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

Federal-State Joint Board on Universal Service	))))	CC Docket No. 96-45

COMMENTS OF AT&T CORP.

Pursuant to the Commission's *Notice*,[1] AT&T Corp. ("AT&T") submits these comments concerning the use of updated wire center line counts and other information used to calculate high-cost universal service support for non-rural carriers.

INTRODCUTION AND SUMMARY

The Commission now uses 2001 switched line count data combined with 1998-filed service allocation data to arrive at estimates of current switched line counts by customer segment. The Commission augments this switched line data process with non-switched data from the same 1998 filings to compute per line universal service support. The actual amount of support paid to each eligible carrier is then computed by multiplying those per line support levels by the number of lines served by the eligible carrier in the most recent quarter (2003 data). The current *Notice* is specifically focused on the treatment and use of the *non-switched* lines.

The Commission's guidelines regarding forward-looking economic cost in the development of the FCC's Synthesis Model clearly state that the total economies of scale

[1] Public Notice, *Wireline Competition Bureau Seeks Further Comment On Updating Line Counts Used In Calculating High-Cost Universal Service Support For Non-Rural Carriers*, DA 03-2469, Docket No. 96-45 (released July 24, 2003) ("*Notice*"), published in 68 Fed. Reg. 47564 (August 11, 2003).

and scope derived from use of the total demand of the network be reflected.[2] Thus, any conclusion of this matter must, at least, reflect the effects of *all* non-switched demand. Indeed, despite the fact that non-switched demand consists of packet data lines, such as DSL lines, in addition to traditional circuit-based special access and local and toll private lines, the FCC's past practice has been only to reflect the traditional non-switched services in its calculation of "total" demand. This limitation has caused current calculation practices to significantly *overstate* the cost of providing supported switched services. At a minimum, the FCC should maintain the current use and implementation of non-switched lines, but most usefully, the FCC should now take the opportunity to appropriately enlarge the universe of non-switched lines considered in calculating the cost of switched universal service by including *all* non-switched demand – especially the burgeoning demand for packet data services.

I. THE COMMISSION SHOULD REFLECT THE RELATIVE INCREASE IN NON-SWITCHED DEMAND.

On January 7, 2003, the Bureau released a Public Notice seeking comment on how line count and other discrete input values should be updated for purposes of determining non-rural high-cost support.[3] Specifically, consistent with past precedent, the Bureau sought comment on using year-end 2001 line counts, filed on July 31, 2002, as input values for purposes of estimating average forward-looking costs and determining

[2] *See Federal-State Joint Board on Universal Service*, CC Docket No. 96-45, Report and Order, 12 FCC Rcd 8776, para. 250 (sixth criteria) (1997) (*First Report and Order*).

[3] *See* Public Notice, *Wireline Competition Bureau Seeks Comment On Updating Line Counts And Other Limited Information Used In Calculating High-Cost Universal Service Support For Non-Rural Carriers*, DA 03-25, CC Docket No. 96-45, at 2-3 (released January 7, 2003) (*2003 Line Counts Public Notice*). The Bureau normally updates line counts and other limited information (*e.g.,* usage data) used in calculating non-rural high-cost support on an annual basis.

support for non-rural carriers during 2003.[4] The Bureau also sought comment on using the same methodology that it has used in the past to update special access lines.[5] Although there has been no resolution of this issue, the Bureau has again sought comment on the treatment of non-switched lines in the Synthesis Model.

In the current process, the Synthesis Model data development takes the relationship between switched and traditional non-switched demand reflected in the 1997 vintage data (filed in 1998) and then applies these relationships to the subsequently developed switched line count estimates. This presents two problems. The first is that over time, the growth of traditional non-switched demand has dramatically outstripped growth for switched services. Thus, the effect of the passage of time has been to

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[4] *See id.; Federal-State Joint Board on Universal Service*, CC Docket 96-45, Order, 16 FCC Rcd 22418 (Com. Car. Bur. 2001) (2002 Line Counts Update Order), *recon. pending*; *Federal-State Joint Board on Universal Service*, CC Docket 96-45, Order, 15 FCC Rcd at 23960 (Com. Car. Bur. 2000) (*2001 Line Counts Update Order*).

