Before the
Federal Communications Commission
Washington, DC 20554

In the Matter of	)	
	)	
Federal-State Joint Board on	)	CC Docket No. 96-45
Universal Service	)	

COMMENTS OF THE UNIVERSAL SERVICE ADMINISTRATIVE COMPANY

The Universal Service Administrative Company (USAC) submits these comments regarding the Notice of Proposed Rulemaking released in the above-captioned proceeding on June 8, 2004.[1] In the *High Cost NPRM*, the Commission sought comment from interested parties, specifically including USAC, on the recommendation of the Federal-State Joint Board on Universal Service (Joint Board) to limit the provision of high cost support to a single connection that provides a subscriber access to the public telephone network. The Commission specifically sought comment from USAC on the administration of a primary line approach. The Commission also sought comment on several related proposals to modify its rules governing the filing of annual certifications and data submissions by eligible telecommunications carriers (ETCs).[2]

USAC is the private not-for-profit corporation that administers the universal service support mechanisms pursuant to the Commission's Part 54 regulations.[3] USAC administers the universal service support mechanisms for companies that provide service to high cost areas, low-income consumers, rural health care providers, and schools and libraries, as well as the billing, collecting, and disbursing of all universal service support.

[1] *See Federal-State Joint Board on Universal Service*, CC Docket No. 96-45, Notice of Proposed Rulemaking, FCC 04-127 (rel. June 8, 2004) (*High Cost NPRM*).
[2] *See* 47 C.F.R. §§ 54.307, 54.313, 54.314, 54.809(c).
[3] *See generally* 47 C.F.R. Part 54.

The Commission has sought comment from USAC regarding numerous proposals discussed in the *High Cost NPRM*.[4] Commission rules provide that USAC "may advocate positions before the Commission and its staff only on administrative matters relating to the universal service support mechanisms."[5] Much of the discussion in the *High Cost NPRM* concerns whether certain changes in the scope of high cost support provided to carriers are warranted and appropriate as a policy matter.[6] As the neutral administrator of the universal service support mechanisms, USAC has no opinion on and cannot comment regarding the policy choices confronted by the Commission. USAC submits these Comments solely to address the administrative issues raised by the Commission in the *High Cost NPRM*.

BACKGROUND

There are five components of the high cost universal service support mechanism. High Cost Loop support provides intrastate support for the cost of the "last mile" of connection, primarily for rural companies in service areas where the cost to provide this service exceeds 115 percent of the national average.[7] Safety Net Additive support, which is a subset of High Cost Loop support, provides support to carriers that make substantial investments in their infrastructure and is intended to mitigate the cap on High Cost Loop support.[8] Safety Valve support, which is also a subset of High Cost Loop support, provides support to carriers that acquire exchanges subject to limitations on the transfer of universal service support and that make substantial investments in those acquired

[4] *See, e.g.*, *High Cost NPRM*, FCC 04-127 at ¶¶ 3, 5.
[5] 47 C.F.R. § 54.702(d).
[6] *See, e.g.*, *High Cost NPRM*, FCC 04-127 at ¶ 3.
[7] *See* 47 C.F.R. § 36.631.
[8] *See* 47 C.F.R. § 36.605.

exchanges.[9] Local Switching Support provides intrastate assistance that helps to cover the high fixed switching costs for companies that serve fewer than 50,000 customers.[10] Interstate Common Line Support provides interstate support for rate-of-return carriers, to the extent that subscriber line charge caps do not permit them to recover their common line revenue requirements.[11] Interstate Access Support helps to offset interstate access charges for price cap carriers,[12] some of which are rural. High Cost Model support provides intrastate support for the "last mile" of connection in non-rural service areas where the cost to provide this service exceeds two standard deviations above the national average.[13] Four of these components – High Cost Loop support (including Safety Net Additive support and Safety Valve support), Local Switching Support, Interstate Common Line Support, and Interstate Access Support – are available to rural telephone companies[14] and their competitors.

