources confirm this trend. The most recent NECA minutes-of-use ("MOUs") report "shows that interstate switched

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[11] *Id.* at 12. As a result of these projected increases, some commenters have requested that the FCC act to curb such growth. *See, e.g.*, NASUCA Comments at 11-16; Bixby Comments at 5 (Jan. 28, 2003).

[12] *Federal-State Joint Board on Universal Service*, CC Docket No. 96-45, Recommended Decision ¶ 15 (rel. April 2, 2003) (FCC 03J-2).

[13] *Id.*, App. F at 2; *see also Universal Service: Hearing Before the Subcomm. on Communications of the Senate Comm. on Commerce, Science & Transportation*, Written Statement of Commissioner Kathleen Q. Abernathy, "Preserving and Advancing Universal Service" (Apr. 2, 2003) ("Abernathy Statement") (noting a number of reasons that USF funding requirements may expand in the future, including increased utilization of the rural health and Lifeline/Link-Up programs, potential changes to the definition of supported services, and increased support flowing to competitive eligible telecommunications carriers).

[14] *See TIR 2001*, Table 3. The FCC further reported that "[t]otal toll service revenues declined sharply during 2001 — from $109.6 billion to $99.3 billion. All of the decrease came from switched toll services. Preliminary 2002 data suggest that toll service revenues are continuing to decline." *See* News Release, "FCC Releases Annual Telecommunications Industry Revenue Report," at 1 (March 20, 2003), *available at:* <http://www.fcc.gov/Bureaus/Common_Carrier/Reports/FCC-State_Link/IAD/telrev01.pdf>.

access MOUs fell over 2.5 percent in the third quarter 2002, making it the tenth successive quarter-over-quarter decline."[15] As a result, "NECA-reported interstate switched access minutes of use are lower now than at anytime since the end of 1996."[16] Relying on OMB's projected fund growth for fiscal year 2004 through 2007 and assuming a 2% decline in assessable interstate end-user revenues, AT&T estimates that the contribution factor will exceed 10% within three years.[17]

Those commenters that deny the existence of a declining end-user interstate and international telecommunications revenue base, and hence the insufficiency of the existing assessment mechanism, ignore relevant data. For example, NASUCA claims that the assessed contribution base has declined by less than 2% from 1999 to 2002 and that there is no "shrinking revenue base" problem.[18] By calculating the percentage change over four years, however, NASUCA masks the actual changes in the contribution base that occurred during this period. According to the data cited by NASUCA, the annual contribution base increased 6.6% from 1999 to 2000, peaked in 2001, and then declined 8.3% from 2001 to 2002. Although NASUCA argues that "there has been no significant downward trend in the contribution base,"[19] its own data belie that

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15 AT&T Comments at 14.

16 *Id.* at 15.

17 *Id.* at 20. As AT&T points out, a 2% decline is modest compared to the 8% annual decline actually experienced in 2001 and 2002. *Id.*

18 NASUCA Comments at 13-14.

19 *Id.* at 13.

conclusion.[20] NASUCA also claims that the downward pressure on interstate rates caused by increased competition will lower the contribution base only if the lower rates are not offset by the increase in traffic that economic theory would expect from the reduced prices.[21] Yet, this analysis ignores a key trend in the industry: namely, that the increased demand for interstate usage that one might otherwise expect is being in part siphoned off by services that are either not assessed (e-mail, instant messaging, Internet transactions) or are assessed at a reduced rate (wireless service).[22]

Another commenter, TracFone, argues that, while IXC revenues may have declined, "it does not follow that competition has led to a decline in overall revenues."[23] In support of this claim, TracFone submits a report by Economists Incorporated, which purports to show that most of the decline in the contribution base is due to wireless substitution.[24] While it is true that the contribution base in the past would have been higher had the new wireless safe harbor been in place, even the EI Report shows that the

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[20] Similarly, Western Alliance relies on stale data from 1993 to 2000 to claim that interstate and international telecommunications have experienced an annual growth rate of 6-7%. Western Alliance Comments at 23. Although Western Alliance acknowledges that it is possible that revenues have declined over the past two years, it nonetheless waves these facts aside with an unsupported prediction that "any such decline may right itself as general economic conditions improve." *Id.*

[21] NASUCA Comments at 7.

[22] *See, e.g.*, MCI Comments at 9; NRTA & OPASTCO Comments at 13-14; *see also* Abernathy Statement at 5 ("While long distance revenues grew between 1984 and 1997, they have since been flat or in decline as a result of price competition and substitution of wireless services and e-mail.").

[23] TracFone Comments at 8.

[24] TracFone Comments at 8-10 & Appendix A, Henry B. McFarland, Economists Incorporated, "The Sufficiency of Interstate Revenues to Fund Universal Service" ("EI Report").

adjusted contribution base declined from $21.402 billion in first quarter 2001 to $20.683 billion in fourth quarter 2002.[25] Performing the same analysis using public FCC data further confirms that, even if a higher wireless safe harbor had been in place, the contribution base would have dropped from $21.248 billion in first quarter 2001 to $19.620 billion in fourth quarter 2002.[26]

In addition, based upon its adjusted contribution base, the EI Report forecasts a contribution factor of 7.2% for the second quarter 2003.[27] In so doing, however, the report overestimates the contribution base by a wide margin ($21.337 billion instead of the actual figure of $18.743 billion),[28] in part because it did not (1) take into account the FCC's shift to projected, collected revenues; (2) consider USAC's 1% uncollectibles; or (3) factor in the circularity adjustment. As a result, the report's estimated contribution factor (7.2%) was significantly below the actual contribution factor (9.1%).[29] Finally, contrary to TracFone's arguments, it does not appear that the increase in the wireless safe harbor has stabilized the universal service fund, as discussed in more detail below.

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25 *See* EI Report at 6 (Table 3).

26 *See* Attachment 1.

27 *See* TracFone Comments at 10 & n.18; EI Report at 9-10.

28 *Compare* EI Report at 10 (Table 6), *with* Public Notice, "Proposed Second Quarter 2003 Universal Service Contribution Factor," 18 FCC Rcd 3386, at 2 (2003) (DA 03-689) ("2Q03 Notice").

29 Public Notice, "Revised Second Quarter 2003 Universal Service Contribution Factor," 18 FCC Rcd 5097 (2003) (DA 03-851) ("2Q03 Revised Notice").

2. *The FCC's Interim Tweaks Have Not Stabilized the Universal Service Fund.*

Last fall, the Commission adopted two interim measures designed to maintain the near-term viability of universal service.[30] First, the Commission decided to base contribution assessments on projected, collected end-user interstate and international telecommunications revenues, as opposed to historical gross-billed end-user revenues.[31] Second, the Commission raised the safe harbor for mobile wireless providers from 15% to 28.5% of telecommunications revenues.[32] Despite these interim changes, on March 21, the Commission announced a contribution factor of 9.1% for second quarter 2003 – the second highest (unadjusted) contribution factor to date.[33]

Nonetheless, some commenters argue that the FCC should "wait and see" whether the interim rules are sufficient to limit the future growth of the contribution factor.[34] To the contrary, the effect of the increased wireless safe harbor on the contribution base appears to have been largely offset by other developments. In fact, the projected billed revenues reported on Form 499-Q for second quarter 2003 ($19.603 billion) were

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30 *See Federal-State Joint Board on Universal Service*, Report and Order, 17 FCC Rcd 24952 (2002) (FCC 02-329).

31 *Id.* ¶ 30.

32 *Id.* ¶¶ 21-25, 51 n.131.

33 2Q03 Revised Notice at 1 (rounding the previously announced factor of 9.0044% up to 9.1%). The highest (unadjusted) contribution factor was 9.3397%, which was calculated for fourth quarter 2002. The Commission, however, applied unused funds intended for the Schools and Libraries support mechanism to reduce that factor to 7.2805%. *See* Public Notice, "Proposed Fourth Quarter 2002 Universal Service Contribution Factor," 17 FCC Rcd 16800 (2002).

34 *See, e.g.*, Virgin Mobile Comments at 14-15; CTIA Comments at 2-3; Nextel Comments at 21-22; Verizon Wireless Comments at 2-3; TracFone Comments at 7-9; WebLink Wireless Comments at 3, 8.

actually less than the billed revenues reported for fourth quarter 2002 ($19.620 billion, the most recent quarter for which historically billed revenues are available).[35] Collected, projected revenues were even lower ($18.905 billion) – and that is prior to any adjustment for circularity or USAC uncollectibles.[36] Moreover, although the wireless safe harbor apparently resulted in an increase in projected wireless revenues for the second quarter 2003, this increase was offset by the lower contribution base reported by IXCs, no doubt in large measure due to the shift from historical to projected revenues. Wireless providers reported $55 million more in revenues for second quarter 2003 than they did for fourth quarter 2002.[37] During the same period, however, IXCs and the Bell Operating Companies ("BOCs") collectively reported $389 million less in revenues.[38] But for the fact that toll resellers, competitive access providers and competitive LECs collectively reported a projected increase of $296 million in revenues, the effect of the move from historical to projected revenues on the contribution base would have been even more profound.[39]

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35 *See TIR 2001*, Table 18.

36 *See id*; *see also* 2Q03 Notice at 2 (total projected, collected revenues of $18.743 billion prior to adjustments; the discrepancy between the Notice's figure and that reported in *TIR 2001* is presumably due to the exclusion of *de minimis* contributors).

37 *See TIR 2001*, Table 18.

38 *Id.*

39 *Id.* Although data on fund volatility will not be available until the third quarter 2003 contribution factor is released in June, it is likely that the interim mechanism will also increase fund volatility. *See* MCI Comments at 17-18.