[5] *See 2003 Line Counts Public Notice* at 2. As the *Notice* (n.4) explains, "Only switched access lines are eligible for non-rural high-cost support, but the cost model estimates the cost of providing switched access lines and special access lines, consistent with the *First Report and Order* criterion that inclusion of all lines in a geographic area will permit the model to reflect economies of scale. *See Federal-State Joint Board on Universal Service*, CC Docket No. 96-45, Report and Order, 12 FCC Rcd 8776, 8915 (1997) (*First Report and Order*). The Bureau updated special access lines in the model in 2001 and 2002 using annual Automated Reporting Management Information System (ARMIS) data, which are reported at the study-area level. The Bureau also used information obtained from the *1999 Data Request* to allocate updated ARMIS special access lines to the appropriate wire centers. *Federal-State Joint Board on Universal Service*, CC Docket No. 96-45, *Forward-looking Mechanism for High-Cost Support for Non-rural LECs*, CC Docket No. 97-160, Order, DA 99-1406 (Com. Car. Bur. rel. July 19, 1999) (*1999 Data Request*). The *1999 Data Request* required non-rural carriers to file year-end 1998 wire center line count data for total business lines, special access lines, and single line business lines, measured as voice grade equivalent analog or digital lines. In the past, the Bureau has allocated updated ARMIS special access lines among wire centers in the same proportion as the special access lines from the *1999 Data Request* to estimate special access line count growth. *See 2001 Line Counts Update Order*, 15 FCC Rcd at 23966, para. 16; *2002 Line Counts Update Order*, 16 FCC Rcd at 22423, para. 14."

understate the overall demand on the network simply from traditional switched and non-switched services.

But the second problem is even more serious. During the same time period, growth in *non-traditional non-switched* services has burgeoned. Indeed, as of December 31, 2002, BellSouth reports that while it has 22.3 million switched lines and 19.1 traditional non-switched lines, it has *28.6 million* non-traditional non-switched lines. Qwest reports that while it has 15.7 million switched lines and 7.2 traditional non-switched lines, it has *41.7 million* non-traditional non-switched lines. And Verizon reports that while it has 56.7 million switched lines and 26.6 traditional non-switched lines, it has *52.4 million* non-traditional non-switched lines.[6]

Despite understatements in total demand due to both of the above reasons, the Bureau has questioned whether, due to complications of modeling, the Commission should just drop the non-switched lines from the process.[7] This would be highly inappropriate given the cost interdependence between switched and non-switched services and the ever-growing revenue the incumbents are deriving from these non-switched services.

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[6] SBC discontinued reporting its numbers of non-traditional non-switched lines in its financial reports in 3Q2001. However, at that time, it was showing similar amounts of such lines as the other RBOCs that continued to report. *See* 4Q2002 Earnings Reports for each of these carriers:

http://www.bellsouth.com/investor/pdf/4q02p.pdf

http://media.corporate-ir.net/mediafiles/NYS/q/reports/Q4-02Quarterly.pdf

http://investor.verizon.com/financial/quarterly/VZ/4Q2002/4Q02Bulletin.pdf

[7] *Notice* at 2.

If the Commission determines that it needs to modify the way that economies of scale and scope associated with the non-switched demand is captured, it is crucial that it ensures that *all* non-POTS services are captured, not only with regard to their effect on investment but also on expenses. For example, there has been a sharp increase in DSL penetration since the Synthesis Model was first developed. The Model should reflect that DSL service uses the same loops whose cost is reflected in the universal service estimates.

II. INCUMBENT LECS SHOULD PROVIDE THE INFORMATION NECESSARY TO ALLOCATE LINE COUNT DATA TO THE CLASSES OF UNIVERSAL SERVICE USED IN THE COMMISSION'S MODEL.