Under the Commission's current rules, high cost support available to rural incumbent local exchange carriers (ILECs) is calculated on the basis of the ILECs' embedded costs.[15] High Cost Model support, available only to non-rural carriers, is based on forward-looking economic costs.[16] Competitive eligible telecommunications carriers (CETCs) receive the same per-line support amount as the ILECs' in whose study

[9] *See* 47 C.F.R. § 54.305(b)-(f).
[10] *See* 47 C.F.R. § 54.301.
[11] *See generally* 47 C.F.R. § 54.901. Long Term Support ended effective July 1, 2004, when it was merged into Interstate Common Line Support. *See Multi-Association Group (MAG) Plan for Regulation of Interstate Services of Non-Price Cap Incumbent Local Exchange Carriers and Interexchange Carriers, Federal-State Joint Board on Universal Service,* CC Docket Nos. 00-256, 96-45, Report and Order and Second Further Notice of Proposed Rulemaking, FCC 04-31 (rel. Feb. 26, 2004) (*ICLS/LTS Merger Order*) at ¶ 61.
[12] *See generally* 47 C.F.R. § 54.800.
[13] *See* 47 C.F.R. § 309.
[14] *See* 47 C.F.R. § 51.5 (defining "rural telephone company").
[15] *See, e.g.,* 47 C.F.R. §§ 36.611 (High Cost Loop support); 54.301(b) (Local Switching Support); 54.802 (Interstate Access Support); and 54.903 (Interstate Common Line Support).
[16] *See* 47 C.F.R. § 54.309(a).

areas the CETCs serve.[17] Both ILECs and CETCs receive support for each residential and business line served.[18]

In the *Recommended Decision*,[19] the Joint Board recommended that the Commission limit the scope of high cost support to a single connection that provides access to the public telephone network. In addition, the Joint Board outlined three proposals for minimizing the potential impact of restricting the scope of support in areas served by rural carriers: the restatement, lump sum, and hold harmless proposals.[20] Under the restatement proposal, the total amount of high cost support flowing to an area served by a rural carrier could be restated in terms of support per first line, rather than per line, without any effect on the amount of support received by the rural carrier at the time support is restated. Under the lump sum payment proposal, the Commission could provide supplemental lump sum payments to avoid any immediate effects on rural carriers as a result of limiting the scope of support. Under the hold harmless proposal, per-line support available to CETCs would freeze upon competitive entry and support to the ILECs would remain stable.

The Joint Board also recommended that high cost support in areas served by rural companies be capped on a per-primary line basis when a competitive ETC is present or when a competitive ETC enters the market. The Joint Board recommended that per-primary line support would be adjusted annually based on an index factor, rather than changes in the rural carrier's embedded costs.[21]

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[17] *See* 47 C.F.R. § 54.307.
[18] *See Federal-State Joint Board on Universal Service*, CC Docket No. 96-45, Report and Order, 12 FCC Rcd 8776, 8829-30, ¶¶ 95-96 (1997) (*First Universal Service Report and Order*).
[19] *See Federal-State Joint Board on Universal Service*, CC Docket No. 96-45, Recommended Decision, 19 FCC Rcd 4257 (2004) (*Recommended Decision*).
[20] *See id.* at ¶¶ 73-76.
[21] *Id.* at ¶ 77.

In the *High Cost NPRM*, the Commission seeks comment from USAC in two areas: (1) the administration of a primary line approach to the provision of high cost support;[22] and (2) certain proposals to modify its rules governing the filing of annual certifications and data submissions by ETCs.[23] The issues on which USAC will comment with respect to the primary line proposal are outlined in the preceding paragraphs.