3. *Expanding the Use of Safe Harbors for Bundled Offerings Will Not Salvage a Revenue-based System.*

A number of commenters argue that the trend toward bundled offerings is not a valid reason for adopting a connections-based mechanism. According to these commenters, the FCC could require providers of bundles to perform traffic and cost studies to identify interstate revenues,[40] or, if necessary, the FCC could expand its system of safe harbors for bundled offerings.[41] One commenter even argues that the extent to which bundled offerings are achieving success in the marketplace has not been quantified, and that there is no evidence that such offerings are having a significant effect on universal service contributions.[42] As demonstrated in MCI's comments and discussed further below, the methods proposed by commenters to identify interstate telecommunications revenues within a bundled package are administratively unworkable.

As an initial matter, the trend toward bundled offerings is a fact that cannot be dismissed.[43] In addition to enterprise customers – which have historically demanded

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[40] *See, e.g.,* Bixby Comments at 4; State of California Comments at 8; Kansas/Oklahoma ILEC Comments at 6-7.

[41] *See, e.g.,* Western Alliance Comments at 14, 24; Kansas/Oklahoma ILEC Comments at 6-7; NASUCA Comments at 6-7.

[42] TracFone Comments at 11-12. That same commenter suggests that, to the extent bundles are a problem, the FCC can simply require providers to treat 100% of their bundled revenues as interstate revenues for purposes of USF. *Id.* at 12. In addition to running afoul of the requirement that the assessment mechanism be equitable, such a proposal would also create serious jurisdictional issues because intrastate and information services cannot be assessed under current law.

[43] *See* Abernathy Statement at 5 (describing the increasing prevalence of bundled service plans and stating that "bundling has been a boon for consumers but has made it difficult to isolate revenues from interstate telecommunications services. And the problem is likely to get worse as bundling becomes more and more popular.").

bundled voice and data services – a greater number of medium and smaller business customers are subscribing to bundled services. Yankee Group recently reported that almost half of the small and medium business customers surveyed subscribe to a bundle of at least two services.[44] Residential consumers are also increasingly moving towards bundles. During fourth quarter 2002, Sprint reported that the number of its residential customers purchasing bundled offerings increased to 26%.[45] AT&T reports similar success, noting that its number of all-distance customers grew 25% during third quarter 2002.[46] MCI has also expanded the availability of its bundled residential product, The Neighborhood, which is now available in the 48 contiguous states and Washington, D.C.[47]

This trend is projected to continue in the future. A recent analyst survey indicates that "almost 60% of consumers are interested in a bundle of local phone, long distance, and Internet services, if they receive a single bill for all services, with discounted prices

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[44] Yankee Group, "Service Bundling Continues to Grow in the SMB Market" (Jan. 8, 2003), *available at:* <http://www.yankeegroup.com/public/products/research_note.jsp?ID=9550>.

[45] *See* "Sprint Reports Fourth Quarter and Full-Year 2002 Results" (Feb. 5, 2003), *available at:* <http://144.226.116.29/PR/CDA/PR_CDA_Press_Releases_Detail/1,3245,1111481,00.html>.

[46] *See* Cable News Network Transcript No. 102202cb.129, "CNN Money Morning," at 2 (Oct. 22, 2002).

[47] *See* "WorldCom Continues To Deliver On 100-Day Plan" (March 17, 2003), *available at:* <http://global.mci.com/news/news2.xml?newsid=7230&mode=long&lang=en&width=530&root=/&langlinks=off>. MCI's bundled business product, The MCI Advantage (formerly The WorldCom Connection), is now available in the 94 metropolitan service areas in which MCI owns local service facilities. *Id.*

for the bundle."[48] That same report predicts that revenues from bundled offerings will increase from an estimated $8.6 billion to $22.5 billion by 2006.[49] Moreover, as the BOCs gain Section 271 authority, the trend towards bundled offerings is becoming even more pronounced.[50]

Contrary to the arguments of some commenters, adoption of additional safe harbors or traffic study requirements will not solve the increasingly difficult problem of allocating revenues among bundled components. Today, there is no set formula to allocate revenues in a bundle between intrastate and interstate telecommunications, and between telecommunications services and other services and products such as information services and CPE.[51] Instead, under the Commission's bundling "safe harbors," a carrier is permitted to allocate revenue to the interstate or international telecommunications component of a bundle using the "standard business" or "tariffed"

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48 *See* In-Stat/MDR, "Bundling to Provide Consumers and Service Providers with Win-Win Situation" (Oct. 31, 2002), *available at:* <http://www.instat.com/newmk.asp?ID=396>.

49 *Id.*

50 The BOCs have been awarded Section 271 relief for 41 states and the District of Columbia, and are expected to gain authority for the remaining states by year-end. They are also beginning to introduce bundled service offerings. *See, e.g.*, News Release, "Verizon Answers Call From Small and Medium-Sized Businesses" (Mar. 24, 2003), *available at*: <http://newscenter.verizon.com/proactive/newsroom/release.vtml?id=79493>. In the past four months, BellSouth, SBC, and Verizon have each rolled out all-distance products geared towards residential customers. *See, e.g.*, "Verizon Packages for Your Home – Bundle Up and Save," *available at*: <http://www22.verizon.com>.

51 *See Ex Parte* Letter from John Nakahata, on behalf of CoSUS, to Marlene Dortch, FCC, at 2 (Aug. 22, 2002).

stand-alone rate for the interstate telecommunications service.[52] However, there are often multiple stand-alone rates that could serve as potentially appropriate points of reference for the bundled service, and determining which of these offerings is the most appropriate analogue necessarily involves a fair amount of carrier discretion. Consequently, carriers, together with their end-user customers, have both the incentive and the ability to characterize revenues in a way that minimizes the USF contribution.[53]

The Commission's experience with the wireless safe harbor confirms the difficulty of constructing a complex system of allocators that would maintain competitive neutrality among all providers. As an initial matter, the Commission would have to determine the proper level at which the various additional safe harbors should be set for different types of bundled offerings. Of course, this is not a simple task, since the safe harbor is necessary precisely because of the problems inherent in distinguishing interstate revenues in a bundle from other, non-assessable revenues. In addition, to avoid the problems that arose with the wireless safe harbor (which remained "interim" for over four years) the Commission would also have the burden of regularly updating the harbor to assure that it did not skew the competitive balance between providers. Until the Commission moves to a connections-based approach like that proposed by CoSUS, bundling will continue to destabilize any revenue-based assessment mechanism.

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[52] *See Policy & Rules Concerning the Interstate, Interexchange Marketplace; Implementation of Section 254(g) of the Communications Act of 1934*, 16 FCC Rcd 7418, ¶ 50 & n.152 (2001) ("*Bundling Order*").

[53] In addition, the *Bundling Order* expressly permits carriers to use other methods to allocate revenues, provided they are "reasonable." *Id.* ¶ 53. This increases the ability of carriers to allocate revenue in a manner that minimizes USF contributions.

B. The CoSUS Proposal Fully Complies With the Act.

As the record in this proceeding amply demonstrates, and a number of commenters confirm,[54] the CoSUS proposal is consistent with the statutory requirements that telecommunications carriers contribute on an equitable, non-discriminatory, and competitively neutral basis to a USF support mechanism that is "specific, predictable and sufficient." Although those commenters that oppose the CoSUS proposal argue that it is precluded by law, Section 254(d) does "not impose any limitation on how universal service will be funded,"[55] and there is no statutory or other requirement that the mechanism be based on revenues. In addition, MCI remains concerned that the FCC's proposed modifications to the CoSUS proposal are, at best, unnecessary, and, at worst, create problems not engendered by the original proposal.

1. *Commenters' Arguments Against the CoSUS Proposal Are Unpersuasive.*

Presented with a connections-based proposal that is more stable and predictable than the current approach,[56] commenters – generally those that would experience increased contributions under a connections-based mechanism – offer myriad theories (some conflicting) on why such a system is undesirable or illegal. Some commenters argue that the CoSUS proposal is inequitable because it alters the relative contributions among various telecommunications providers. Other commenters argue that all connections-based proposals are illegal, because the Act requires USF to be based on

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54 *See, e.g.*, Telstar Comments at 5; IPCA Comments at 6-9; Sprint Comments at 7.

55 *Texas Office of Pub. Util. Counsel v. FCC*, 183 F.3d 393, 447 (5th Cir. 1999).

56 *See* Section III.C *infra*.

revenues. One commenter claims that a connections-based mechanism violates Section 254(k). As discussed below, the CoSUS proposal complies fully with the Act's requirements.

a. "Sector Equity" Arguments Are Irrelevant to the Act's Requirement that the Contribution Mechanism be Equitable.

Several commenters claim that any contribution methodology must maintain the relative burdens historically borne by interexchange carriers, local exchange carriers, wireless providers, and others.[57] According to these commenters, the CoSUS proposal fails to comply with Section 254(d)'s "equitable" requirement because it shifts the universal service burden from interexchange carriers to other interstate service providers. These "sector equity" arguments are simply irrelevant to the legal analysis.

Section 254 in no way requires the FCC to examine the equity of the universal service assessment mechanism through the lens of backward-looking industry service categories.[58] As MCI has demonstrated, as long as carriers are allowed to fully recover their costs associated with the federal universal service fund, relative industry segment burdens are irrelevant to an analysis of whether a contribution mechanism is "equitable and nondiscriminatory." The end user ultimately pays the "LEC" contribution, the "IXC" contribution, and the "wireless" contribution. It therefore would harm consumers, and be fundamentally irrational, to rearrange contributions in ways that generate substantial

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[57] *See, e.g.*, USTA Comments at 4-5; AT&T Wireless Comments at 3; Nextel Comments at 12-13; Virgin Mobile Comments at 6.

[58] *See, e.g.*, IPCA Comments at 13; AT&T Comments at 39.

administrative and transactional costs simply to redistribute contributions in the first instance among different carrier groups.

