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
High-Cost Universal Service Support	WC Docket No. 05-337

ERRATUM

On March 27, 2006, BellSouth Corporation, on behalf of its wholly owned subsidiaries ("BellSouth"), filed its Comments in the above proceeding with the Commission. Upon review, BellSouth discovered that footnotes 8-10, and 57 contain incorrect page cites to BellSouth's Appendix.

BellSouth requests that the Commission accept this erratum with the corrected version of BellSouth's Comments.

Respectfully submitted,

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COMMENTS OF BELLSOUTH CORPORATION

BellSouth Corporation, on behalf of itself and its wholly owned subsidiaries ("BellSouth"), hereby submits its comments in response to the *Notice of Proposed Rulemaking* ("*Notice*") released on December 9, 2005 in the above-captioned proceeding.[1] BellSouth asserts that the Commission should not – and need not – radically depart from its existing funding methodology for calculating high-cost universal service support for non-rural carriers. The Commission can, and should, tailor its high-cost funding approach to address the definitional issues raised by the U.S. Court of Appeals for the Tenth Circuit in *Qwest II*.[2] Consistent with these objectives, BellSouth proposes herein a new bifurcated mechanism that first establishes a rate-based benchmark to determine carrier eligibility. Once eligibility is established, the amount of federal support received continues to be based upon forward-looking costs, as determined by

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1 *Federal-State Joint Board on Universal Service; High-Cost Universal Service Support*, , CC Docket No. 96-45 & WC Docket No. 05-337, *Notice of Proposed Rulemaking*, FCC 05-205 (rel. Dec. 9, 2005) ("*Notice*").

2 *Qwest Communications Int'l, Inc. v. FCC*, 398 F.3d 1222 (10th Cir. 2005) ("*Qwest II*").

the existing Synthesis Cost Model,[3] and averaged at the state level. These costs are then compared to a national urban rate benchmark (rather than a cost-based benchmark as is the case under the existing mechanism) to determine support levels.

I. INTRODUCTION AND SUMMARY

In order to address the *Qwest II* court's concerns, BellSouth proposes two rate-based tests to determine eligibility for high-cost support, first comparing the average rural and urban rates within each state, and next comparing each state's average rural rates to a national urban rate benchmark. Support levels are then calculated by comparing the forward-looking costs of providing supported services, averaged at the statewide level, to a national urban rate benchmark. BellSouth's plan provides a solid framework to establish "reasonable comparability" of rural and urban rates and to satisfy the *Qwest II* court's concerns.

In support of its Rate-Based Benchmark ("RBB") proposal, BellSouth presents herewith Appendix A, listing national urban and rural residential flat rates and costs.[4] Encompassed

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[3] The Commission's forward-looking cost model (*i.e.,* the "Synthesis Cost Model" or "Synthesis Model").

[4] In the absence of company-provided rate information, the data presented here captures the best available, vendor-provided data set on Residential Flat Rates. The flat rate value includes the tariff rate plus the Subscriber Line Charge ("SLC"). The source of the tariff rate is the Center for Communications Management Information's ("CCMI's") QTel tariff database (updated through March 15, 2006), which reflects rates at a wire center level. The SLC value is obtained from a combination of the National Regulatory Research Institute's ("NRRI's") National UNE report dated August 2005 and research on the Commission's SLC tariff filings. Taxes are excluded from these rates because they represent a flow-through revenue stream and because taxes are not captured in the Synthesis Model's costs. While most companies offer flat rate basic phone service within their states, there are instances where only a measured rate (*i.e.*, local access without unlimited local calling for a single flat rate) is offered. In those instances, BellSouth is working to develop a process to create a rate proxy for an equivalent flat rate service (this will incorporate the message or measured rate and add in an amount to cover the billed usage component). Flat rate "plain old telephone service" rates were utilized because they represent the service most closely aligned with the Commission's current definition of universal

within Appendix A are rural and urban rate and cost averages from every state,[5] covering 146 urban and rural areas served by non-rural carriers.[6] National average rate and cost values (across all non-rural ILECs) are shown at the bottom of Appendix A.[7]

The data show an urban residential rate range of $13.79 (Texas) to $35.46 (West Virginia),[8] and a rural residential rate range of $13.49 (Texas) to $35.50 (West Virginia).[9] The current data indicate that the average national rural residential flat rate is $20.25, and the average national urban residential flat rate is $21.14.[10] Thus, on average, *the nation's rural residents pay*

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service, and because the service is closely aligned, if not synonymous, with the "access" that universal service traditionally has sought to ensure. In addition, the stand-alone flat rate represents the highest rate a local carrier can charge for the service.

5 At present, BellSouth does not have access to the Synthesis Cost Model residential and business line counts in each wire center. As a result, the rate averages presented are based on a total switched line weighted average (for both the residential and business averages). BellSouth intends to request the most recent residential and business line count data from the Universal Service Administration Company ("USAC"). Once the data are received, BellSouth will update the averages and the attached Appendix.

6 The master source for wire centers described herein is data from the 2002 Synthesis Model output. As indicated above, BellSouth will request line count data from USAC to update its analysis with the most recent rate data. Each wire center in the Synthesis Cost Model input has been defined as either "rural" or "urban." This classification is based upon whether the Synthesis Cost Model's wire center switch (the location defined by the SwX and SwY location in the wirecenter.in file) falls within (classified as urban) or outside (classified as rural) the June 2003 Metropolitan Statistical Area (MSA) designated counties (OMB Bulletin No. 04-03) as described by the Office of Management and Budget ("OMB") within the Combined Statistical Areas cartographic boundary files released December 2003.

7 The cost and rate average and standard deviation values are based on a simple average of the values in Appendix A.

8 Appendix A Table at 2, 3. This value reflects West Virginia Verizon's only flat rate plan with unlimited local area calling. A calling plan with unlimited calling only within the customer's home exchange is $15.

9 *Id.*

10 *Id.* at 3. The underlying data have a (one) standard deviation of approximately $3.95 with respect to rural rates, and $3.91 for urban rates. The standard deviation, σ (sigma), is the most common measure of statistical dispersion, and is defined as the square root of the variance.

$0.89 less than the nation's urban residents. Additionally, *the data show that rural rates generally range from below urban rates to slightly above urban rates within states* throughout the United States.[11]

In addressing the *Qwest II* remand, the Commission should recognize the relative success and stability of the high-cost fund to date, and should avoid undoing praiseworthy results in a quest for doctrinaire perfection that the courts have not demanded. Consistent with these objectives, and as discussed more fully herein, BellSouth proposes a bifurcated mechanism that establishes rate-based eligibility tests designed to achieve "reasonable comparability." Once eligibility is established, federal support continues to be based, ultimately, upon non-rural carriers' costs.