With respect to the proposed rules modifications, the Commission seeks comment on whether to amend its rules to allow newly designated ETCs to begin receiving high cost support as of their ETC designation date, provided that the required certifications and line count data are filed within 60 days of the carrier's ETC designation date. The Commission also seeks comment on a procedure for accepting untimely-filed certifications for Interstate Access Support that would mirror the procedures currently in place for Interstate Common Line Support certifications. The Commission requested that USAC address any operational issues relating to these proposals, particularly with respect to any administrative burdens that may be associated with them.[24]

DISCUSSION

USAC's comments are limited to a discussion of the administrative aspects of the primary line proposal, the suggested rules modifications on which the Commission sought USAC's input, and general eligible telecommunications carrier (ETC) designation issues. USAC expresses no opinion on the desirability of changing or retaining the existing rules. Because the Commission sets forth various options with respect to the primary line proposal in relatively general terms, USAC's comments on that issue are, necessarily, somewhat general at this time and, in several instances, USAC poses

[22] *High Cost NPRM*, FCC 04-127 at ¶ 3.
[23] *Id.* at ¶ 5.
[24] *Id.*

questions that will require additional clarification in order to address fully the administrative implications of particular options. If commenters submit more detailed proposals with respect to implementing a primary line restriction, USAC will seek to address to the extent possible any potential administrative impacts in its reply comments.

The full administrative implications of any policy and/or rules changes will depend in large part on the details of any new approach chosen by the Commission. Although the administrative issues may be more or less challenging depending on the approach selected by the Commission, USAC stands ready to implement any changes to current policy that may result from this proceeding. Whatever the approach ultimately selected by the Commission, USAC urges the Commission to adopt clear rules, provide clear direction to USAC and carriers, and choose a process that is transparent, enforceable, and fully auditable.

A. Proposal to Limit High Cost Support to Primary Lines

1. Definition of "Primary Line"

In the *Recommended Decision*, the Joint Board highlighted proposals whereby individual consumers would be responsible for choosing which of their telephone lines would be designated as their primary line.[25] If the Commission were to adopt such an approach, USAC believes it would be critical to clearly define who constitutes the "consumer" to enable effective administration. Would a consumer be the named individual on a telephone bill? Alternatively, would a consumer be defined by a unique identifier, such as a social security number? Moreover, could there be multiple consumers within a single residence and, if so, how many primary lines could be designated for a single address? For example, more than one family may live in a single

[25] *See Recommended Decision*, 19 FCC Rcd at ¶¶ 57, 82.

home, with each family having its own separate telephone service. Would each of those families be considered a consumer and therefore eligible to designate a primary line for purposes of universal service? If not, who would have the authority to make the primary line designation for the address? Would it be the first individual to submit the primary line selection to its carrier of choice, or would it be the last individual to make that election?

Depending on the answers to the above questions, USAC may need to collect customer-specific information for each line served by rural ILECs and the CETCs that serve in their study areas, as discussed in greater detail in section 2(i) below. If the Commission were to determine, for example, that multiple individuals living at the same address could designate separate primary lines, how would USAC distinguish that situation from one in which a single individual simply designated multiple primary lines without access to unique identifying information for each consumer? These same questions arise with respect to multi-line businesses if the Commission were to recognize multiple primary lines in some cases. Without information such as name, address, and possibly some other unique identifier, the primary line selection process has the potential to raise serious issues of waste, fraud, and abuse.

With respect to the definition of a primary line, USAC assumes that the Commission would define the meaning of primary line in its rules. For any primary line proposal, this approach would be the least burdensome. If the responsibility for defining primary line were given to the states, administration and implementation would be far more complex. If the states defined primary line, it is quite possible that there would be multiple definitions and USAC would be required, for example, to maintain and update a database containing all current information and definitions of primary line.

2. General Administrative Issues

USAC has identified a number of administrative issues that may arise upon the limitation of high cost support to primary lines. These issues fall into five categories: (1) data collection issues; (2) additional USAC responsibilities; (3) USAC resource issues; (4) FCC quarterly filing and high cost disbursement issues; and (5) implementation issues.

i. Data Collection Issues

The high cost data that carriers are required to submit today, while substantial, is limited to company-specific data, such as cost, expense, investment, revenue requirement, and line count information. At least some of that data is submitted directly to the National Exchange Carrier Association (NECA), pursuant to Part 36 of the Commission's rules,[26] or to NECA acting as agent for the ILECs.[27] NECA, in turn, is required to submit that information to USAC. Some subset of the total ILEC and CETC lines currently receiving high cost support would be characterized as primary lines. Though that number cannot be accurately quantified at this time, it is reasonable to estimate that primary lines would number in the millions.