In any event, alleged sector "inequities" are already being eroded by the passage of time. Companies such as MCI that have historically provided long distance service are increasingly entering local markets, where possible, to provide a combination of local and long distance services. CMRS providers offer all-distance packages combining local and long distance. As noted, the BOCs have now secured approvals to offer long distance services in 41 states and the District of Columbia.[59] Indeed, Verizon recently surpassed Sprint as the third largest nationwide provider of long distance services.[60] As the trend towards bundling becomes more prevalent, the relative share of contributions borne by IXCs and LECs will converge, as discussed below.[61]

b. The Act In No Way Requires that USF Contributions Be Based on Revenues.

Some commenters argue that Section 254 requires that universal service contributions be assessed in a manner that is related to "interstate activity," and that "interstate activity" must be measured in terms of revenues.[62] While the statute does provide for the assessment of contributions on carriers providing interstate telecommunications, it does not require that contributions to universal service be based

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59 *See supra* note 50.

60 *See* "Verizon Tops Sprint to Gain No. 3 Spot in Long Distance," *N.Y. Times* (Jan. 8, 2003).

61 *See infra* Section III.D & Attachment 4.

62 *See, e.g.*, SBC/BellSouth Comments at 15-16; Verizon Wireless Comments at 8.

on interstate revenues. Similarly, nothing in the Act forecloses the adoption of an approach under which interstate activity is measured by connections.

Although the FCC chose in 1997 to adopt a revenue-based approach, that decision supports neither the argument that a per-connection mechanism is prohibited by the Act, nor the argument that Section 254's reference to "interstate activity" requires a revenue-based assessment mechanism. Rather, based on the facts known to it, the Commission simply found at that time that a revenue-based assessment mechanism would likely be easier to administer and more competitively neutral than a line-based mechanism.[63] Nor does the order in any way preclude the FCC from concluding today, based on changed circumstances, that a connections-based approach is superior to a revenue-based one. Moreover, no commenter seriously questions the basic tenet that an administrative agency may depart from a prior ruling as long as it explains a rational basis for doing so.[64] Given the fundamental changes that have occurred in the telecommunications marketplace over the past five years – including an expanding universal service fund, a shrinking revenue base, and the growing use of bundling and all-distance plans that

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[63] *See Federal-State Joint Board on Universal Service*, 12 FCC Rcd 8776, ¶ 852 (1997) ("*1997 Order*").

[64] *See, e.g.*, *Motor Vehicle Mfrs. Ass'n v. State Farm Mut. Auto. Ins. Co.*, 463 U.S. 29, 56 (1983); *Bush-Quayle '92 Primary Comm., Inc. v. FEC*, 104 F.3d 448, 453 (D.C. Cir. 1997) ("an agency changing its course must supply a reasoned analysis indicating that prior policies and standards are being deliberately changed, not casually ignored"). Indeed, the Commission has changed its policy outcomes on other occasions, and been upheld in court. *See, e.g.*, *Access Charge Reform*, 15 FCC Rcd 12962, ¶ 2 (2000) ("*CALLS Order*") (deciding to eliminate the residential PICC and increase the SLC cap, notwithstanding the fact that an earlier FCC order had declined to increase the SLC caps and had implemented the residential PICC), *aff'd in part, rev'd in part*, *Texas Office of Public Util. Counsel v. FCC*, 265 F.3d 313, 322 (5th Cir. 2001) ("The FCC has articulated rational reasons to the degree it has changed prior policies."), *cert. denied sub nom. National Ass'n of State Util. Consumer Advocates v. FCC*, 535 U.S. 986 (2002).

include "free long distance" – there are any number of reasons supporting a reversal of the FCC's prior decision.[65] Finally, contrary to the claims of some commenters,[66] there is nothing inherently fair about defining interstate activity in terms of revenues. Indeed, doing so has led to the mechanism in place today, which, as the record demonstrates, is no longer equitable and non-discriminatory.[67]

c. Claims that a Connections-based Mechanism Would Violate Section 254(k) Are Inconsistent with Federal Court Precedent.

NASUCA further claims that a connections-based mechanism would violate Section 254(k) because it would allocate all of the joint and common costs of universal service support to basic service.[68] Yet, as the FCC and the U.S. Courts of Appeals for the Fifth and Eighth Circuits have concluded, Section 254(k) addresses the *allocation* of joint and common costs between supported and unsupported services – not the *recovery* of

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65 *See* CoSUS Reply Comments at 53-56 (May 13, 2002) (cataloging the bases on which the Commission could now conclude that a connections-based mechanism is superior to a revenue-based mechanism).

66 *See, e.g.*, SBC/BellSouth Comments at 15-16; Verizon Wireless Comments at 8.

67 A handful of carriers argue that a connections-based fee is inequitable because it fails to take into account the demand elasticity of the services being assessed. *See* J2 Comments at 7; Nextel Comments at 20-21; Concerned Paging Carriers Comments at 12-15. While it is true that a connections-based approach would not take into account demand elasticities, the current revenue-based approach similarly does not vary the contribution by the demand elasticity of the service. It is not at all clear that it would serve the public interest to consider demand elasticities. *See Implementation of the Local Competition Provisions in the Telecommunications Act of 1996*, 11 FCC Rcd 14171, ¶ 130 & n.180 (1996) (citation omitted); *see also Implementation of the Local Competition Provisions in the Telecommunications Act of 1996*, 11 FCC Rcd 15499, ¶ 696 (1996). In any case, this issue provides no basis for preferring a revenue-based to a connections-based approach.

68 NASUCA Comments at 18-19.

those costs.[69] Because the connections-based mechanism is a method of recovering USF fees, Section 254(k) is not implicated.

2. *Other Commenters Agree that the Proposed Modifications to the CoSUS Plan are Unnecessary and, In Some Cases, May be Problematic.*

In the *Second Notice*, the FCC proposed to modify the three-tier assessment plan submitted by CoSUS with a four-tier scheme.[70] In its initial comments, MCI explained that, in contrast to the substantial data supporting the CoSUS proposal's tier levels and multipliers, the record in this proceeding contains no data or facts supporting the FCC's tier proposal.[71] In addition, the modified tiers would likely result in market distortions, and they are not necessary to ensure that residential customers are better off.[72] MCI thus concluded that, absent an explanation or countervailing benefit, the FCC should retain the original three-tier assessment plan.[73] While a number of commenters raised similar concerns about the FCC's proposed tiers,[74] no commenter supports application of those tiers to the CoSUS proposal.[75]

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69 *See Texas Office of the Pub. Util. Counsel v. FCC*, 265 F.3d 313, 324 (5th Cir. 2001); *Southwestern Bell Tel. Co. v. FCC*, 153 F.3d 523, 559 (8th Cir. 1998); *CALLS Order* ¶ 91.

70 *See Federal-State Joint Board on Universal Service*, Second Further Notice of Proposed Rulemaking, 17 FCC Rcd 24952, ¶¶ 81-83 (2002) ("*Second Notice*").

71 MCI Comments at 34.

72 *Id.*

73 *Id.*

74 *See, e.g.*, Kansas/Oklahoma ILEC Comments at 16 (FCC's proposed tiers are 4-10 times higher than NECA's rates for high capacity services; based on those rates, tiers should be 4 (DS1), 37 (DS3), 27 (OC3), and 64 (OC12)); NRTA/OPASTCO Comments at 11-12 (FCC's tiers would subject LEC broadband service to an excessive share of the contribution obligation); Sprint Comments at 11-12 (proposed tiers will incent customers

The *Second Notice* also sought comment on the propriety of modifying the CoSUS proposal to include a mandatory minimum contribution.[76] As MCI has explained, unless the minimum contribution is extremely small, any such requirement must allow carriers to "offset" their connections-based assessments against any revenue-based contribution.[77] Otherwise, carriers that provide connections will have to pay two separate USF charges (one based on the connection and one based on the total revenues generated by that connection) for a single service.[78] In contrast, a carrier that does not provide connections, such as a stand-alone long distance provider, would only be assessed one fee.

At the same time, an offset may result in differential treatment for some services. For example, stand-alone providers of prepaid calling card services complain that they will have to pay the full minimum contribution with no offset while a competing line-based carrier that also offers prepaid services will be able to reduce its minimum contribution by the amount of any connections-based payments.[79] Consequently, adoption of a minimum contribution – with or without an offset – will result in some amount of competitive distortion.

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to purchase multiple, lower-speed circuits rather than one, higher-speed circuit, resulting in inefficient use of facilities); Western Alliance Comments at 25-26 (tiers have little relationship to the value of the associated services and would likely distort customer decisions).

75 *See, e.g.*, Ad Hoc Comments at 11; AT&T Comments at 35-36.

76 *Second Notice* ¶¶ 75, 78-80.

77 *See Second Notice* ¶ 78; MCI Comments at 33.

78 *See* MCI Comments at 33.

79 *See* IPCA Comments at 8, 10, 14-16; Telstar Comments at 7-8.

Because there is no statutory requirement that the Commission include a minimum contribution as part of a connections-based mechanism,[80] MCI recommends that the Commission adopt the CoSUS proposal without imposing such a requirement.[81] Nonetheless, because connections-based fees will comprise the lion's share of the fund's contribution base, to the extent that the FCC adopts a minimum contribution, it is critical that it include an offset in order to minimize the resulting (irreducible) distortion.

C. The Record Confirms that All Three Variations of the SBC/BellSouth "Split-Connections" Proposals Are Discriminatory and Unworkable.