See, e.g., http://en.wikipedia.org/wiki/Standard_deviation. Mathematically it is defined as: (where N is the population size, and $\overline{x}$ is the mean).

$$\sigma = \sqrt{\frac{1}{N}\sum_{i=1}^{N}(x_i - \overline{x})^2}$$

[11] Further, based on the 2002 Synthesis Model Average Cost data, non-rural carrier costs range from an urban low of $16.03 (District of Columbia) to an urban high of $34.57 (Alabama), and from a rural low of $19.08 (Rhode Island) to a rural high of $76.71 (Washington). Within states, there is significant variation in the relationship of rural cost/rate ratios and urban cost/rate ratios. For example, in the service area covered by Sprint in Washington state, rural wire center costs are $76.71, versus a rate of $21.93, while urban wire center costs are $31.77, with a corresponding rate also of $21.93. The ratio of (rural cost)/(rural rate) in that scenario is 3.49, while the ratio of (urban cost)/(urban rate) is 1.44, a difference of 2.05 between ratios. Conversely, in the Mississippi wire centers served by BellSouth, rural wire center costs are $43.85, versus a rate $23.29, while urban wire center costs are $30.35, with a corresponding rate of $24.76. The ratio (rural cost)/(rural rate) in that scenario is 1.88, while the ratio (urban cost)/(urban rate) is 1.23, yielding a difference of .65 between ratios. By comparison, the national average rural cost is $37.04, versus a national average rural rate of $20.25, yielding a national rural cost to rural rate ratio of 1.83; and the national average urban cost is $22.85, versus a national average urban rate of $21.14, which yields a national urban cost to urban rate ratio of 1.08.

As part of this modified approach, BellSouth proposes a new "rate-based benchmark." The RBB, as further discussed below, incorporates definitions of "reasonable comparability" and "sufficiency" that are fully consistent with the Act's requirements and the Tenth Circuit's analysis. BellSouth's RBB proposal also ensures that the fund remains at a sustainable level (although the size will increase somewhat), while providing needed support to carriers serving the nation's high-cost areas.

While not perfect, the current system for high-cost funding of non-rural carriers works. It provides relatively stable and predictable delivery of support to non-rural carriers in states where serving rural customers is prohibitively costly but for the support. Under the circumstances, BellSouth recommends that the Commission "mend, but not end" the high-cost funding mechanism it has established. Accordingly, BellSouth proposes, as discussed further herein, that the Commission modify – but not abandon – its present high-cost funding approach to address the specific issues identified by the Tenth Circuit.

II. BACKGROUND

The present proceedings represent a third stage in the Commission's endeavor to anchor its federal high-cost universal service support mechanism for non-rural carriers firmly within the requirements of Section 254 of the Act. This process began in 1999 with the Commission's *Ninth Report and Order*, which established the funding mechanism itself, and its companion *Tenth Report and Order*, which finalized the cost model platform and inputs used to compute the costs of non-rural carriers' operations upon which federal support is based.[12]

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[12] *Federal-State Joint Board on Universal Service*, CC Docket No. 96-45, *Ninth Report and Order and Eighteenth Order on Reconsideration*, 14 FCC Rcd 20432 (1999) ("*Ninth Report and Order*"), *remanded, Qwest Corp. v. FCC*, 258 F.3d 1191 (10th Cir. 2001) ("*Qwest I*"); *Federal-*

The Commission initiated this rulemaking to obtain comment on various issues that the Tenth Circuit remanded in its review of the Commission's *Order on Remand.*[13] In the *Order on Remand*, the Commission modified the high-cost universal service support mechanism in response to the Tenth Circuit's previous remand in *Qwest I.* In *Qwest II*, the Tenth Circuit affirmed certain aspects of the Commission's *Order on Remand*, but rejected others.[14] Specifically, the Tenth Circuit upheld: (1) the Commission's determination that the Act's Section 254 does not compel the states to eliminate implicit subsidies in favor of explicit universal service support mechanisms; and (2) the Commission's adopted mechanism for inducing states to "assist in implementing the goals of universal service," *i.e.*, by requiring states to certify that rural rates within their borders are reasonably comparable to urban rates.[15] The Tenth Circuit rejected, however, the Commission's definitions of "reasonably comparable" and "sufficient" and, *because it rested on the invalidated definition* of "reasonably comparable," the high-cost funding mechanism itself.[16]

State Joint Board on Universal Service, Forward-Looking Mechanism for High Cost Support for Non-Rural LECs, CC Docket Nos. 96-45, 97-160, *Tenth Report and Order*, 14 FCC Rcd 20156 (1999) ("*Tenth Report and Order*"), *affirmed*, *Qwest I*, 258 F.3d at 1206.

13 *See Notice,* ¶ 6.

14 *Federal-State Joint Board on Universal Service*, CC Docket No. 96-45, *Order on Remand, Further Notice of Proposed Rulemaking, and Memorandum Opinion and Order*, 18 FCC Rcd 22559 (2003) ("*Order on Remand*"), *remanded*, *Qwest II*, 398 F.3d 1222.

15 *Qwest II*, 398 F.3d at 1232-33, 1238.

16 *Id.* at 1233-34, 1237. ("In that the non-rural, high-cost support mechanism contained in the Order on Remand rests on the application of the definition of 'reasonably comparable' rates invalidated above, it too must be deemed invalid.").

In *Qwest II,* the court explained that, in *Qwest I*, it had ordered the Commission to define "'reasonably comparable' *in reference to rates* charged between rural and urban areas."[17] The Commission's urban rate benchmark did not satisfy the court because it rested on the unsupported (and unacceptable) *assumptions* that Congress knew of, and was presumably satisfied with, urban and rural rate disparities when it passed the Act and, thus, "considered rural and urban rates reasonably comparable in 1996."[18] Moreover, the Tenth Circuit found that, "by designating a comparability benchmark at the national urban average plus two standard deviations, the FCC ha[d] ensured that significant variance between rural and urban rates w[ould] continue unabated."[19]

Under the circumstances, the Tenth Circuit found the Commission's selection of the national average urban rate benchmark to be "no less arbitrary than its prior selection of a 135% cost-support benchmark."[20] The mechanism accepted variances that were too wide to be considered "comparable" by any rational standard. Indeed, the court opined that the guarantee of this kind of variance going forward conflicted with the Commission's overarching duty to

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17 *Id.* at 1235 (emphasis added).

18 *Id.* The Tenth Circuit rejected the Commission's reasoning, as there was no proof of Congress' awareness of actual rate disparities (and the Commission conceded that the Commission itself lacked rural rate data in 1996) when it passed the Act. *See id.* at 1236.

19 *Id.* As the data before the Commission and the court showed, in 2002, urban rates ranged from $15.65 to $35.19, with an average of $23.38, and a benchmark of $32.28, or 138% of the nationwide average urban rate. Thus, a rural rate falling just below the $32.28 benchmark in 2002 might have been twice as much as the lowest urban rates captured by the benchmark, yet still be considered "reasonably comparable" to urban rates. As the court noted, "the variance between rates paid in rural and urban areas" cannot be "divorced from a consideration of universal service," for if "rates are too high, the essential telecommunications services encompassed by universal service may indeed prove unavailable," *i.e.*, because they are priced beyond what rural consumers can afford to pay. *Id.*

20 *Id.* at 1237.