USAC believes that, in order to properly administer a primary line approach and protect the Universal Service Fund from waste, fraud, and abuse, it would have to collect substantially more data than it collects today. For example, USAC may have to collect

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[26] *See* 47 C.F.R. §§ 36.611, 612 (requiring ILECs to submit cost, expense, investment, and line count information for High Cost Loop support and High Cost Model support to NECA).

[27] NECA currently acts as agent for most rate-of-return ILECs eligible to receive Interstate Common Line Support, as well as for the members of its traffic-sensitive pool that are eligible to receive Local Switching Support.

customer-specific information for every primary line served by ILECs and CETCs. This information could include customer name, address, and perhaps even a unique identifier. USAC would need this information to verify that each customer has chosen only one primary line and, in turn, that only one carrier is seeking high cost support for each primary line reported.

Even if USAC were not required to validate each primary line, USAC believes that collecting information at the customer level for all primary lines served by ILECs and CETCs may be necessary in order to conduct the appropriate data validation required to mitigate against waste, fraud, and abuse and to ensure that USAC is in compliance with all Commission regulations and other federal financial requirements, including potentially the Improper Payments Improvement Act of 2002. USAC recommends that such information be submitted directly to USAC and not through an intermediary such as NECA, as is the case under current high cost program rules, so that USAC can properly review and manage the data prior to making support payments, as well as validate and audit the data as appropriate.

USAC believes that it may also be necessary to collect customer class information (residential, single line business, multi-line business) for each primary line served by ILECs and CETCs because the definition of primary line may differ for residential versus business lines.[28] In addition, at least two components of high cost support – Interstate

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[28] *See Recommended Decision*, 19 FCC Rcd at ¶ 84 (stating that "[o]ne possible means to address such concerns with regard to small businesses is to allow high-cost support for some designated number of multiple connections for businesses, rather than restricting support to a single business connection.")**.**

Access Support and Interstate Common Line Support – currently require that carriers file lines by customer class.[29]

Because there would likely be significant "churn" among carriers' primary lines, USAC believes that all of the data submitted would have to be updated periodically. USAC believes that the data would have to be updated on at least a quarterly basis, but it is quite possible that more frequent updates would be necessary. In addition, it will be important for the Commission to determine how it expects to align historical embedded cost, expense, and investment data with primary line count data, particularly during any transition period.

ii. Additional USAC Responsibilities

USAC believes that its role in administering the high cost universal service support mechanism would change significantly in certain respects if the Commission adopted a primary line approach. For example, under the current rules, USAC maintains a direct relationship with carriers, both ILECs and CETCs. USAC collects data directly from these entities or their agents and communicates directly on issues such as filing deadlines and other reminders. If the Commission adopts a primary line approach, it is quite possible that USAC would have to establish direct relationships with end-user consumers for the collection and validation of primary line elections. If the Commission were to adopt this approach, USAC's data collection responsibilities would increase significantly, as would its administrative expenses, and potentially the scale and content of its outreach functions.

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[29] *See* 47 C.F.R. §§ 54.802(a) (Interstate Access Support line count filing requirements); 54.903(a)(1) (Interstate Common Line Support line count filing requirements).

In addition, USAC could be required to participate in dispute resolution if an incumbent carrier and a competitive carrier claimed primary line status for the same customer. At the very least, USAC would be required to perform a quarterly reconciliation to ensure that each customer is claiming only one primary line and that only one carrier is seeking support for that customer. If there were a true-up process, it would account for customers that change carriers within quarters. While USAC performs quarterly reconciliations and periodic true-ups today, the sheer volume of the data to be reconciled under a primary line approach would significantly expand those responsibilities.