In the *Second Notice*, the Commission sought comment on three variations of a proposal by SBC and BellSouth to split the contribution assessment between the local connection provider (the "access" provider) and the interstate long distance carrier (the "transport" provider).[82] As MCI and others have demonstrated, the original SBC/BellSouth proposal suffers from a number of flaws that renders it inefficient, discriminatory, and unworkable.[83] Not surprisingly, SBC and BellSouth have abandoned their original split-connections proposal and instead argue in their comments that the FCC should adopt a modified (third) version of the proposal. That variation would allow

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80 *See* MCI Comments at 25-30, 33; IPCA Comments at 7; Sprint Comments at 9. Section 254(d) of the Act does not preclude the Commission from adopting an equitable and non-discriminatory contribution formula that applies to all telecommunications carriers, even if that formula would result in some carriers making no contribution. MCI Comments at 29-30.

81 Moreover, as MCI and others have emphasized, use of a revenue-based minimum contribution requirement suffers from the same deficiencies as the current system. *See, e.g.*, *id.* at 42; Sprint Comments at 9.

82 *See Second Notice* ¶¶ 86-95.

83 *See, e.g.*, MCI Comments at 38-42; AT&T Comments at 46-55; Sprint Comments at 12-15; Telstar Comments at 10-13; IPCA Comments at 17-20.

integrated transport providers to pay a connections-based fee, while stand-alone transport providers would be assessed based on revenues.[84] As described in more detail below, the FCC should reject the SBC/BellSouth proposal in all its variations.

1. *The Third Variation of the SBC/BellSouth Proposal Is Discriminatory.*

The third variation of the SBC/BellSouth proposal provides that, if an end user purchases the connection and transport from a single provider, that provider would be assessed a single connections-based charge; however, if the end user purchases the connection and transport from different providers, then the connection provider would be assessed one-half the connections-based charge, and the transport provider would be assessed a revenue-based charge.[85] As explained below, such a mechanism would unfairly disadvantage one set of competitors (IXCs) by creating incentives for high-volume customers to purchase bundled offerings from a single provider – the incumbent LEC. Moreover, it would require long distance providers to maintain two billing systems – one based on revenues and one based on connections – thereby raising their costs.

As an initial matter, SBC/BellSouth's proposed use of a revenue-based charge for certain providers would combine the worst of both worlds: the long-term unsustainability of a revenue-based system with the inefficiency and inequity of a system that splits

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84 *See* SBC/BellSouth Comments at 3-4, 9-11; *see also Second Notice* ¶¶ 92, 94.

85 SBC/BellSouth Comments at 3, 9-10; *Second Notice* ¶ 92. The stand-alone transport provider can be either a carrier providing switched long distance service or a provider of "occasional use" services (*e.g.*, dial around long distance, prepaid calling carrier and operator services). SBC/BellSouth Comments at 9-10.

assessments between interstate transport and local service providers.[86] In addition, the split-connections proposal currently advanced by SBC and BellSouth would discriminate against stand-alone long distance providers while favoring vertically-integrated providers (like SBC's and BellSouth's long distance affiliates). Under their proposal, carriers that provide the connection and the transport as a bundled package would be assessed (and would recover) universal service contributions on a flat-rate, non-traffic sensitive basis. In contrast, stand-alone long distance providers would be assessed (and would recover) universal service contributions on a variable, traffic-sensitive basis. In effect, the USF fees assessed on integrated transport providers would be "capped" at one-half the connections-based rate, while those assessed on stand-alone providers would not.

As a result of this disparate treatment, the proposal would create incentives for high-volume users of long distance to purchase service from integrated carriers, instead of stand-alone IXCs.[87] An example readily illustrates this point. Assume that the assessment charge for vertically-integrated providers is $1.50 per connection, while the assessment percentage for stand-alone IXC revenue is 4.5%.[88] Based on these assumptions, a customer spending more than $33 per month on long distance calls would

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[86] These criticisms apply equally to the second variation of the SBC/BellSouth proposal.

[87] AT&T Comments at 53-54; Sprint Comments at 14-15.

[88] Calculating the SBC/BellSouth revenue-based contribution factor requires data regarding (1) revenues from stand-alone long distance service; and (2) the number of connections associated with stand-alone long distance service. Although neither is readily available, MCI roughly estimates that the factor will be between 4-5%. The $1.50 is also a rough figure based on the *Staff Study*, which estimates that the average presubscribed residential customer will pay $1.42 under the original SBC/BellSouth proposal. *See infra* Section III.C.

pay a lower USF fee by choosing a vertically-integrated provider instead of a stand-alone or occasional use provider. For some customers, the difference in assessments could be considerable. A customer generating $100.00 of long distance billings in a month would pay only $1.50 in universal service fees by procuring service from a vertically-integrated provider, but would pay $4.50 – three times as much – in USF fees by subscribing to a stand-alone IXC. Such a customer would have a powerful – and entirely artificial – incentive to procure services from a vertically-integrated provider. In addition to providing a competitive advantage to wireline integrated carriers, the proposal would also exacerbate the current discrimination in favor of wireless long distance services.[89] It is precisely these types of non-market-based incentives that the Act and the FCC's goal of competitive neutrality are designed to avoid.[90]

The SBC/BellSouth proposal would also unnecessarily and inequitably raise rivals' costs by requiring providers that offer both bundled and stand-alone long distance to maintain two billing systems: one that tracks revenues (for purchasers of stand-alone transport), and one that tracks connections (for purchasers of bundled service). In contrast, providers that offer only bundled service or stand-alone transport would need to maintain only a single billing system.

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89 *See* MCI Comments at 13-17.

90 *See* 47 U.S.C. § 254(b), (d); *1997 Order* ¶ 48.

2. *The Original SBC/BellSouth Proposal Is Unworkable, and Has Been Wisely Abandoned by Its Sponsors.*

The original SBC/BellSouth proposal would split a uniform per-connection assessment between the access and presubscribed transport providers.[91] This proposal is likely to result in considerably more customer confusion and mis-billing and dramatically increase the costs of implementing a change to the system by imposing unnecessary and duplicative transaction costs. Moreover, despite unsupported allegations to the contrary,[92] IXCs lack the customer-specific information necessary to implement the original SBC/BellSouth proposal and thus would be disadvantaged under such a scheme.[93] In addition, as discussed below, the original SBC/BellSouth proposal is also suspect because it shifts almost 70% of the USF burden to residential customers.

As the record confirms, IXCs lack sufficient information to implement the original split-connections proposal. Among other problems, IXCs typically do not know whether a customer is a Lifeline subscriber, and they may not receive timely information about whether a customer has switched to another local or long distance carrier or has had dial tone disconnected. In addition, IXCs must rely on the local carrier to provide information regarding the number and capacity of connections provided to a given

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91 *Second Notice* ¶¶ 86, 89. Under this proposal, IXCs that do not provide the transport portion of a switched connection on a presubscribed basis, such as dial-around or calling card providers, would be subject to a revenue-based assessment. *Id.*

92 *See* Qwest Comments at 3, 5-6; USTA Comments at 6; NRTA/OPASTCO Comments at 6; Western Alliance Comments at 27-28; SBC/BellSouth Comments at 13.

93 *See, e.g.*, CoSUS Reply Comments, Att. 2, Declaration of Alan Lentz and Mark Milota ("Lentz/Milota Declaration") (May 13, 2002) (describing difficulties and expense of IXCs obtaining line data from local providers).

customer.[94] These problems arise from the simple fact that the connection provider is the sole source of such data for the vast majority of customer lines.[95] Thus, unlike LECs, IXCs do not have immediate access to customer service records for local service, and therefore often must rely on the LEC to provide up-to-date data about a particular customer.

Although Qwest attempts to argue that, in many cases IXCs can obtain customer information through the Customer Account Record Exchange ("CARE") system,[96] as Qwest itself acknowledges, the CARE system does not always allow the IXC to determine whether the long distance caller is a presubscribed customer.[97] In fact, the CARE system is far more flawed than Qwest admits. Because participation in the CARE information exchange system is entirely voluntary, many new-entrant LECs do not provide CARE data, or do not provide it on a timely basis or with a quality or in a format upon which IXCs can depend.[98] Moreover, even those LECs that purport to provide CARE data do not necessarily do so in a uniform manner, giving rise to varying levels of

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94 MCI Comments at 38-40; *see also* AT&T Comments at 48-51; Sprint Comments at 12. Wireless carriers raise other concerns with the original SBC/BellSouth proposal. *See, e.g.*, Verizon Wireless Comments at 10-18; Nextel Comments at 13-15.

95 *See* Lentz/Milota Declaration ¶ 6.

96 *See* Qwest Comments at 5-6.

97 *Id.* at 6 n.4.

98 Petition for Rulemaking, filed by AT&T, Sprint, and WorldCom at 2-3, *Petition for Rulemaking to Implement Mandatory Minimum Customer Account Record Exchange Obligations on All Local and Interexchange Carriers*, CG Docket No. 02-386 (Nov. 22, 2002) ("CARE Petition"); *see also id.* at 4 (describing inadequacies of CARE data when an IXC's customer switches to a new LEC for local service) & 5-7 (describing problems that arise when an IXC does not receive critical data regarding a customer's request for a change of his or her primary interexchange carrier (PIC)).

completeness in the customer data that IXCs possess.[99] Beyond these defects, the CARE system does not indicate the number and capacity of connections provided to a given customer,[100] nor does it indicate whether a customer is a Lifeline subscriber.