"preserve and advance universal service," which presumably required the narrowing of such gaps.[21]

The *Qwest II* Court also rejected the Commission's definition of "sufficient," which the Commission defined as "enough federal support to enable states to achieve reasonable comparability of rural and urban rates in high-cost areas served by non-rural carriers."[22] In the Tenth Circuit's view, however, the Commission's definition was improperly confined to one Section 254(b) principle – reasonable comparability – without regard to, or due consideration of, other Section 254(b) principles.[23]

Finally, the Tenth Circuit rejected the high-cost support mechanism, resting as it was on an invalidated definition of "reasonably comparable."[24] The Tenth Circuit reiterated its *Qwest I* proviso, however, stating that it "would be inclined to affirm the FCC's cost-based funding mechanism, if it indeed resulted in reasonably comparable rates."[25] The Commission would have to demonstrate – with empirical support – a relationship between costs and rates surveyed by the Commission that would justify setting the cost benchmark to mirror any rate comparability benchmark.[26]

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21 *Id.*

22 *Id.* at 1233.

23 *Id.* at 1233-35.

24 *Id.* at 1237-38. The Commission, relying on GAO rate sampling data, determined that individual rural and urban rates were reasonably comparable, based on its benchmark definition, and further concluded that the cost benchmark for determining support would adequately support the goal of ensuring reasonable comparability by mirroring the rate benchmark, *i.e.*, two standard deviations from the non-rural carriers' national average cost per line.

25 *Id.* at 1237.

26 *See id.*

On remand, the Tenth Circuit "directed the Commission to define the term 'reasonably comparable' in a manner that comports with its concurrent duties to preserve and advance universal service."[27] It also directed the Commission to "articulate a definition of sufficient that appropriately considers the range of principles identified in the text of the statute."[28] The modifications to the existing methodology that BellSouth proposes herein would, if adopted, meaningfully advance universal service in full compliance with the court's instruction.

While it may be tempting to dwell on the Tenth Circuit's criticisms of the definitions used by the Commission in its high-cost funding approach, the core components of the high-cost funding architecture have withstood challenge.[29] Indeed, after two Commission orders, an *Order on Remand* and two Tenth Circuit opinions, only two core issues remain to be resolved in order for the entire program to pass judicial muster. First, the Commission must define with specificity the statutory terms of "reasonable comparability" and "sufficiency." Second, the Commission must explain with empirical data and reasoned analysis how the proposed non-rural high-cost mechanism achieves these statutory objectives. The Commission can readily resolve these issues in a manner that will address the Tenth Circuit's concerns, while at the same time ensuring the continued stability of the high-cost funding program. These are fundamentally

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27 *Notice,* ¶ 18, citing *Qwest II,* 398 F.3d at 1237.

28 *Qwest II,* 398 F.3d at 1234.

29 For example, the Synthesis Cost Model, which is used to determine a state's average (non-rural carrier) cost per line, *is not at issue* here. While BellSouth continues to advocate certain modifications to the current model, such as developing a more reasonable set of inputs, it recognizes the general advantages associated with using a forward-looking cost methodology.

interpretative issues with respect to which the Commission is owed deference under step two of the *Chevron* standards for judicial review of agency decisions.[30]

III. BELLSOUTH'S PROPOSAL: A RATE-BASED BENCHMARK ("RBB")

According to the Tenth Circuit, the central problem with the Commission's high-cost benchmark was the significant degree of variation it permitted within the range of "comparability," and its assurance that such disparities would "continue unabated."[31] To address this concern, BellSouth proposes the RBB, which employs a bifurcated approach to the determination of comparability and, subsequently, universal service support. In the first step of the RBB approach, the Commission should establish eligibility criteria premised entirely on rate data, not cost data. In the second step, the Commission should determine funding levels by comparing forward looking economic costs (derived, as before, from the Synthesis Cost Model) with the national average urban rate benchmark.[32]

On the eligibility side of the proposal, BellSouth proposes two rate comparability tests: (1) a comparison of a non-rural carrier's average rural residential (flat) rate and average urban

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30 *Chevron U.S.A. Inc. v. Natural Res. Def. Council*, 467 U.S. 837, 842-43 (1984). *See Texas Office of Pub. Util. Counsel v. FCC*, 265 F.3d 313, 320-21 (5th Cir. 2001) ("*TOPUC II*") ("If [a] statute is ambiguous as to the question at issue, [courts] move to the second step of the *Chevron* analysis to determine 'whether the agency's answer is based upon a permissible construction.' Under this second step, we can reverse the agency's decision only if it was arbitrary, capricious or manifestly contrary to the statute. The question is not whether we might have preferred another way to interpret the statute, but whether the agency's decision was a reasonable one.").

31 *Qwest II*, 398 F.3d at 1236.

32 Attached to this filing are data showing, among other things, residential flat rates for urban and rural areas across the nation and their associated per-line costs. BellSouth has developed this data based upon vendor information collected and interpreted from public tariff filings. BellSouth believes that this data (where shown) is a fair representation of the rates, and the range of rates, in effect throughout the country for non-rural ILECs.

residential (flat) rate within a state; and (2) a comparison of that carrier's average rural residential (flat) rate within a state to a benchmark based on the national residential urban (flat) rate average plus one standard deviation (*i.e.*, the RBB). As further discussed below, non-rural carriers must pass both tests in order to be eligible for full funding, otherwise funding may be reduced or eliminated.[33]

The tests (and the RBB generally) should be founded upon an open and transparent examination of rates from as many of the non-rural carrier wire centers as possible. Previously, the Commission has limited its examination to a statistical sampling of the country to determine a single national average urban rate plus two standard deviations. With such limited information, the Commission could not determine the degree to which specific rural rates diverged from the urban average. BellSouth proposes that the Commission examine national rate data at a granular level by considering carriers' rural *and* urban rates, not just urban rates. In so doing, the Commission will engage a process that guarantees rate comparability *within* a state, while providing a national test to ensure reasonably comparable rates *across* states.[34] These rate components are those that correspond to the costs included in the Commission's current Synthesis Cost Model.

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[33] The RBB could further be bifurcated to address residential and business eligibility and funding separately. In other words, a process based on business information (rates and costs) could mirror the residential process.

[34] The rates to be averaged in this fashion should be comprised of the tariff charge for basic local flat rate residential service and the federal subscriber line charge ("SLC") or end user line charge ("EUCL"). *See* Paul R. Zimmerman, Reference Book of Rates, Price Indices, and Household Expenditures for Telephone Service, Industry Analysis & Technology Division, Wireline Competition Bureau, FCC (May 25, 2005).

A. Reasonable Comparability Part I – a non-rural carrier's rural residential rates within a state should not significantly exceed its urban residential rates.