Some parties have expressed concern about the accuracy of the attribution of the non-switched lines to rural wire centers.[8] This could be solved by the Commission updating its 1998 data request in which the companies provided: (1) data for non-switched lines, (2) a breakdown of switched lines (residence, business, single-line business and public payphone) by wire center, and (3) demand relating to *all* services (including non-traditional non-switched services) to ensure that the total economies are captured. In any approach ultimately adopted, new customer location data should be supplied by all incumbent LECs, reflecting all services, POTS and otherwise, so as to properly capture the entirety of the benefits of economies of scale and scope that POTS enjoys relative to all of the other services provided over the incumbent LECs' networks. However, properly capturing the impacts on cost of all services that utilize the LECs'

[8] *See Notice* n.8 *citing* Maine/Vermont Comments at 5-6; BellSouth Reply Comments at 2.

networks but that are not explicitly modeled requires changes in the Synthesis Model that are beyond the scope of this *Notice*.

At a minimum, the Commission should refresh the data collected in the 1998 USF data request in order to update the current process. This would entail putting out a data request to all incumbent LECs to supply the same line data by wire center as supplied in 1998: channels of residential, business, single-line business and non-switched, as well as facilities of business and non-switched.[9] Specifically, the Commission should direct incumbent LECs to file updated line allocation data. And the Commission should implement a schedule requiring the incumbents to periodically update those submissions. The Commission could then use that data in the Synthesis Model to compute per line support, although the process of requesting and incorporating the data into the model would probably not be completed in time to develop the 2004 support figures.

To fully correct the demand-related issues raised in the *Notice* and other known problems with the current version of the Synthesis Model, the Commission should open a proceeding to address the above-noted changes as well as the input, platform and implementation adjustments described by AT&T in its prior pleadings.[10]

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[9] Of course, any additional data submissions relied on by the Commission to compute universal service support must be made publicly available to all third parties to verify the integrity of the universal service computations. *See, e.g.,* Comments of AT&T, *Federal-State Joint Board On Universal Service,* CC Docket No. 96-45 (filed June 26, 2000).

[10] *See, e.g.*, Comments of AT&T Corp., *Common Carrier Bureau Seeks Comment On Translation of Cost Model To Delphi Computer Language And Announces Posting Of Updated Cost Model,* CC Docket No. 96-45 (filed August 13, 2001) ("AT&T Delphi Comments") at 2-18 (describing in detail various adjustments that should be made to the Synthesis Model to more accurately estimate costs, and citing to other pleadings containing additional specific adjustments). *See also* Letter from Michael R. Lieberman, AT&T to Magalie Roman Salas, Secretary FCC, CC Docket Nos. 96-45 and 97-160, Oct. 4, 2000 (identifying issues as to route distance and location counts).

III. THE COMMISSION SHOULD CONTINUE TO USE CURRENT LINE COUNTS IF THEY ARE INCLUSIVE OF BOTH WHOLESALE AND RETAIL LINES.

The Bureau seeks comment on whether the Commission should update the cost model with year-end 2002 line count data by line type, filed as of July 31, 2003, for the purpose of estimating average forward-looking costs and determining support for non-rural carriers following a Commission decision in the *Ninth Report and Order* remand proceeding. As long as the line data being filed reflect the *total* demand, and not just the retail demand, the data being filed should be used to update the cost model line data. If, in fact, the 2002 data exclude the incumbent LECs' wholesale lines, the data request should be modified to explicitly reflect this demand. Otherwise, because of the shift in demand between retail and wholesale, 2002 data would tend to understand the demand for total lines (if it excludes wholesale lines).

CONCLUSION

For the foregoing reasons, the Commission should continue to reflect the traditional non-switched line demand in the Commission's universal service cost model and augment these data by counts of non-traditional non-switched lines. At a minimum, the Commission also should order incumbent LECs to file line count data that allocates lines among classes of service, and to provide sufficient information to allow the Commission to match the updated line counts with the wire centers in the universal service cost model. If it is determined that the Synthesis Model requires a model update, the Commission should open a proceeding to undertake a comprehensive model update that corrects the known model shortcomings as well as a more comprehensive modeling of all services which share the network. Until that proceeding is concluded, the Commission should use the most recent line count data available when computing the amount of universal service support and contribution levels

Respectfully Submitted,

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