As a result, IXCs would have to acquire this information – likely at considerable expense – from the connection provider, usually the incumbent LEC. IXCs also would have to update this information constantly, especially because so many customers frequently switch long distance providers.[101] When combined with the inherent inadequacies of the CARE data, the added expense of obtaining and updating this additional information would create a significant competitive advantage in favor of carriers that can provide the connection and the transport as a bundled package.[102] Indeed, other commenters have confirmed that these sizeable transaction costs would render the SBC/BellSouth proposal even more burdensome and unwieldy than the FCC's failed experiment with the Presubscribed Interexchange Carrier Charge ("PICC").[103] In the words of Verizon Wireless, "assessing a transport connection charge on pre-subscribed IXCs presents the same data-sharing nightmare that doomed the . . . PICC."[104]

Even if it were workable, the original SBC/BellSouth proposal also has another significant flaw: it shifts a disproportionate share of the USF burden onto residential

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99 *Id.* at 3-4, 9.

100 *See* Sprint Comments at 12; AT&T Comments at 50-51.

101 MCI Comments at 39.

102 *Id.* at 39-40.

103 *See also id.* at 40-41.

104 Verizon Wireless Comments at 17 (citing *Second Notice* ¶ 88).

customers. The recent *Staff Study* projects that during the first four years of the proposal's implementation (from 2004-2007), residential customers would bear 67-68% of the total USF burden.[105]

3. *The Commission Should Resist Commenters' Attempts to Regulate the Internet.*

Although the split-assessment variations that are described in the *Second Notice* would not directly assess Internet service providers ("ISPs"), the BOCs and other commenters continue to support expanding the USF contribution base to include ISPs.[106] The Commission should resist these chronic attempts to regulate the Internet. As MCI explained in its initial comments and the FCC has repeatedly confirmed, ISPs *use* telecommunications services to provide information services, but do not *provide* telecommunications or telecommunications services.[107] Accordingly, ISPs do not fall under the mandate of Section 254, which applies only to "telecommunications carrier[s] that provide[] interstate telecommunications services" or "other provider[s] of interstate telecommunications."[108] In any case, this issue is currently the subject of a separate proceeding, and should be resolved there.

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105 *See Staff Study* at 5-7. For an in-depth analysis of the *Staff Study*, see *infra* Section III.

106 *See, e.g.,* USTA Comments at 10; Qwest Comments, Att. A at 1; *see also Second Notice* ¶ 86 n.181 (explaining that SBC and BellSouth originally proposed to assess ISPs directly).

107 MCI Comments at 38 n.91.

108 47 U.S.C. § 254(d).

D. The Details of a Number-Based Approach Remain Undeveloped.

MCI believes that, for residential and, in many cases, business services, telephone numbers may serve as a reasonable proxy for connections. At the time MCI filed its initial comments, however, the details of the number-based approach had not yet been developed.[109] Since then, three commenters, AT&T, Ad Hoc, and the Michigan Public Service Commission ("PSC") have submitted number-based proposals for consideration.[110] Although those proposals contain similar elements, each also includes some variation on how different services are assessed. For example, although both AT&T and Ad Hoc would assess contributions on "assigned numbers" provided to end users and special access/private line services (based on the capacity of the end-user connection),[111] their proposals provide different definitions of an "assigned number,"[112] different methodologies for calculating the per-number contribution/capacity,[113] and different treatment of non-working numbers.[114] In addition, the Ad Hoc proposal is silent

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109 MCI Comments at 25 n.60.

110 *See* AT&T Comments at 2-10, 27-36, Exhibit 1; Ad Hoc Comments at 2-17; Michigan PSC Comments at 4-7 & Att. A.

111 AT&T Comments at 5-7; Ad Hoc Comments at 4.

112 *Compare* AT&T Comments, Exhibit 1, Proposed § 54.706(c)(1) ("assigned numbers" are numbers working in the PSTN under an agreement such as a contract or tariff at the request of specific end users or customers for their use, or numbers not yet working but having a customer service order pending), *with* Ad Hoc Comments at 5 (assigned numbers includes all NANP numbers assigned to end users).

113 *Compare* AT&T Comments, Exhibit 1, Proposed § 54.709(a) & (b) (proposing a methodology based on projected assessable assigned numbers, adjusted for uncollectibles), *with* Ad Hoc Comments at 4-5 (proposing a methodology based on existing assigned numbers, unadjusted for uncollectibles).

114 *Compare* AT&T Comments at 6 (providing for a per-number assessment for certain non-working numbers, such as Direct Inward Dial or Centrex numbers set aside

on certain matters that the AT&T proposal addresses (*e.g.*, the treatment of ported numbers, resold services, and voice over Internet protocol).[115] The AT&T and Ad Hoc proposals, in turn, are different from the Michigan PSC proposal, which is based on an equation involving different fixed-dollar multipliers for different categories of telephone numbers, including inventoried numbers that are not assessed under the AT&T and Ad Hoc "assigned number" proposals.[116]

As a general matter, MCI is concerned that telephone numbers may form a less stable assessment base than connections. In particular, if customers must pay a USF fee based on the quantity of telephone numbers they use, those customers will likely try to find ways to avoid using numbers. A review of the *Staff Study* appears to confirm this fear. Among other issues, the study reveals that the number-based proposal will result in companies with private branch exchanges paying a significantly higher assessment than they would under the current revenue-based system. This increased assessment will create an incentive for such companies to eliminate Direct Inward Dial numbers in favor of adding multiple extensions to a single number.[117] To the extent that other situations

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for use by a particular customer, and numbers assigned to lines with intermittent or cyclical use that are working for 90 or more days per year), *with* Ad Hoc at 3 (apparently assessing only "working" numbers).

[115] *See* AT&T Comments at 6-7 (provider to whom a number is ported and the reseller would be assessed on a per-number basis), & 3-4, 19, 28-29 (all assigned telephone numbers, including VoIP numbers, would be assessed on a per-number basis).

[116] *See* Michigan PSC Comments at 4 & Att. A (providing equation based on 2001 data in which the total number of activated telephone numbers, less Lifeline customers, is multiplied by $8.19 for the year, and telephone numbers held by carriers in the intermediate, reserved, administrative, and available categories are multiplied by $2.00 for the year).

[117] *See infra* Section III.B.

exist in which a telephone number does not equal a connection, similar incentives to minimize number usage will arise. Depending on the prevalence of such situations, a number-based approach may be vulnerable to significant fluctuations, making the mechanism less predictable and, ultimately, less sufficient.

Despite these concerns, MCI remains open to the possibility that a number-based approach may serve as a reasonable proxy for connections, and thus would constitute a viable alternative to the CoSUS proposal.

III. THE RESULTS OF THE *STAFF STUDY* UNDERSCORE THE BENEFITS OF THE CoSUS PROPOSAL.

The Commission recently released and sought comment on a study by the Wireline Competition Bureau staff examining the current revenue-based USF system and three alternative connections-based methodologies discussed in the *Second Notice*.[118] The study estimates and compares, *inter alia*, potential assessment levels, contribution factors, and the relative burdens on residential and business customers. In addition to confirming that a connections-based mechanism would be more stable and predictable than a revenue-based approach, the *Staff Study*'s analysis also reveals key deficiencies in each of the connections-based proposals it examines. Although the *Staff Study* did not model the CoSUS proposal, extending the study's model to that proposal demonstrates that it possesses distinct advantages over the three alternative approaches. Finally, to ensure an accurate and complete record, MCI recalculates the *Staff Study*'s reported "industry segment" estimates (which, as indicated above, are irrelevant to the Commission's legal analysis) to account for the growing prevalence of bundled service

118 *See supra* note 3.

offerings. As MCI predicted, that adjustment shows that the share of contributions collected from IXCs and LECs will converge as bundling increases.

A. The *Staff Study* Confirms that the Current Revenue-Based Assessment Mechanism Is Not "Specific, Predictable, and Sufficient."

The *Staff Study* confirms that connections-based universal service mechanisms are far more likely than revenue-based approaches to meet the statutory requirement of a "specific, predictable, and sufficient" universal service support mechanism.[119] Whereas the staff estimates that the contribution factor under the revenue-based methodology would increase from 9.3% to 11.4% between 2003 and 2007[120] – an increase of over 22% in five years – the staff's analysis shows that assessments under a connections-type plan would be far more stable. In particular, the staff projects that, under the connections-based approach proposed in the *Second Notice* (Proposal 1), the residential assessment would increase by only 5% over the same five year period, while the multiline business assessment would increase by only 3%.[121]

Moreover, the contribution factors and connections-based assessments estimated by the *Staff Study* only tell part of the story. In evaluating the various alternative methodologies modeled by the staff, the Commission should consider not only the specific "data point" estimates generated by the *Staff Study* but should also recognize that there is far greater uncertainty in the staff's estimated revenue-based factor than in the

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119 47 U.S.C. § 254(d).

120 *Staff Study* at 5.

121 The *Staff Study* projects that under Proposal 1 the residential assessment would increase from $1.00 per connection in 2004 to $1.05 in 2007, and projects that the multiline business assessment would increase from $2.62 per connection in 2004 to $2.70 per connection in 2007. *Id.* at 6.

staff's estimated connections-based assessments. The greater uncertainty associated with the revenue-based forecasts only further emphasizes that the revenue-approach cannot be "specific, predictable, and sufficient."

The *Staff Study's* revenue-based projections are inherently less reliable than the projections for the connections-based approach because they required the staff to make a far larger number of assumptions. Whereas the connections-based estimates required the staff to estimate only the number of connections, the revenue-based estimates required the staff to estimate an array of other factors as well. Specifically, in converting from connections to revenues, the staff made assumptions regarding such factors as: (1) the number of minutes per connection; (2) the percentage of minutes associated with enhanced services; (3) the price per minute; and (4) the percentage of minutes reported as interstate by wireless carriers.[122] Each of those assumptions introduced additional uncertainty in the staff's estimated contribution factors for the revenue-based system.