The first criterion for determining non-rural carrier eligibility for high-cost support focuses on reasonable rate comparability at the state level, and defines such comparability as *the carrier's average rural residential rates no more than 15% above*[35] *the carrier's average urban residential rates within that state.*[36] This in-state definition of reasonable comparability reflects an important and readily verifiable characteristic: that customers will tend to judge reasonable comparability of rates in relation to rates offered within close geographic proximity. This requirement provides a strong inducement to states (and the non-rural carriers within those states) to correct instances in which rural rates are not reasonably comparable.[37]

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[35] The use of a value somewhat greater than the urban rate average (rather than the urban average itself) avoids the result that a minor difference between rural and urban average rates would trigger failure of the comparability test. The 115% value (*i.e.,* the base plus 15%) is one that the Commission has already employed in the rural carrier's funding mechanism. *See* 47 C.F.R. § 36.601-36.631. Moreover, because comparability is likely to be judged by customers on the basis of rates within close proximity (*i.e.,* by rates within their own state), a more stringent test than one standard deviation seems appropriate.

[36] A key aspect of BellSouth's proposal is the proper identification of rural and urban areas within a non-rural carrier's footprint. As such, BellSouth incorporates the codified definitions set forth by the Commission as the basis for its proposal. Currently, the Commission uses 1990 Metropolitan Statistical Areas ("MSAs") to define an urban area. BellSouth conceptually agrees with this approach, but recommends that the Commission adopt more current MSA definitions going forward.

[37] *See Order on Remand*, Statement of Commissioner Kevin J. Martin, Approving in Part, Dissenting in Part, 18 FCC Rcd at 22698 ("In my view, if the Commission is only going to address discrepancies between and among states, then there must be a requirement that states address such discrepancies within their borders"). The in-state comparability test also comports with the spirit of Section 254(g)'s mandate "that the rates charged . . . to subscribers in rural and high cost areas shall be no higher than the rates charged by each such provider to its subscribers in urban areas." While Section 254(g) focuses on interexchange and interstate services, Congress' intent in this section is clear, and provides some guidance as to reasonable comparability of rural and urban local rates for the state commissions with jurisdiction over those rates.

To date, there has been no record evidence that adequately reveals the relationship between urban and rural residential rates within each state. With this filing, Appendix A does precisely that demonstrating that the rural rates currently offered by non-rural carriers are "reasonably comparable" to urban rates within states. In the majority of cases, the rural rate is actually below the urban rate. Moreover, in almost every instance, the rural rate is either below, equal to, or only very slightly above the urban rate. There are only three instances in which rural rates are more than 5% higher than the corresponding urban rate and, even in those instances, the rural rate is still less than 10% higher than the corresponding urban rate.[38]

B. Reasonable Comparability Part II – urban rate average plus one standard deviation.

The second test compares the carrier's average rural rate within a state to the national average urban rate plus one standard deviation. This serves as both a test of reasonable rate comparability and a benchmark against which costs should be compared to determine funding. The RBB is needed because, although the first test guarantees rate comparability *within* a state, an additional mechanism is required if reasonable comparability between rural and urban rates *across* states is to be ensured. However, because it operates at the national/interstate level, this second test should not be as stringent, definition-wise, as the first intrastate test, given natural variations in rate setting.

Rates can only be considered "comparable" when they are first made "worthy of comparison."[39] Simple comparisons (whether national, regional, or even state-to-state) of rates that are not derived from the same processes or, notably, the same regulatory or even political

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38 These states are Michigan (AT&T), North Carolina (Verizon), and North Dakota (Qwest). *See* Appendix A.

39 *Webster's New World Dictionary* 283 (3d Coll. Ed. 1988).

considerations, are not helpful. Because of the very nature of what regulated rates represent, they are an unsuitable proxy for determining comparability between or among states. Thus, any attempt to determine comparability should account for such inherent variation. Accordingly, BellSouth proposes that a benchmark set at the national average urban rate *plus one standard deviation* (the Rate-Based Benchmark) is a rational approach that accounts for state-by-state rate variations that are beyond federal or any single state's control, while also promoting the goal of preserving and advancing universal service (*i.e.,* by abating the significant variance between urban and rural rates regarding which the Tenth Circuit was most concerned).

Although the Commission could consider using the national average urban rate itself as the criterion for determining reasonable comparability of a given state's rural rates, such an approach does not reflect the realities of the rate situation across the nation. Even if one were to compare urban rates alone (holding aside the consideration of rural rates for a moment), one half of the nation's urban rates are necessarily above the average (using the simple mean without adjustment).[40] Any statistically rational benchmark for reasonable comparability must reflect the underlying distribution of values, rather than simply using the mean.

To illustrate this point, consider a hypothetical task of judging whether men's heights are "reasonably comparable." Further assume that the mean height for men is 5'10". It would be unreasonable to find that a man who is 6'0" tall was not reasonably comparable in height to other men simply because his height was above average. Similarly, it would be unreasonable to find

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[40] This is strictly true for the use of the median as the average, or true for the use of the mean with a symmetrical distribution (such as a normal distribution) of urban rates. This statement is likely to be a reasonable approximation for the mean if the underlying distribution is not too asymmetrical.

that a man of 5'8" was not reasonably comparable in height simply because his height was below the average.

To capture the typical variation in rates one can use the statistic of standard deviation (the square root of the variance). If urban rates were normally distributed, a little more than two-thirds of the observations would fall within one standard deviation (plus or minus) of the mean. The remaining one-third would be split approximately evenly between those rates that are lower than the average minus one standard deviation, and those that are higher than the average plus one standard deviation.[41]

In essence, the RBB represents a target rate that rural rates should not exceed. This results in a working definition of "reasonable comparability" on a national level as being state average rural residential rates that are within one standard deviation of the national average urban rate; and rural rates within a state by a carrier being no higher than urban rates by that carrier.[42]

Appendix A reveals that the national average residential urban rate is $21.14 (including the SLC but excluding taxes) with a standard deviation of $3.91. Therefore, the RBB has a value of $25.05. The great majority of company average rural rates pass this test,[43] which is a clear indication that current rates, in most instances, are reasonably comparable. The RBB also

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41 There is no guarantee that the rates are normally distributed.

42 In addition, it is critical to note that the RBB, unlike the current benchmark, is determined by using rate information from the fifty states – not cost information. This change should help satisfy the Tenth Circuit's concerns regarding reasonable comparability of rates.

43 For those jurisdictions for which BellSouth has reasonable confidence in the values, only five do not meet the test: Maine (Verizon); Nebraska (Alltel); North Dakota (Qwest); West Virginia (Verizon); and Wyoming (Qwest).

defines the level at which (above $25.05) carrier costs become "high cost." Moreover, this test is important to induce states to ensure that rates are reasonably comparable.