USAC also believes that a primary line approach may require additional program integrity and enforcement resources – at the Commission, at USAC, or both. If support is only provided for a primary line to a single carrier, the incentive for slamming may increase. USAC would need to track reported slamming incidents and undertake a process of referring such issues to the FCC on a periodic basis. Depending on the exact parameters of any primary line approach the Commission might adopt, other USAC responsibilities could expand as well.

iii. USAC Resource Issues

Because of the generality of the proposals currently under consideration, it is not possible to determine the full impact of a primary line approach on USAC's resources at this time. USAC believes, however, that since inherent in any change is an impact on its operations, it is reasonable to assume a significant impact on its operations if the Commission adopts a primary line approach. For example, the systems that USAC uses to process data would have to be substantially overhauled and expanded in order to accommodate the vastly increased amount and type of data required under a primary line approach, which would result in significant information technology development costs. In addition, because certain high cost support mechanism rules require true-ups to prior periods,[30] USAC would need to maintain existing systems in order to handle the pre-primary line data that would be subject to true-up. USAC would need to significantly increase its staff, including, for example, additional data entry clerks, data validation personnel, call center staff, and auditors. In addition, USAC would need to develop new business processes and procedures to accommodate what would likely be significant Commission rule changes.

In order to make the primary line election process as smooth as possible and to create auditable records, USAC and the Commission would need to develop new forms for carriers' or customers' data submissions. All USAC forms require Commission review and Office of Management and Budget (OMB) approval. USAC would also have to undertake significant outreach efforts to educate ILECs, CETCs, and consumers about their new obligations under a primary line approach. The foregoing is not intended to be an exhaustive list of the additional resources that would be required; it is instead a sample of what USAC believes would be required if a primary line approach is adopted.

iv. FCC Quarterly Filing and Disbursement Issues

Pursuant to Commission rules, USAC is required to file universal service demand information at least 60 days in advance of each quarter.[31] This information, together with revenue information reported by contributors, is what the Commission uses to calculate

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[30] *See, e.g.*, 47 C.F.R. § 54.301(e)(Local Switching Support true-up); 47 C.F.R. § 54.903(b)(3) (Interstate Common Line support true-up).
[31] 47 C.F.R. § 54.709(a)(3).

the quarterly contribution factor.[32] This factor, in turn, is what USAC uses to determine carrier universal service contribution obligations and determines how much money USAC will have available for disbursements on a quarterly basis.[33] With respect to high cost support mechanism payments, it is USAC's practice to make carrier payments at the end of the month following the month for which payments are being disbursed. For example, a carrier's July payment would be disbursed at the end of August.

Adoption of a primary line approach likely would have an impact on both USAC's quarterly Commission filing and carrier disbursement schedules. Under the current rules, rural incumbent carriers are required to file line count information on a quarterly basis if a competitive carrier is serving in the incumbents' study areas.[34] Non-rural incumbent carriers eligible for Interstate Access Support and High Cost Model support, as well as all competitive carriers, are also required to file line count information on a quarterly basis.[35] On December 31 of each year, for example, USAC receives line count filings that must be incorporated into its second quarter Commission demand filing, which is due on or before February 1. Before USAC can generate projections for that filing, it must review and validate all of the line count information and receive approval from its Board of Directors to make the filing. The time frame under the current rules is very tight. If the Commission were to adopt a primary line approach and USAC were required to validate all or even some percentage of customer elections for primary lines, it would add a level of complexity to USAC's procedures that would likely prevent

[32] 47 C.F.R. § 54.709(a)(1).
[33] 47 C.F.R. § 54.709(a).
[34] *See* 47 C.F.R. §§ 36.612(a), 54.903(a)(2).
[35] *See* 47 C.F.R. §§ 54.802(a) (Interstate Access Support line count requirement); 36.612 (High Cost Model support line count requirement); 54.307(c) (CETC line count requirement). Rural price cap carriers are also eligible for Interstate Access Support.

quarterly demand filings from being submitted to the Commission under the existing schedule. There could be a similar impact on USAC's ability to generate monthly disbursements under its current schedule.