In some instances, the *Staff Study's* assumptions are almost certainly incorrect. For example, it is highly unlikely that all wireless carriers will attribute 28.5% of their revenues to the interstate jurisdiction.[123] Given that 28.5% was the *highest* interstate percentage shown in the *CTIA Traffic Studies Ex Parte*,[124] and given that CMRS carriers are permitted to use a lower interstate percentage derived from ill-defined "traffic studies," it is likely that the percentage of wireless industry revenues that will be reported

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122 *Id.* at 15-16.

123 *Id.* at 15.

124 *Ex Parte* Letter from Michael Altschul, CTIA, to Marlene H. Dortch, FCC (Sept. 30, 2002) ("*CTIA Traffic Studies Ex Parte*").

as interstate will be significantly less than 28.5%. If the staff analysis had used a more realistic assumption, such as the average (*e.g.*, 21.8%), rather than highest, interstate percentage reported in the *CTIA Traffic Studies Ex Parte*, then the staff would have estimated a 2007 contribution factor of 12.1%, substantially higher than the 11.4% factor estimated by the *Staff Study* (*see* Attachment 2).

In addition to the numerous assumptions about revenue trends, another likely source of error in the *Staff Study* is the study's failure to explicitly model the "feedback" between the contribution factor and reported interstate revenues. As MCI and other commenters have explained, rapidly increasing contribution factors create incentives for customers to shift from higher-burdened services to lower-burdened services, such as from wireline to wireless services, or to characterize revenues in a way that minimizes the USF contribution, such as by attributing a growing share of revenues to the information service or CPE portion of a bundled product.[125] The staff's model does not, however, attempt to model the linkage between the contribution factor and reported interstate revenues. Indeed, the *Staff Study* makes the unrealistic assumption that the rate of decline in wireline interstate revenue per line will slow in later years, even as the contribution factor reaches higher and higher levels.[126]

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125 *See* Abernathy Statement at 5 (acknowledging that bundling "gives carriers the opportunity and incentive to understate the portion of their revenues that are subject to assessment and increases the difficulty of identifying interstate revenues. Contribution factors therefore are likely to continue their ascent under a pure revenue-based contribution methodology.").

126 *Staff Study* at 16.

B. The *Staff Study* Exposes the Shortcomings in Each of the Non-Revenue-Based Proposals It Examines.

The *Staff Study* analyzes three non-revenue-based contribution methodologies: (1) Proposal 1, the connections-based approach from the *Second Notice*; (2) Proposal 2, the SBC/BellSouth "split-connections" proposal; and (3) Proposal 3, a number-based approach. Unfortunately the *Staff Study* does not model the CoSUS proposal. The results published in the *Staff Study* illustrate shortcomings in each of the non-revenue-based approaches modeled by the staff.

First, the *Staff Study* indicates that Proposal 1 could impose potentially burdensome assessments on customers with high-capacity connections. As AT&T and Ad Hoc have shown in their comments in this proceeding,[127] T1 and DS3 assessments in the range estimated by the *Staff Study* ($40 for a T1 connection and $600 for a DS3 connection) are so high, relative to the price of some high-capacity circuits, and relative to the universal service assessment imposed on lower-capacity services, that they likely would suppress demand for high-capacity services.

Second, in addition to the administrative burdens and discriminatory effects described above, the *Staff Study* shows that Proposal 2, the SBC/BellSouth proposal, would impose a far greater USF charge on residential customers than either the current system or Proposals 1 or 3. Whereas the *Staff Study* projects average household assessments under either the revenue system or under Proposals 1 or 3 to be in the range

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127 *See* AT&T Comments at 36; Ad Hoc Comments at 10-12.

of $2.00-$2.50, the *Staff Study* projects that the average household assessment under the split-connections approach would be $3.47.[128]

Third, the *Staff Study* illustrates that under Proposal 3, the number-based approach, customers with otherwise identical services could be assessed dramatically different USF charges depending on how they utilized numbers. In particular, the *Staff Study* shows that a far higher assessment would be imposed on PBX customers that chose to give each extension a unique number ($100 for a customer with one hundred extensions), compared to the assessment that would be imposed on a customer that had the same service but elected to employ a single main number ($1).[129] Not only is it unclear whether such differential treatment is equitable, but the Commission should recognize that such treatment may cause customers to change their use of numbers in ways that would call into question the demand estimates underlying the *Staff Study*'s analysis of Proposal 3.

C. Extending the *Staff Study*'s Analysis Verifies that the CoSUS Proposal Is More Balanced Than the Proposed Alternatives.

In Attachment 3, MCI has extended the *Staff Study* to model the CoSUS proposal, using the staff's demand projections in order to facilitate comparison with the proposals modeled by the *Staff Study*. The CoSUS proposal differs from Proposal 1, the connections-based proposal modeled by the staff, in certain key respects: (1) rather than treating multiline business assessments as a "residual," the CoSUS proposal uses a fixed 3:1 ratio between the multiline business and residential assessments; and (2) the CoSUS

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128 *Staff Study* at 5-8.

129 *Id.* at 8.

proposal uses "tier" multipliers of 1, 5 and 40, rather than the 1, 16, 224 and 336 multipliers proposed in the *Second Notice.*

The analysis of the CoSUS plan in Attachment 3 yields a projected residential assessment of approximately $1.20, a Tier 1 multiline business assessment of approximately $3.61, a Tier 2 T1 assessment of approximately $18, and a Tier 3 DS3 assessment of approximately $145. These results show that the CoSUS plan would provide a more balanced set of assessments than any of the three alternatives modeled by the staff:

- Compared to Proposal 1, the *Second Notice*'s connections-based proposal, the CoSUS plan avoids excessive high-capacity assessments, while imposing only slightly higher assessments on residential and business customers.
- Compared to Proposal 2, the SBC/BellSouth split-connections proposal, residential assessments would be significantly lower. Whereas a typical switched residential customer would pay an estimated $1.42 under the SBC/BellSouth approach, they would pay only about $1.20 under the CoSUS plan.
- Unlike Proposal 3, the number-based approach, under CoSUS customers with the same service would pay the same USF charge. In particular, PBX customers' decisions about whether to use a single main number or to assign a separate number to each station would have no impact on the universal service assessment.

D. Any Comparison of Sector Burdens Must Recognize the Trend Towards Bundling.

In the *Staff Study*, the staff presents an "industry segment" analysis that indicates the percentage of the universal service contribution burden borne by "IXCs," "LECs" and "CMRS" carriers.[130] But the industry "segments" defined by the *Staff Study* are of rapidly decreasing relevance. Whereas the *Staff Study* assumes the existence of an IXC segment whose firms provide only long distance services and a LEC segment whose firms provide only local services, "IXCs" increasingly offer local services as well, just as "LECs" now offer long distance services.

Because the *Staff Study* defines "industry segments" in terms of particular services, the staff "industry segment" analysis is best viewed as presenting the share of USF contributions borne by particular *services*. If the Commission wished to analyze shifts in the share of contributions borne under various proposals by particular classes of *firms*, such as firms that historically focused on providing long distance services, analysis of such shifts would have to recognize the growing trend towards bundling.

In Attachment 4, MCI has refined the staff analysis to compare the share of contributions that would be borne under Proposal 1 (the connections-based approach) by "IXCs" and "LECs," making the assumption that by 2007 "IXCs" would have achieved a 30% share of the local business connections and a 15% share of the local residential connections. Whereas the *Staff Study* shows LECs with a 45% share and IXCs with a 22% share, Attachment 4 shows that, as bundling becomes more prevalent, the share of

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[130] In order to simplify matters, staff assigned switched toll revenues to IXCs, local revenues to LECs, and wireless revenues to CMRS providers. *Id.* at 21.

contributions borne by IXCs and LECs will converge, to a 31% share for IXCs and a 36% share for LECs.

IV. CONCLUSION

MCI urges the Commission to act expeditiously to adopt the connections-based approach proposed by CoSUS, preferably by the end of this year so that a viable universal service collection mechanism can be implemented no later than January 2005.

Respectfully submitted,

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April 18, 2003

Attachment 1

Adjusted Contribution Base Assuming Updated Wireless Safe Harbor

	1Q01	2Q01	3Q01	4Q01	1Q02	2Q02	3Q02	4Q02
End User Revenues								
Local	22,841	22,707	22,732	22,627	22,604	22,495	22,608	22,255
Payphone	149	146	213	163	101	103	143	148
Wireless	14,594	15,877	18,057	19,408	17,825	19,286	20,238	19,565
Toll	19,422	19,093	18,811	17,553	17,385	16,521	16,408	15,074
Total	57,006	57,823	59,813	59,751	57,915	58,405	59,397	57,042
Reported Contribution Base								
Local	4,304	4,268	4,502	4,515	4,699	4,766	4,895	4,945
Payphone	10	9	35	23	8	9	10	13
Wireless	1,970	2,311	2,703	2,567	1,586	2,798	3,081	4,534
Toll	13,490	13,012	12,663	11,930	11,814	11,217	10,810	10,128
Total	19,774	19,600	19,903	19,035	18,107	18,790	18,796	19,620
Adjusted Contribution Base (assuming wireless contribution base = 23.6% of end user revenues)								
Local	4,304	4,268	4,502	4,515	4,699	4,766	4,895	4,945
Payphone	10	9	35	23	8	9	10	13
Wireless	3,444	3,747	4,261	4,580	4,207	4,551	4,776	4,534
Toll	13,490	13,012	12,663	11,930	11,814	11,217	10,810	10,128
Total	21,248	21,036	21,461	21,048	20,728	20,543	20,491	19,620
difference	1,474	1,436	1,558	2,013	2,621	1,753	1,695	0

Attachment 2

Impact of CMRS Interstate % on Contribution Factor

CMRS Interstate End User Revenues

	2002	2003	2004	2005	2006	2007
CMRS revenues at 28.5% interstate (staff study)	$11,829	$17,602	$19,163	$20,242	$20,643	$20,607
CMRS revenues at 21% interstate	$9,048	$13,464	$14,658	$15,483	$15,790	$15,763