C. Funding based on the RBB

A state that passes both rate comparability tests would then be eligible for full universal service high-cost funding. If, on the other hand, a state fails either test, it might still qualify for support at a reduced level,[44] or if it presents to the Commission a suitable plan for corrective action.[45] Once eligible states are identified, the amount of funding for each state can be determined. An eligible state should receive support for non-rural carriers in an amount equal to state average forward-looking costs (averaged for all non-rural carriers in that state), less the RBB, multiplied by the non-rural carrier line counts in the state, multiplied by the Commission's .76 adjustment factor.[46] In other words, the amount of federal support that a non-rural carrier receives would be the difference between the forward-looking costs as determined by the Synthesis Cost Model and the RBB. In states where rates are maintained at low levels that fall below the RBB, carriers whose costs exceed the RBB would only receive federal support based upon the RBB and not the low rate. Basically, the implementation for the funding mechanism

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[44] This reduction could represent an amount by which the carrier exceeds either or both of the testing criteria.

[45] *See Qwest II*, 398 F.3d at 1238.

[46] Under the existing system, once a state qualifies, the amount of federal high cost support is equal to .76 times the differential between costs and the benchmark. *Order on Remand*, 18 FCC Rcd at 22590, n.180. The Commission may need to revisit the .76 value to determine its continued propriety.

would be as it is today, with the exception being that the benchmark value is based upon an RBB rather than a cost-based benchmark.[47]

D. The RBB is consistent with Section 254 and *Qwest II*'s requirements.

BellSouth's proposal is consistent with the core dimensions of Section 254 and the court's opinion in *Qwest II*. In *Qwest II*, the Tenth Circuit opined:

> [o]nce again, we find no evidence in the record before us to support the FCC's pairing of rates to cost in this context. In other words, the FCC based the two standard deviations *cost* benchmark on a finding that *rates* were reasonably comparable, without empirically demonstrating a relationship between the costs and rates surveyed in this context.[48]

The Tenth Circuit's criticism disappears when *funding eligibility* is determined by rate comparisons within and between/among states, while *funding levels* are determined by cost information and information on cost distribution. A pure rate-based benchmark, or one with an appropriate standard deviation, strengthens the position that the result is reasonably comparable because it is founded purely on rates and their objectively verifiable relationships to each other.

The Tenth Circuit was not offended, in the abstract, by the Commission's use of standard deviations. What the court found unacceptable, however, was the *misuse* of the tool. As the court found:

> By designating a comparability benchmark at the national urban average plus two standard deviations, *the FCC has ensured that significant variance between rural and urban rates will continue unabated.* This assertion is borne out by the Commission's own data. In 2002, urban rates ranged from $15.65 to $35.19, with an average of $23.38. Utilizing this data, the comparability benchmark is $32.28, or 138% of the nationwide average urban rate. In *Qwest I* we expressed our concern that a

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[47] In effect, this funding approach reflects the cost differentials between states at the rate benchmark level of reasonable comparability. Additionally, it recognizes that a subsidy exists when the cost of providing a service is greater than the revenue generated from that service.

[48] *Qwest II,* 398 F.3d at 1237.

> discrepancy of 70-80% between some rural rates and urban rates *might impermissibly stretch the boundaries of rate comparability*. 258 F.3d at 1201. Under the 2002 data, *rural rates falling just below the comparability benchmark may exceed the lowest urban rates by over 100%*. Even if such rural rates are compared against the national urban average, we fail to see how they could be deemed reasonably comparable, especially in light of our previous consideration.[49]

The use of one standard deviation, as proposed, considerably reduces the range of rates across states (as compared to two standard deviations), while retaining the statistical validity of the use of a standard deviation measure.[50] This test, in concert with the requirement that a provider within a state, on average, must charge rural rates no more than 15% higher than those offered to urban residents within that state, ensures reasonable comparability, and promotes affordability (*i.e.*, by ensuring the availability of the services supported).[51]

In addition, the Tenth Circuit found:

> Rates cannot be divorced from a consideration of universal service, nor can the variance between rates paid in rural and urban areas. If rates are too high, the essential telecommunications services encompassed by universal service may indeed prove unavailable. Thus, the Commission erred in premising its consideration of the term "preserve" on the disparity of rates existing in 1996 while ignoring its concurrent obligation to advance universal service, a concept that certainly could include a narrowing of the existing gap between urban and rural rates.[52]

BellSouth's recommendation clearly provides for a superior mechanism for ensuring reasonable comparability and affordability, and thereby clearly preserves and advances universal service.

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49 *Id.* at 1236-37 (emphasis added).

50 *Southwestern Bell Tel. Co. v FCC*, 168 F.3d 1344, 1354 (D.C. Cir. 1999) (holding that the FCC "did not abuse its discretion in employing the one-standard deviation cutoff" in the context of ILEC physical collocation rates).

51 *See Qwest II*, 398 F.3d at 1236 ("If rates are too high, the essential telecommunications services encompassed by universal service may indeed prove unavailable").

52 *Id.*

IV. LEGAL ANALYSIS

A. Sufficiency

The *Notice* seeks comment on how the Commission should balance all seven principles in Section 254(b) in defining the term "sufficient" for purposes of the non-rural high-cost support mechanism.[53] In the *Notice*, the Commission recites seven statutory subsections of Section 254(b), which purport to be "principles," and seeks comment on whether and how to incorporate each one into the definition of "sufficient."[54] As the Tenth Circuit opined, Section 254(b)'s seven "principles" are intended to guide the FCC in setting policies for the preservation and advancement of universal service.

Section 254(b)(3), however, is the only principle specifically aimed at the preservation and advancement of universal service *in high-cost areas*.[55] The other principles are either general in their terms, or directed to other specific universal service goals (*e.g.*, schools, health care providers and libraries) that make no mention of high-cost areas. To date, the Commission has developed four discrete universal service funds (rural/high-cost, low income, schools and libraries, and rural health care), pursuant to the specific statutory guideposts that Section 254 provides. The Commission has utilized the more general provisions, or "principles," of Section 254 as tools to give shape and contour to those mechanisms. It is certainly logical that the Commission would center its high-cost funding mechanism primarily on the language most relevant to that "principle."

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53 *Notice*, ¶ 8.

54 *Id.* ¶¶ 9-17.

55 *See* 47 U.S.C. § 254(b)(3). Section 254(b)(5) seeks to ensure that whatever funding mechanisms the Commission adopts are "specific, predictable and sufficient" for their purposes, *i.e.*, to "preserve and advance universal service." 47 U.S.C. § 254(b)(5).

1. The Commission has substantial discretion in defining the term "sufficiency."

It is clear that Congress gave the Commission wide latitude to develop universal service policies that consider the range of principles in Section 254(b). Indeed, courts, including the Tenth Circuit, have recognized that these principles are not equivalent to statutory commands and can be outweighed by each other.[56] As the Tenth Circuit found, "the FCC must base its policies on the principles, but any particular principle can be trumped in the appropriate case."[57]

As an initial matter, in order to conduct the delicate balancing of principles envisioned by the Tenth Circuit,[58] the Commission need not engage in the impractical (and hopeless) exercise of trying to define each and every statutory term contained in Section 254(b). Nor is it necessary to develop additional interpretations or forced links between the various principles in order to accomplish the task at hand – developing a legally sustainable definition of the term "sufficient" for purposes of the non-rural high-cost support mechanism. Neither the Act nor the Tenth Circuit calls for such an arduous exercise.