v. Transition and Implementation Issues

As discussed above, regardless of the specific approach adopted, conversion to a primary line approach for the high cost support mechanism would represent a substantial change in USAC's current operations. USAC is likely to need at least one year to implement the rules changes that would accompany a shift to a primary line approach. USAC would need at least that amount of time to hire and train additional personnel, develop and test new systems, draft forms and have them approved, conduct outreach to carriers and consumers, and complete the additional tasks that would be required for successful implementation of a primary line approach. Depending on the specific rule changes that the Commission may adopt, it is quite possible that USAC would need significantly more than a year to implement a suitable process, particularly one that would deter potential waste, fraud, and abuse of the high cost universal service support mechanism.

3. Specific Primary Line Proposals

In the *Recommended Decision,* the Joint Board recommended that the Commission take steps to mitigate reductions in the amount of high cost support available to rural areas as a result of a primary line restriction.[36] USAC has identified some preliminary administrative issues and questions raised by the three proposals presented by the Joint Board: the restatement proposal, the lump sum payment proposal, and the "hold harmlesss" proposal. The full extent of administrative issues related to

[36] *See Recommended Decision*, 19 FCC Rcd at ¶ 72-76.

USAC's calculation of per-primary line support can only be determined once detailed operational requirements are identified, business processes are defined and modeled, and manpower and business systems changes are addressed. USAC anticipates that any one of these primary line proposals would add a substantial level of complexity to the administration of high cost funds in rural areas.

i. Restatement Proposal

USAC's questions with respect to the restatement approach proposed in the *Recommended Decision* include, but are not limited to the following: How often would support be restated once the baseline per-primary line support is established, and would these rates be subject to revisions or true-ups of prior period incumbent carrier data? Are per-primary line support amounts for CETC portability purposes subject to change due to incumbent carrier data revisions? Will alternate methodologies be used for restating support where a CETC is designated below the rural incumbent study area level for the areas with and without competition?

ii. Lump Sum Proposal

In addition to the questions on the restatement proposal, there are a number of additional questions specific to the lump sum proposal. What would be the duration of the lump sum payment? Would a lump sum payment be subject to change over time? For example, would the addition of new primary lines by a rural ILEC cause the lump sum to decrease? Would rural ILECs have to provide any cost, expense, or investment data to justify the continuation of the lump sum payment year over year?

iii. "Hold Harmless" Proposal

As with the preceding primary line proposals, USAC has identified a number of general questions with regard to administration of a hold harmless proposal. Paragraph 75 of the *Recommended Decision* appears to suggest that rural ILECs would continue to submit their costs and projected costs as contemplated by existing high cost rules and would, in turn, continue to receive support based on their embedded costs. Does the Commission, therefore, contemplate under this proposal that only CETCs and not rural ILECs would be required to report primary lines? Would consumer and/or household selection of a primary line have an impact on a rural ILEC's high cost support in any manner?

iv. Additional Considerations on Specific Primary Line Proposals

USAC has identified several additional issues that would be raised under any of the proposals outlined in the *Recommended Decision* to mitigate the loss of support to rural carriers. For example, none of the proposals discusses per-primary line support in the context of disaggregation and existing competition. Pursuant to the *Rural Task Force Order*, rural carriers were required to submit disaggregation plans by May 15, 2002.[37] Of the 1,458 rural ILEC study areas, approximately 250 chose to disaggregate support. The *Recommended Decision* is silent on the impact of a primary line approach on existing disaggregation plans; in fact, it specifically states that "[r]ural carriers are eligible for high-cost support based on total embedded costs averaged on a study-area level."[38] One

[37] *Federal-State Joint Board on Universal Service, Multi-Association Group (MAG) Plan for Regulation if Interstate Services of Non-Price Cap Incumbent Local Exchange Carriers and Interexchange Carriers,* CC Docket Nos. 96-45, 00-256, Fourteenth Report and Order, Twenty-Second Order on Reconsideration, and Further Notice of Proposed Rulemaking in CC Docket No. 96-45, and Report and Order in CC Docket No. 00-256, 16 FCC Rcd 1244 (2001) (*Rural Task Force Order*) at ¶¶ 144 – 164.
[38] *See Recommended Decision*, 19 FCC Rcd at ¶ 73.

question, therefore, is how the Commission would expect targeting through existing disaggregation plans to be used in determining per-primary line support.