Contribution Base Assuming CMRS Revenues Are 21% Interstate

	2002	2003	2004	2005	2006	2007
Subscriber line charges	$14,053	$14,750	$14,911	$14,862	$14,804	$14,743
Special access & local private line	$5,577	$6,498	$7,565	$8,576	$9,192	$9,850
Residential toll (including operator & prepaid card)	$13,429	$12,603	$11,613	$10,587	$9,620	$8,718
Business switched (incl. operator handled)	$22,911	$19,853	$17,956	$16,606	$15,265	$13,231
Interstate private line	$7,207	$7,303	$7,406	$7,516	$7,633	$7,759
International private line	$1,389	$1,469	$1,552	$1,639	$1,728	$1,819
CMRS	$9,048	$13,464	$14,658	$15,483	$15,790	$15,763
Payphone	$37	$35	$33	$32	$30	$29
Total contribution base	$73,651	$75,975	$75,694	$75,301	$74,062	$71,912
USF program requirements	$5,849	$6,394	$6,623	$6,861	$7,109	$7,368
Contribution base adjusted for circularity	$67,802	$69,581	$69,071	$68,440	$66,953	$64,544
Contribution base adjusted for uncollectibles	$63,768	$65,441	$64,961	$64,368	$62,969	$60,703
Factor	0.092	0.098	0.102	0.107	0.113	0.121

Attachment 3

Analysis of CoSUS Plan Using Staff Study Demand Projections (2004 Data)

Demand: (Source: Staff study spreadsheet, tab "lines," rows 418-468)

	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Total 2004
Residential Wireline													
Lifeline	6.92	6.94	6.97	7.00	7.02	7.05	7.08	7.10	7.13	7.16	7.18	7.21	84.76
Primary Lines	98.62	98.57	98.52	98.47	98.42	98.37	98.32	98.27	98.22	98.17	98.12	98.07	1180.14
Non-Primary Lines	14.47	14.34	14.22	14.09	13.97	13.85	13.73	13.61	13.49	13.37	13.25	13.14	165.53
CMRS													
Prepaid wireless telephony	5.15	5.19	5.22	5.26	5.30	5.33	5.37	5.41	5.44	5.48	5.51	5.55	64.21
Other residential basic subscription	94.76	95.27	95.77	96.26	96.76	97.25	97.73	98.21	98.69	99.16	99.62	100.09	1169.57
Non-residential basic subscription	49.23	49.50	49.76	50.03	50.29	50.54	50.80	51.06	51.31	51.56	51.81	52.05	607.93
Residential enhanced	3.09	3.29	3.48	3.68	3.88	4.09	4.30	4.51	4.72	4.93	5.15	5.37	50.47
Non-residential enhanced	1.52	1.62	1.72	1.81	1.91	2.01	2.12	2.22	2.32	2.43	2.54	2.64	24.87
One-way pagers	13.65	13.53	13.41	13.29	13.18	13.06	12.95	12.84	12.72	12.61	12.50	12.39	156.15
Two-way/advanced Pagers	1.73	1.77	1.80	1.84	1.89	1.93	1.97	2.01	2.06	2.10	2.15	2.20	23.44
Switched Business Wireline													
Single line business (SLB) lines	5.44	5.44	5.44	5.44	5.44	5.44	5.44	5.44	5.44	5.44	5.44	5.44	65.29
Payphone trunks	1.36	1.35	1.34	1.33	1.32	1.31	1.30	1.29	1.28	1.27	1.26	1.25	15.63
Payphone over T1 lines	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.04
ISDN BRI	1.68	1.68	1.68	1.67	1.67	1.67	1.67	1.67	1.67	1.67	1.66	1.66	20.05
Centrex connections	15.68	15.68	15.68	15.68	15.68	15.68	15.68	15.68	15.68	15.68	15.68	15.68	188.20
Centrex provided as a T1 service	0.20	0.20	0.20	0.20	0.20	0.21	0.21	0.21	0.21	0.21	0.21	0.21	2.46
Other business trunks served via IP telephony	0.35	0.40	0.46	0.51	0.56	0.62	0.67	0.72	0.77	0.82	0.86	0.91	7.64
Other business trunks	34.38	34.11	33.83	33.56	33.27	32.99	32.71	32.42	32.13	31.83	31.54	31.24	394.01
PRI & Other business local exchange T1 service	0.36	0.36	0.37	0.37	0.38	0.38	0.39	0.39	0.40	0.40	0.41	0.41	4.61
Other business local exchange DS3	0.01	0.01	0.01	0.01	0.01	0.01	0.01	0.02	0.02	0.02	0.02	0.02	0.17
Special access & private lines (weighted @ Second FNPRM proposed weights)													
Trunk	1.31	1.31	1.31	1.31	1.31	1.31	1.31	1.31	1.31	1.31	1.31	1.31	15.75
T1	27.97	28.02	28.07	28.12	28.17	28.23	28.28	28.33	28.38	28.44	28.49	28.54	339.04
DS3	31.39	31.48	31.56	31.65	31.73	31.82	31.90	31.99	32.08	32.16	32.25	32.34	382.35
OC3	1.84	1.86	1.88	1.89	1.91	1.92	1.94	1.96	1.97	1.99	2.01	2.02	23.19
OC12	0.81	0.82	0.83	0.83	0.84	0.85	0.85	0.86	0.87	0.88	0.88	0.89	10.21
OC48	0.05	0.05	0.05	0.05	0.06	0.06	0.06	0.06	0.06	0.07	0.07	0.07	0.70
OC192	0.00	0.00	0.00	0.00	0.01	0.01	0.01	0.01	0.01	0.01	0.02	0.02	0.11

Demand Weighted at CoSUS Weights

Residential Wireline													
Lifeline	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Primary residential	32.87	32.86	32.84	32.82	32.81	32.79	32.77	32.76	32.74	32.72	32.71	32.69	393.38
Non-primary residential	4.82	4.78	4.74	4.70	4.66	4.62	4.58	4.54	4.50	4.46	4.42	4.38	55.18
CMRS													
Prepaid wireless	1.72	1.73	1.74	1.75	1.77	1.78	1.79	1.80	1.81	1.83	1.84	1.85	21.40
Other residential basic subscription	31.59	31.76	31.92	32.09	32.25	32.42	32.58	32.74	32.90	33.05	33.21	33.36	389.86
Non-residential basic subscription	16.41	16.50	16.59	16.68	16.76	16.85	16.93	17.02	17.10	17.19	17.27	17.35	202.64
Residential enhanced	1.03	1.10	1.16	1.23	1.29	1.36	1.43	1.50	1.57	1.64	1.72	1.79	16.82
Non-residential enhanced	0.51	0.54	0.57	0.60	0.64	0.67	0.71	0.74	0.77	0.81	0.85	0.88	8.29
Switched Business Wireline													
Single line business	1.81	1.81	1.81	1.81	1.81	1.81	1.81	1.81	1.81	1.81	1.81	1.81	21.76
One-way pagers	1.14	1.13	1.12	1.11	1.10	1.09	1.08	1.07	1.06	1.05	1.04	1.03	13.01
Two-way pagers	0.14	0.15	0.15	0.15	0.16	0.16	0.16	0.17	0.17	0.18	0.18	0.18	1.95
Payphone trunks	1.36	1.35	1.34	1.33	1.32	1.31	1.30	1.29	1.28	1.27	1.26	1.25	15.63
Payphone over T1 lines	0.02	0.02	0.02	0.02	0.02	0.02	0.02	0.02	0.02	0.02	0.02	0.02	0.21
ISDN BRI	1.68	1.68	1.68	1.67	1.67	1.67	1.67	1.67	1.67	1.67	1.66	1.66	20.05
Centrex connections	1.74	1.74	1.74	1.74	1.74	1.74	1.74	1.74	1.74	1.74	1.74	1.74	20.91
Centrex provided as a T1 service	0.11	0.11	0.11	0.11	0.11	0.11	0.11	0.11	0.11	0.11	0.11	0.11	1.37
Other business trunks	34.38	34.11	33.83	33.56	33.27	32.99	32.71	32.42	32.13	31.83	31.54	31.24	394.01
Other business local exchange T1 service	1.79	1.81	1.83	1.86	1.88	1.91	1.93	1.95	1.98	2.00	2.03	2.05	23.03
Other business local exchange DS3	0.33	0.37	0.41	0.45	0.49	0.54	0.58	0.62	0.66	0.71	0.75	0.79	6.70
Special access & private lines (weighted @ CoSUS weights)													
Trunk	1.31	1.31	1.31	1.31	1.31	1.31	1.31	1.31	1.31	1.31	1.31	1.31	15.75
T1	8.74	8.76	8.77	8.79	8.80	8.82	8.84	8.85	8.87	8.89	8.90	8.92	105.95
DS3	5.61	5.62	5.64	5.65	5.67	5.68	5.70	5.71	5.73	5.74	5.76	5.77	68.28
OC3	0.22	0.22	0.22	0.23	0.23	0.23	0.23	0.23	0.23	0.24	0.24	0.24	2.76
OC12	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.11	0.11	1.22
OC48	0.01	0.01	0.01	0.01	0.01	0.01	0.01	0.01	0.01	0.01	0.01	0.01	0.08
OC192	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.01
Total weighted demand	149.43	149.55	149.66	149.77	149.88	149.98	150.09	150.19	150.29	150.38	150.47	150.56	1800.25