In conducting this delicate balancing act, the Commission should afford the greatest weight to the "reasonable comparability" objective of Section 254(b)(3). As previously indicated, this is the only principle specifically targeted at the preservation and advancement of universal service in *high-cost* areas and therefore should carry the most weight. The other remaining principles should carry little or no weight because, by their very nature, they lack any cognizable and reasonable nexus to ensuring access in high-cost areas. For example, there is no

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56 *Qwest II*, 398 F.3d at 1234; *Qwest I*, 258 F.3d at 1200; *Texas Office of Pub. Util. Counsel v. FCC*, 183 F.3d 393, 421 (5th Cir. 2001) ("*TOPUC I*"); *TOPUC II*, 265 F.3d at 321; *Alenco Communications, Inc. v. FCC*, 201 F.3d 608, 615 (5th Cir. 2000).

57 *Qwest I*, 258 F.3d at 1200.

58 *Qwest II*, 398 F.3d at 1234.

obvious link between providing support to non-rural carriers serving high-cost areas and ensuring that all telecommunications providers contribute to universal service on an equitable and nondiscriminatory basis pursuant to Section 251(b)(4). Thus, the Commission need not give any weight to the principle of equitable and nondiscriminatory carrier contributions in developing a definition of the term "sufficiency" for purposes of the non-rural high cost mechanism.

The same is true for the principle that schools, health care providers and libraries should have access to advanced services under Section 254(b)(6). This statutory objective is more appropriately addressed through both the schools and libraries and rural health care mechanisms. As long as the Commission provides a reasoned explanation for why certain principles are weighted more heavily than others in defining sufficiency, it will have met the Tenth Circuit's directive. If the Commission fulfills this task, it has the discretion to adopt a definition of sufficiency that retains "reasonable comparability" as its primary objective.

2. "Sufficiency" in order to "Preserve and Advance Universal Service."

The Commission also may consider an entirely new definition of "sufficiency," if it chooses, without having to engage the exhaustive exercise suggested by the *Notice*. The word "sufficient" is generally defined as "enough to meet the needs of a situation or a proposed end."[59] In the case of universal service, that "proposed end" is the "preservation and advancement of universal service" as required under Section 254(b).[60] Although Section 254(b) articulates seven principles upon which the Commission is to base its universal service policies, the primary

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59 *Webster's Ninth New Collegiate Dictionary* 1179 (1990).

60 47 U.S.C. § 254(b).

statutory command is to preserve and advance universal service. As discussed more fully herein, the Commission should define "sufficient" to mean "enough federal support to preserve and advance universal service."

Although not required to do so, the Commission also can interpret sufficiency to include an affordability component.[61] Arguably, an affordability component is already built in to the Commission's definition of sufficiency. In the *Order on Remand*, the Commission concluded that the "principle of sufficiency encompasses the idea that the amount of support should be only as large as necessary to achieve the relevant statutory goal."[62] The Tenth Circuit did not find fault with this interpretation as it recognized that "excessive subsidization arguably may affect the affordability of telecommunications services, thus violating the principle in §254(b)(1)."[63] In other words, if support exceeds what is necessary to preserve and advance universal service through rate comparability, access to affordable telecommunications services may diminish because the price of services increases as universal service charges are passed through to end-users on their monthly bills. Thus, the Commission's existing definition of "sufficient" already takes into account certain aspects of affordability. In addition, the Lifeline/Link-Up program is designed to address the special needs of low-income consumers and, thus, may satisfy the Act's affordability objective, at least, for a segment of the nation's consumers.

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61 Curiously enough, when the Tenth Circuit remanded the *Ninth Report and Order,* the Court did not instruct the Commission to consider affordability in defining the term "sufficiency." The only relevant Section 254(b) principles identified by the Tenth Circuit were reasonable comparability of rural and urban rates and sufficiency. Nowhere in *Qwest I* did the Court mention affordability.

62 *Order on Remand*, 18 FCC Rcd at 22581, ¶ 37.

63 *Qwest II*, 398 F.3d at 1234 (citing *Qwest I*, 258 F.3d at 1200).

Sufficiency also is achieved through the use of the forward-looking cost methodology. The current mechanism encourages non-rural carriers to operate efficiently by basing support on carriers' forward-looking costs (*i.e.*, on a premise of efficient network designs of the future) as opposed to embedded costs. By basing support on the costs of a hypothetically efficient future network paradigm, the high-cost model ensures that carriers are not rewarded for being inefficient. This, in turn, aligns non-rural carriers' competition-driven network investment and improvement behavior in lower-cost areas with their carrier of last resort obligations in the high-cost areas they serve, thereby preserving and advancing universal service.

B. Rate Comparability

In the case of non-rural high cost support, preserving and advancing universal service means that carriers operating in high-cost areas are provided the support necessary to build out their networks in order to provide consumers in these areas access to telecommunications and advanced services at rates that are reasonably comparable to rates charged for similar services in urban areas. According to the Tenth Circuit, advancing universal service could mean "a narrowing of the existing gap between urban and rural rates."[64] BellSouth submits that the rate-based benchmark proposal suggested herein achieves that narrowing by providing full support to those carriers when the relevant eligibility tests (as described) are met. This approach addresses rate comparability both among states across the nation as well as within each particular state by comparing rural and urban rates at both levels.

One of the key objections to the previous mechanism was its reliance on a *cost* benchmark for achieving *rate* comparability. Critics argued that, assuming that the proposition that rates are a reasonable proxy for costs is accepted, the Commission, at a minimum, needed to

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[64] *Qwest II*, 398 F.3d at 1236.

define costs in terms of an *urban* benchmark in order to be able to compare rural and urban costs (and therefore, rural and urban rates) as required by the Act. In the absence of an "urban" cost benchmark, commenters argued, there was no basis upon which the Commission could demonstrate that its proposed mechanism was sufficient to achieve reasonable comparability between rural and urban rates.

BellSouth's rate-based benchmark proposal addresses these alleged deficiencies by conducting two comparisons of rural and urban rates. First, a carrier's average rural rate within a state is compared to its average urban rate within the same state. Next, that carrier's average rural rate in a state is compared to the national average urban rate. If the carrier's average rural rate within a state is no more than 15% above the carrier's average urban rate within that state and no higher than the national average urban rate plus one standard deviation, that carrier is eligible for full federal support under this proposal. The amount of support provided to the carrier would be based upon the carrier's average per line cost within a state as determined by the Synthesis Cost Model. Federal support would be calculated based on the difference between the national average urban rate and the per line costs in a particular state.

BellSouth's proposal reflects the following reality: universal service is preserved and advanced (and therefore sufficient) when carriers receive proper incentives to serve areas that would be prohibitively expensive to serve in the absence of federal support. High-cost support supplies an otherwise absent economic justification that, in turn, enables carriers to build networks in these high-cost areas that are capable of providing not only basic telephone service but also advanced services, thereby advancing universal service.[65]

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[65] Although BellSouth advocates in this proposal that the Commission, in responding to the Tenth Circuit's remand, should adopt its rate-based benchmark approach as outlined, should the

V. CONCLUSION

For the foregoing reasons, the Commission should readopt its present high-cost funding approach, but with the modifications and definitions proposed in these comments.

