

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

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

REPLY COMMENTS

BellSouth Corporation, on behalf of itself and its wholly owned subsidiaries, (“BellSouth”), submits this reply to selected comments filed in response to the *Public Notice* released by the Federal-State Joint Board on Universal Service (“Joint Board”) on August 16, 2004.¹

In its *Public Notice*, the Joint Board sought comment on issues referred to it by the Commission relating to the high-cost universal support mechanisms for rural carriers and the appropriate rural mechanism to succeed the five-year plan adopted in the *Rural Task Force Order*.² BellSouth agrees with those comments that advocate a comprehensive review of universal service support, and comprehensive consideration of related issues in pending universal service proceedings. Until that time, the current rural high-cost universal service support mechanism should remain unchanged.

Any substantive review of universal service support programs that enable rural LECs to provide quality services in high cost areas must take into account the dramatic changes that have

¹ *Federal-State Joint Board on Universal Service Seeks Comment on Certain of the Commission’s Rules Relating to High-Cost Universal Service Support*, CC Docket No. 96-45, *Public Notice*, FCC 04J-2 (rel. Aug. 16, 2004) (“*Public Notice*”).

² *Id.*, ¶ 1.

occurred in the voice and data communications space in recent years.³ This includes the expansion of the “universe” of all types of communications carriers beyond the boundaries that existed when the FCC first identified contributors to universal service.⁴ The review must also consider the potential outcomes of other interrelated proceedings before the Joint Board recommends any changes to the current rural support mechanism.⁵ These proceedings include the intercarrier compensation reform proceeding and the open proceeding on universal service fund contribution methodology.⁶

This review will amply demonstrate that any increase in the high cost universal service fund is not a direct result of rural carriers.⁷ Rural carrier costs have not even grown as fast as the Gross Domestic Product (“GDP”)-Consumer Price Index (“CPI”).⁸ Yet the high cost fund has expanded even as the historical growth in rural carrier costs per line has averaged less than the growth in GDP-CPI over the past five years.⁹ This expansion seems to be caused by the creation of new explicit universal service mechanisms¹⁰ and, in particular, the continued designation of

³ Comments of the National Exchange Carrier Association, Inc. (“NECA Comments”) at 8. As NECA points out, these changes include explosive growth in mobile phone service, the concurrent lack of growth, and even decline, in wireline access lines; the use of e-mail and instant messaging, and the emergence of Internet Protocol (“IP”)-enabled services. *Id.* at 6-9.

⁴ Comments of the National Telecommunications Cooperative Association (“NTCA Comments”) at 15.

⁵ Comments of the Organization for the Promotion and Advancement of Small Telecommunications Companies (“OPASTCO Comments”) at 25.

⁶ *Id.* at 25-27.

⁷ Comments of the Regulatory Commission of Alaska at 21-22.

⁸ NECA Comments at 9.

⁹ *Id.* at 9-10.

¹⁰ *Id.* at 10.

competitive eligible telecommunications carriers (“ETCs”) in areas served by rural carriers.¹¹ Thus, current proposals to alter the definition of “rural telephone company” in an effort to reduce the size of the fund are inappropriate. Moreover, the Commission is scheduled to address the increase in high-cost funding in the open ETC/portability proceeding in early 2005.¹² Not only is it premature and inefficient to attempt to design different support mechanisms based on the number of lines served by rural carriers before a comprehensive reform of the universal service fund is addressed either by the Commission or Congress, such efforts would only serve to add complexity and cost to the existing mechanism.¹³

Until such a review can be completed, the Joint Board should continue to use embedded costs as the basis of support for rural carriers operating in high-cost areas and the continued use of incumbent local exchange carrier costs as the basis of support for competitive ETCs.¹⁴ A forward-looking economic cost methodology cannot accurately predict costs among diverse rural areas.¹⁵ An embedded cost methodology, on the other hand, most clearly satisfies the statutory requirement that federal universal service support be specific, predictable and sufficient.¹⁶ This was the original conclusion of the Rural Task Force (“RTF”), which spent years analyzing the issue and prepared six detailed white papers in concluding that a rural support mechanism that

¹¹ Comments of John Staurulakis, Inc. (“JSI Comments”) at 3-4; NECA Comments at 10-13; Comments of AT&T Corp. (“AT&T Comments”) at 3-6.

¹² *See, e.g.*, Comments of the United States Telecom Association (“USTA Comments”) at 7; Comments of Sprint Corporation (“Sprint Comments”) at 7-9.

¹³ Comments of Fairpoint Communications (“Fairpoint Comments”) at 16, 17.

¹⁴ USTA Comments at 9.

¹⁵ Comments of ACS of Alaska, Inc., ACS of Fairbanks, Inc., ACS of the Northland, Inc. and ACS of Anchorage, Inc. (“ACS Comments”) at 10.

¹⁶ JSI Comments at 12. *See also* Comments of the Independent Telephone and Telecommunications Alliance at 11-14.

bases support on embedded costs rather than forward-looking economic cost estimates achieves Congress' express goal of ensuring that the availability of telecommunications services in rural areas is comparable to urban areas in terms of both rates and quality.¹⁷

Current forward-looking cost models are plainly inapplicable to the rural context.¹⁸ In particular, the RTF has plainly demonstrated, based on substantial evaluation, that there are a wide variety of concerns that would arise in the event this model were to be used as a tool for determining the forward-looking cost of rural carriers.¹⁹ The diversity of the nation's rural areas makes the structural and input bias of current forward-looking cost models especially problematic in this context.²⁰ For instance, as BellSouth and other carriers have demonstrated in response to a separate public notice in this docket, current forward-looking cost models do not use accurate line count, customer count or road data, which results in false economies of scale not reflective of actual conditions found in the telecommunications network today.²¹ The net effect of these shortcomings of using updated line counts in the current model is the continued understatement of the per-line costs of universal service, thus substantially reducing support for non-rural carriers and ratepayers.²² Just as the Joint Board's continuing practice of updating line counts without updating customer locations and roads will exacerbate the fundamental problem of using asynchronous data sets, so will the unprincipled adoption of forward-looking cost

¹⁷ Alaska Telephone Association's Comments at 9-17.

¹⁸ Fairpoint Comments at 13-14; Comments of Fred Williamson & Associates, Inc. at 12-15.

¹⁹ Comments of GVNW Consulting, Inc. at 10-13.

²⁰ Comments of the Rural Oklahoma Telecommunications Coalition at 5-7.

²¹ BellSouth Nov. 19, 2004 Reply Comments at 2.

²² *Id.* at 3.

models for use in the context of the high cost rural universal service support distort actual funding needs.

CONCLUSION

The comments demonstrate that the Joint Board should undertake a comprehensive review of existing USF mechanisms, and until that time, continue to calculate high cost rural support using embedded costs.

Respectfully submitted,

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CERTIFICATE OF SERVICE

I do hereby certify that I have this 14th day of December 2004 served the following parties to this action with a copy of the foregoing **REPLY COMMENTS OF BELLSOUTH** by electronic filing and/or by placing a copy of the same in the United States Mail, addressed to the parties listed on the attached service list.

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