Calculation of COSUS USF Assessments

Contributions based on connections	$6,506	(Source: Staff Study, Proposal 1, 2004)
Total weighted demand	1800.3	(from above)
Tier 1 / switched business assessment	$3.61	(contributions / total weighted demand)
Tier 2 (T1) assessment	$18.07	(5 * Tier 1 rate)
Tier 3 (DS3+) assessment	$144.56	(40 * Tier 1 rate)
Residential / CMRS assessment	$1.20	(Tier 1 rate / 3)
Pager assessment	$0.30	Residential rate / 4
Centrex assessment	$0.40	(Tier 1 rate / 9)

Attachment 4

Impact of Bundling on Segment Burdens in 2007

Demand In 2007(Source: Staff spreadsheet, tab "lines," rows 418-468)													
Residential Wireline	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Total 2007
Lifeline	7.92	7.95	7.98	8.01	8.04	8.07	8.10	8.13	8.16	8.19	8.22	8.25	97.03
Primary Lines	94.75	94.53	94.31	94.09	93.86	93.64	93.42	93.20	92.97	92.75	92.53	92.30	1122.35
Non-Primary Lines	10.55	10.46	10.36	10.27	10.18	10.10	10.01	9.92	9.83	9.75	9.66	9.58	120.67
CMRS													
Prepaid wireless telephony	6.27	6.29	6.30	6.32	6.34	6.36	6.37	6.39	6.40	6.41	6.43	6.44	76.31
Other residential basic subscription	100.25	100.04	99.82	99.58	99.32	99.05	98.76	98.46	98.14	97.81	97.46	97.10	1185.79
Non-residential basic subscription	52.48	52.39	52.29	52.18	52.06	51.94	51.80	51.66	51.51	51.36	51.19	51.02	621.89
Residential enhanced	18.80	19.38	19.96	20.55	21.13	21.72	22.30	22.89	23.47	24.05	24.63	25.21	264.09
Non-residential enhanced	9.26	9.55	9.84	10.12	10.41	10.70	10.99	11.28	11.56	11.85	12.14	12.42	130.13
One-way pagers	9.95	9.86	9.78	9.69	9.61	9.52	9.44	9.36	9.28	9.19	9.11	9.03	113.83
Two-way/advanced Pagers	3.80	3.88	3.96	4.05	4.14	4.23	4.33	4.42	4.52	4.62	4.72	4.83	51.51
Switched Business Wireline													
Single line business (SLB) lines	5.44	5.44	5.44	5.44	5.44	5.44	5.44	5.44	5.44	5.44	5.44	5.44	65.29
Payphone trunks	1.05	1.04	1.03	1.03	1.02	1.01	1.01	1.00	0.99	0.99	0.98	0.97	12.12
Payphone over T1 lines	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.03
ISDN BRI	1.63	1.63	1.63	1.62	1.62	1.62	1.62	1.62	1.62	1.62	1.62	1.61	19.45
Centrex connections	15.68	15.68	15.68	15.68	15.68	15.68	15.68	15.68	15.68	15.68	15.68	15.68	188.20
Centrex provided as a T1 service	0.21	0.21	0.21	0.21	0.21	0.21	0.21	0.21	0.21	0.21	0.21	0.21	2.54
Other business trunks	24.53	24.42	24.31	24.20	24.09	23.98	23.87	23.76	23.65	23.54	23.43	23.32	287.11
PRI & Other business local exchange T1 service	0.51	0.51	0.51	0.51	0.51	0.50	0.50	0.50	0.50	0.49	0.49	0.49	6.02
Other business local exchange DS3	0.04	0.04	0.04	0.04	0.04	0.04	0.04	0.04	0.04	0.04	0.04	0.04	0.49
Special access & private line*(Source: staff spreadsheet, tab "lines", lines 880, 891)*													
"LEC"	18.77	18.83	18.90	18.97	19.04	19.10	19.17	19.24	19.31	19.38	19.45	19.52	229.68
"IXC"	50.90	51.02	51.14	51.27	51.39	51.52	51.64	51.77	51.89	52.02	52.15	52.28	619.00

Contributions by industry sector, assuming "IXCs" with 30% of local switched business market, 15% of local residential market

Assessment rates:(Source: Staff Study, Proposal 1, 2007 data)													
Residential assessment	1.05	1.05	1.05	1.05	1.05	1.05	1.05	1.05	1.05	1.05	1.05	1.05	1.05
Multiline business assessment	2.70	2.70	2.70	2.70	2.70	2.70	2.70	2.70	2.70	2.70	2.70	2.70	2.70
One-way pager	0.11	0.11	0.11	0.11	0.11	0.11	0.11	0.11	0.11	0.11	0.11	0.11	0.11
Two-way pager	0.21	0.21	0.21	0.21	0.21	0.21	0.21	0.21	0.21	0.21	0.21	0.21	0.21
Centrex	0.30	0.30	0.30	0.30	0.30	0.30	0.30	0.30	0.30	0.30	0.30	0.30	0.30
Contributions(demand from above multiplied by assessment rates)													
Residential Wireline													
Lifeline	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Primary Lines	99.58	99.35	99.12	98.89	98.65	98.42	98.18	97.95	97.71	97.48	97.24	97.01	1,179.59
Non-Primary Lines	11.09	10.99	10.89	10.80	10.70	10.61	10.52	10.43	10.33	10.24	10.15	10.07	126.82
Total residential wireline contributions	110.67	110.34	110.01	109.68	109.36	109.03	108.70	108.37	108.05	107.72	107.40	107.07	1,306.41
"LEC" residential wireline contributions	94.07	93.79	93.51	93.23	92.95	92.67	92.40	92.12	91.84	91.57	91.29	91.01	1,110.45
"IXC" residential wireline contributions	16.60	16.55	16.50	16.45	16.40	16.35	16.31	16.26	16.21	16.16	16.11	16.06	195.96
CMRS													
Prepaid wireless telephony	6.59	6.61	6.63	6.64	6.66	6.68	6.70	6.71	6.73	6.74	6.75	6.77	80.20
Other residential basic subscription	105.36	105.14	104.91	104.65	104.39	104.10	103.80	103.48	103.15	102.80	102.43	102.05	1,246.27
Non-residential basic subscription	55.16	55.06	54.96	54.84	54.72	54.59	54.45	54.30	54.14	53.97	53.80	53.62	653.60
Residential enhanced	19.76	20.37	20.98	21.60	22.21	22.82	23.44	24.05	24.67	25.28	25.89	26.50	277.56
Non-residential enhanced	9.73	10.04	10.34	10.64	10.94	11.25	11.55	11.85	12.15	12.46	12.76	13.06	136.76
One-way pagers	1.05	1.04	1.03	1.02	1.01	1.00	0.99	0.98	0.97	0.97	0.96	0.95	11.96
Two-way/advanced Pagers	0.80	0.82	0.83	0.85	0.87	0.89	0.91	0.93	0.95	0.97	0.99	1.01	10.83
Total "CMRS" contributions	198.44	199.07	199.67	200.25	200.80	201.33	201.83	202.31	202.76	203.19	203.59	203.96	2,417.19
Switched Business Wireline													
Single line business (SLB) lines	5.72	5.72	5.72	5.72	5.72	5.72	5.72	5.72	5.72	5.72	5.72	5.72	68.62
Payphone trunks	1.10	1.09	1.09	1.08	1.07	1.06	1.06	1.05	1.04	1.04	1.03	1.02	12.74
Payphone over T1 lines	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.03
ISDN BRI	4.39	4.39	4.38	4.38	4.38	4.37	4.37	4.37	4.36	4.36	4.35	4.35	52.45
Centrex connections	4.70	4.70	4.70	4.70	4.70	4.70	4.70	4.70	4.70	4.70	4.70	4.70	56.38
Centrex provided as a T1 service	1.01	1.01	1.01	1.01	1.01	1.01	1.01	1.01	1.02	1.02	1.02	1.02	12.16
Other business trunks	66.13	65.84	65.55	65.26	64.96	64.67	64.37	64.08	63.78	63.48	63.17	62.87	774.16
PRI & Other business local exchange T1 service	22.20	22.10	22.00	21.90	21.79	21.69	21.58	21.48	21.38	21.27	21.17	21.06	259.62
Other business local exchange DS3	25.49	25.39	25.29	25.19	25.09	24.99	24.89	24.79	24.68	24.58	24.47	24.37	299.23
Total residential wireline contributions	113.83	113.34	112.84	112.35	111.85	111.35	110.85	110.34	109.83	109.32	108.81	108.30	1,333.01
"LEC" switched business wireline contributions	79.68	79.34	78.99	78.64	78.29	77.94	77.59	77.24	76.88	76.53	76.17	75.81	933.11
"IXC" switched business wireline contributions	34.15	34.00	33.85	33.70	33.55	33.40	33.25	33.10	32.95	32.80	32.64	32.49	399.90
Special access & private line*(Source: staff spreadsheet, tab "lines", lines 880, 891)*													
"LEC"	50.61	50.79	50.97	51.15	51.33	51.51	51.70	51.88	52.07	52.25	52.44	52.62	619.30
"IXC"	137.24	137.57	137.91	138.24	138.57	138.91	139.25	139.59	139.93	140.27	140.62	140.96	1,669.06
Sector Breakdown													
Total "IXC" contribution	187.99	188.13	188.26	188.40	188.53	188.67	188.81	188.95	189.09	189.23	189.37	189.51	2,264.92
Total "LEC" contribution	224.36	223.91	223.47	223.02	222.58	222.13	221.68	221.24	220.79	220.34	219.89	219.45	2,662.86
Total "CMRS" contribution	198.44	199.07	199.67	200.25	200.80	201.33	201.83	202.31	202.76	203.19	203.59	203.96	2,417.19
Total contributions	610.79	611.10	611.40	611.66	611.91	612.13	612.32	612.49	612.64	612.76	612.85	612.92	7,344.97

"IXC" share of contributions	31%
"LEC" share of contributions	36%
"CMRS" share of contributions	33%