Respectfully submitted,

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Commission decide not to adopt a rate-based benchmark (using the mean urban rate plus one standard deviation), a cost-based urban benchmark similar to the one used in the existing mechanism remains a viable alternative approach. Under the cost-based mechanism, the benchmark would be set at the average Synthesis Cost Model urban cost plus one standard deviation. As a practical matter, BellSouth's initial assessment is that the value of this cost benchmark is likely to be close to the rate benchmark established under BellSouth's proposal. Therefore, the choice between a cost or rate benchmark is more a choice between concepts rather than a choice on the fund size or distribution.

APPENDIX A
BellSouth Comments
CC Docket No. 96-45; WC Docket No. 05-337
March 27, 2006

PRELIMINARY DATA FOR RATE-BASED BENCHMARK PROPOSAL ("RBB")

Within this Appendix, BellSouth is providing a preliminary view of the information required to implement the RBB approach. This data include both the cost and rate information by carrier within each state. BellSouth is in the process of data verification, and as such, the data may be subject to change. However, the results provide a reasonable estimate of the likely final values.

Below, the sources and data development of each column are described. As an overall note, the master source of wire centers used is based on the data in the 2002 Synthesis Cost Model output. This data provides the wire center detail for all non-rural ILECs.

Column A: State
This column captures the state as defined by the Synthesis Cost Model output.

Column B: Company
Using the National Exchange Carrier Association, Inc. ("NECA")Code provided in the Synthesis Cost Model output, this column reflects the latest company ownership as provided in the NECA, Universal Service Fund 2005 Submission of 2004 Study Results.

Column C: 2002 Synthesis Cost Model Average State Cost
This column captures the universal service cost produced by the 2002 Synthesis Cost Model. The cost is averaged by state, using a switched line weighted average.

Column D: 2003 MSA based Urban/Rural
Each wire center in the Synthesis Cost Model input has been defined as either "rural" or "urban." This classification is based upon whether the Synthesis Cost Model's wire center switch (the location defined by the SwX and SwY location in the wirecenter.in file) falls within (classified as urban) or outside (classified as rural) the June 2003 Metropolitan Statistical Area (MSA) designated counties (OMB Bulletin No. 04-03) as described by the Office of Management and Budget ("OMB") within the Combined Statistical Areas cartographic boundary files released December 2003.

Column E: 2002 Synthesis Cost Model Average Cost
This column captures the universal service cost produced by the 2002 Synthesis Cost Model. The cost is averaged by state (for all non-rural ILECs within that state, using a switched line weighted average).

Column F: Average Residential Flat Rate
In the absence of company-provided rate information, the data captured presented here captures the best available, vendor-provided data set on Residential Flat Rates. The flat rate value includes the tariff rate plus the Subscriber Line Charge ("SLC"). The source of the tariff rate is the Center for Communications Management Information's (CCMI's) QTl tariff database 9updated through march 15, 2006), which reflects rates at a wire center level. Te SLC value is obtained from a combination of the National Regulatory Research Institute's ("NRRI's") National UNE report dated August 2005 and research on the Commission's SLC tariff filings. Taxes are excluded from these rates because they represent a flow-through revenue stream and because taxes are not captured in the Synthesis Model's costs.

While most companies offer flat rate basic phone service within their states, there are instances where only a measured rate (*i.e.*, local access without unlimited local calling for a single flat rate) is offered. In those instances, BellSouth is working to develop a process to create a rate proxy for an equivalent flat rate service (this will incorporate the message or measured rate and add in an amount to cover the billed usage component). Flat rate "plain old telephone service" rates were utilized because they represent the service most closely aligned with the Commission's current definition of universal service, and because the service is closely aligned, if not synonymous, with the "access" that universal service traditionally has sought to ensure. In addition, the stand-alone flat rate represents the highest rate a local carrier can charge for the service.

Column G: Average Business Flat Rate
This column is based on the same data and approach used for the residential data.

National average rate and cost values (across all non-rural ILECs) are shown at the bottom of the attached table. The costs and rate average standard deviation values are based on a simple average of the values in the table.