Other matters may also add to the administrative challenges. For example, many rural carriers have study areas covering two jurisdictions. Where one jurisdiction designates a CETC for the portion of the study area for which it has authority, there may be implications for the entire study area across both jurisdictions. Will the part of the study area encountering competition be subject to restatement while the other portion of the study area continues with no restatement for its portion of embedded costs?

4. Proposal to Limit Per-Primary Line Support Upon Competitive Entry

USAC has identified a number of administrative issues with respect to capping per-primary line support upon competitive entry in rural ILEC study areas and then adjusting that support annually by an index factor. For example, such an approach would create an entirely new set of support calculations for a subset of rural incumbent carriers and the CETCs serving lines in these rural study areas. Under the Commission's rules, currently there are five support components received by rural ILECs and the CETCs serving in those ILECs' study areas: High Cost Loop Support, Safety Net Additive support, Local Switching Support, Interstate Common Line Support, and Interstate Access Support.[39]

Because support for each of these components is calculated separately and because support is calculated differently for rural ILECs and CETCs, there are essentially ten separate sets of calculations currently performed for ILECs and CETCs serving in

[39] USAC notes that the Joint Board did not recommend limiting the scope of Interstate Access Support to primary lines at this time "because the interstate access support methodology prevents support increases due to competitive ETC entry." *See Recommended Decision*, 19 FCC Rcd at ¶ 73 n. 274. Because the Commission did not indicate whether it agreed with that approach, USAC assumes for the sake of analysis that Interstate Access Support would also be subject to a primary line restriction.

rural ILECs' study areas. Capping support for a subset of rural ILECs (*i.e.,* those with competition) would mean that that subset would be subject to a different set of calculations. USAC believes that this approach would add another layer of complexity to the high cost support calculations.

Further calculation complexity may occur where capped per-primary line support is subject to revision based on true-ups. Local Switching Support and Interstate Common Line Support are based on projected values for any given calendar and tariff year so, upon true-up, the initially capped rates will change. Those initially capped rates would be subject to increase by an annual index factor, which could serve to add another layer of complexity to the support calculations.

With respect to the index factor, USAC questions whether the Commission contemplates that a single factor will apply across all components of high cost support available to rural ILECs and their competitors or, in the alternative, whether a separate factor would be applied per component. If different factors are applied, an additional level of complexity would be inserted into the high cost support calculations. A single index factor, on the other hand, would ease the administrative impact on USAC.

Finally, certain components of high cost support are calculated and disbursed on a calendar year basis, while other components are calculated and disbursed on a tariff year basis. For example, High Cost Loop support and Local Switching Support operate on a calendar year basis, while Interstate Common Line Support operates on a tariff year basis (*i.e.,* July 1 through June 30). Does the Commission anticipate that the index factor would be calculated and applied to per-primary line rates at the same time each year or at the beginning of the relevant operating year for the different components of high cost support?

B. Other Issues

1. Proposal on Timing of Support for Newly-Designated ETCs

In the *High Cost NPRM*, the Commission proposes to amend its rules to allow newly designated ETCs to begin receiving high cost support as of their ETC designation date, provided that the required certifications and line count data are filed within sixty (60) days of the carrier's ETC designation date.[40] USAC does not believe that such a rule change would impose a significant administrative burden.

USAC wants to make clear, however, that the flow of high cost support to the newly designated ETC could not begin until the carrier's line count information is included in USAC's quarterly demand projection to the Commission. Unless a carrier's line count information is included in a quarterly demand projection, USAC does not project support for that carrier and funds are not, therefore, collected to pay the carrier. Once the newly-designated ETC submits line counts and certifications, USAC will include the ETC's information in its next quarterly demand filing. When that quarter's high cost support begins to flow, the ETC will receive the current quarter's support as well as any retroactive support for which the carrier is eligible from the effective date of its ETC designation order.

2. Proposal to Accept Untimely Filed Interstate Access Support Certifications

The Commission's rules require that carriers eligible for Interstate Common Line Support and Interstate Access support submit an annual use self-certification on June 30th

[40] *High Cost NPRM*, FCC 04-127at ¶ 5.

of each year.[41] Pursuant to the *MAG Order*, a carrier untimely filing its annual Interstate Common Line Support self-certification is not eligible for support until the second calendar quarter after the certification is filed.[42] The rules and orders are silent with respect to what happens when a carrier untimely files its Interstate Access Support self-certification so, as a result, such a carrier loses support for the entire program year. The Commission proposes to amend its Interstate Access certification rules to make them consistent with its Interstate Common Line Support rules, so that untimely filed self-certifications are treated in the same manner for both high cost support components.[43]

USAC fully supports this administrative change to the rules and does not contemplate any attendant administrative burden.

3. General ETC Designation Issues

In the *High Cost NPRM*, the Commission seeks comment on a number of issues with respect to the ETC designation process.[44] While USAC is not commenting on the substance of the policy issues raised in the *High Cost NPRM* and the *Recommended Decision*, USAC would like to address the content of ETC designation orders issued by state commissions and the FCC.

As the universal service administrator, USAC is required to ensure that ETCs, both incumbents and competitors, are paid only in the areas in which they are eligible to

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[41] *See* 47 C.F.R. §§ 54.809, 54.904 (stating that carriers must submit annual certifications stating that all Interstate Access and Interstate Common Line universal service support "will be used only for the provision, maintenance, and upgrading of facilities and services for which the support is intended").
[42] *See Multi-Association Group (MAG) Plan for Regulation of Interstate Services of Non-Price Cap Incumbent Local Exchange Carriers and Interexchange Carriers, Federal-State Joint Board on Universal Service, Access Charge Reform for Incumbent Local Exchange Carriers Subject to Rate-of-Return Regulation, Prescribing the Authorized rate of Return for Interstate Services of Local Exchange Carriers*, CC Docket Nos. 00-256, 96-45, 98-77, 98-166, Second Report and order and Further Notice of Proposed Rulemaking in CC Docket No. 00-256, Fifteenth Report and Order in CC Docket No. 96-45, and Report and Order in CC Docket Nos. 98-77 and 98-166, FCC 01-304 (2001) (*MAG Order*) at ¶ 176. This requirement is not contained in a Commission rule.
[43] *High Cost NPRM*, FCC 04-127at ¶ 5.
[44] *See id.* at ¶ 2.

receive support. Because the carrier's ETC designation order is the document upon which USAC relies to make such determinations, it is critically important that the order contain all of the information necessary to determine exactly where a carrier has been designated. This is particularly critical for CETCs because they are frequently designated to serve in multiple ILEC study areas or in parts of ILEC study areas.

USAC, therefore, requests that the ETC designation orders be as specific as possible and contain at least the following information: (1) the name of each ILEC study area in which a CETC has been designated; (2) a clear statement of whether the CETC has been designated in all or part of each ILEC's study area; (3) a list of all wire centers in which the CETC has been designated, using either the wire center's common name or the CLLI (Common Language Location Identification) code; and (4) if follow-up filings or other conditions have been imposed before the ETC designation is final, a requirement that USAC be notified when the conditions have been fulfilled. Inclusion of this information in ETC designation orders will greatly facilitate USAC's data validation and other efforts to ensure that all carriers receive high cost support only in the areas in which they have been deemed eligible.

CONCLUSION

USAC welcomes the opportunity to respond to the Commission's request for comment as the Commission considers changes to the existing high cost support mechanism. Although the administrative issues may be more or less challenging depending on the approach selected by the Commission, USAC stands ready to implement any changes to current policy that result from this proceeding.

Respectfully submitted,

UNIVERSAL SERVICE
ADMINISTRATIVE COMPANY

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