a	b	c	d	e	f	g
State	Company	Average State Cost based on 2002 Synthesis Model	Urban / Rural based on 2003 MSAs	Average Cost based on 2002 Synthesis Model	Average Residential Flat Rate	Average Business Flat Rate
AK	Anchorage	22.02	Urban	$ 22.02		
AL	BST		Rural	$ 40.42	$ 22.10	$ 42.72
AL	BST		Urban	$ 27.59	$ 22.73	$ 42.73
AL	CenturyTel		Rural	$ 51.60	$ 23.94	$ 50.11
AL	CenturyTel	31.64	Urban	$ 34.57	$ 25.39	$ 52.99
AR	AT&T		Rural	$ 39.58	$ 20.52	$ 36.19
AR	AT&T	27.97	Urban	$ 23.57	$ 22.45	$ 41.85
AZ	Qwest		Rural	$ 31.84	$ 19.49	$ 36.71
AZ	Qwest	20.73	Urban	$ 20.22	$ 19.49	$ 36.71
CA	AT&T		Rural	$ 31.09	$ 15.19	
CA	AT&T		Urban	$ 17.72	$ 15.10	
CA	SureWest		Urban	$ 17.82		
CA	Verizon		Rural	$ 62.59	$ 23.63	$ 42.75
CA	Verizon	18.36	Urban	$ 19.31	$ 23.65	$ 42.55
CO	Qwest		Rural	$ 34.86	$ 21.38	$ 41.52
CO	Qwest	23.35	Urban	$ 21.76	$ 21.38	$ 41.52
CT	AT&T		Rural	$ 29.48	$ 17.32	$ 36.92
CT	AT&T	22.06	Urban	$ 21.42	$ 18.22	$ 39.35
DC	Verizon	16.03	Urban	$ 16.03	$ 17.12	
DE	Verizon		Rural	$ 24.67	$ 17.51	$ 31.87
DE	Verizon	20.19	Urban	$ 18.85	$ 16.72	$ 29.53
FL	BST		Rural	$ 29.98	$ 16.40	$ 31.15
FL	BST		Urban	$ 19.57	$ 18.37	$ 35.60
FL	Verizon	19.87	Urban	$ 19.73	$ 20.30	$ 37.40
GA	BST		Rural	$ 36.15	$ 19.44	$ 32.36
GA	BST	22.14	Urban	$ 20.75	$ 22.80	$ 49.19
HI	Hawaiian		Rural	$ 25.80		$ 31.79
HI	Hawaiian	20.77	Urban	$ 18.29		$ 42.10
IA	Qwest		Rural	$ 30.45	$ 18.92	$ 37.20
IA	Qwest	24.29	Urban	$ 21.92	$ 18.92	$ 39.13
ID	Qwest		Rural	$ 35.50	$ 19.79	$ 34.80
ID	Qwest	26.92	Urban	$ 23.71	$ 22.73	$ 37.74
IL	AT&T		Rural	$ 29.39	$ 17.83	$ 28.40
IL	AT&T		Urban	$ 18.69		
IL	Verizon		Rural	$ 38.69		
IL	Verizon	20.77	Urban	$ 30.28		
IN	AT&T		Rural	$ 30.09	$ 15.30	$ 37.66
IN	AT&T		Urban	$ 20.67	$ 16.85	$ 42.35
IN	Verizon		Rural	$ 37.85	$ 19.92	$ 36.58
IN	Verizon	24.19	Urban	$ 26.39	$ 22.65	$ 36.58
KS	AT&T		Rural	$ 32.91	$ 20.78	$ 31.61
KS	AT&T	24.72	Urban	$ 21.22	$ 20.91	$ 35.22
KY	Alltel		Rural	$ 44.43	$ 16.46	$ 23.61
KY	Alltel		Urban	$ 23.60	$ 23.84	$ 34.84
KY	BST		Rural	$ 37.53	$ 22.03	$ 42.40
KY	BST		Urban	$ 25.44	$ 24.04	$ 40.97
KY	CBT	29.78	Urban	$ 25.32	$ 28.63	$ 58.14
LA	BST		Rural	$ 39.58	$ 18.90	$ 38.97
LA	BST	26.42	Urban	$ 23.22	$ 19.03	$ 39.22
MA	Verizon		Rural	$ 20.37		
MA	Verizon	19.18	Urban	$ 19.17		
MD	Verizon		Rural	$ 29.18	$ 21.41	
MD	Verizon	19.90	Urban	$ 19.32	$ 22.43	
ME	Verizon		Rural	$ 36.89	$ 25.67	$ 44.89
ME	Verizon	30.42	Urban	$ 26.17	$ 25.67	$ 44.89
MI	AT&T		Rural	$ 33.65	$ 20.89	
MI	AT&T		Urban	$ 20.13	$ 19.89	
MI	Verizon		Rural	$ 37.68	$ 24.58	
MI	Verizon	23.50	Urban	$ 33.19	$ 24.58	
MN	Qwest		Rural	$ 32.90	$ 19.30	$ 39.53
MN	Qwest	22.26	Urban	$ 20.32	$ 19.68	$ 46.88
MO	AT&T		Rural	$ 36.18	$ 13.72	$ 26.25
MO	AT&T		Urban	$ 20.92	$ 15.66	$ 37.29
MO	CenturyTel		Rural	$ 55.43	$ 16.79	$ 24.29
MO	CenturyTel	25.07	Urban	$ 31.45	$ 16.72	$ 24.69
MS	BST		Rural	$ 43.85	$ 23.29	$ 42.90
MS	BST	37.78	Urban	$ 30.35	$ 24.76	$ 43.15

a	b	c	d	e	f	g
State	Company	Average State Cost based on 2002 Synthesis Model	Urban / Rural based on 2003 MSAs	Average Cost based on 2002 Synthesis Model	Average Residential Flat Rate	Average Business Flat Rate
MT	Qwest		Rural	$ 39.48	$ 23.23	$ 40.44
MT	Qwest	32.73	Urban	$ 25.62	$ 23.23	$ 40.44
NC	BST		Rural	$ 30.66	$ 22.31	$ 36.81
NC	BST		Urban	$ 21.31	$ 23.18	$ 39.80
NC	NorthState		Rural	$ 25.37		
NC	NorthState		Urban	$ 21.06		
NC	Verizon		Rural	$ 34.85	$ 24.22	$ 48.03
NC	Verizon	23.19	Urban	$ 23.62	$ 22.45	$ 46.16
ND	Qwest		Rural	$ 39.27	$ 25.49	$ 35.32
ND	Qwest	23.97	Urban	$ 21.11	$ 23.77	$ 38.74
NE	Alltel		Rural	$ 49.66	$ 25.89	$ 38.32
NE	Alltel		Urban	$ 26.01	$ 26.63	$ 39.82
NE	Qwest		Rural	$ 36.98	$ 23.49	$ 32.46
NE	Qwest	28.20	Urban	$ 19.93	$ 23.62	$ 32.46
NH	Verizon		Rural	$ 29.57	$ 18.89	$ 39.85
NH	Verizon	25.09	Urban	$ 22.27	$ 21.15	$ 47.43
NJ	Verizon	18.09	Urban	$ 18.09	$ 15.22	
NM	Qwest		Rural	$ 33.45	$ 18.75	$ 40.87
NM	Qwest	25.70	Urban	$ 23.30	$ 18.75	$ 40.87
NV	AT&T		Rural	$ 69.26	$ 16.00	$ 27.25
NV	AT&T		Urban	$ 19.65	$ 16.00	$ 27.25
NV	Sprint	19.72	Urban	$ 17.20	$ 14.19	$ 24.54
NY	Frontier		Rural	$ 30.36	$ 13.68	
NY	Frontier		Urban	$ 20.50	$ 17.85	
NY	Verizon		Rural	$ 34.75	$ 24.77	
NY	Verizon	19.55	Urban	$ 18.65	$ 27.89	
OH	Alltel		Rural	$ 41.15	$ 17.05	$ 27.70
OH	Alltel		Urban	$ 25.75	$ 19.20	$ 31.99
OH	AT&T		Rural	$ 32.54	$ 20.64	
OH	AT&T		Urban	$ 19.96	$ 20.52	
OH	CBT		Urban	$ 21.42	$ 22.12	$ 50.69
OH	Verizon		Rural	$ 39.16	$ 20.74	$ 35.22
OH	Verizon	23.36	Urban	$ 31.17	$ 21.39	$ 38.35
OK	AT&T		Rural	$ 33.10	$ 16.68	$ 33.86
OK	AT&T		Urban	$ 22.39	$ 18.78	$ 42.57
OK	Verizon		Rural	$ 56.31	$ 19.25	$ 36.88
OK	Verizon	26.38	Urban	$ 30.38	$ 19.56	$ 41.65
OR	Qwest		Rural	$ 31.49	$ 17.08	$ 34.67
OR	Qwest		Urban	$ 21.82	$ 16.99	$ 33.82
OR	Verizon		Rural	$ 38.90	$ 19.44	$ 31.35
OR	Verizon	23.41	Urban	$ 20.95	$ 21.15	$ 33.94
PA	Verizon		Rural	$ 28.78	$ 18.02	
PA	Verizon	20.64	Urban	$ 19.71	$ 18.97	
PR	PRTC		Rural	$ 32.92		
PR	PRTC	24.89	Urban	$ 24.46		
RI	Verizon		Rural	$ 19.08	$ 20.68	
RI	Verizon	19.99	Urban	$ 20.00	$ 22.48	
SC	BST		Rural	$ 35.81	$ 20.20	$ 42.81
SC	BST		Urban	$ 24.15	$ 21.62	$ 48.18
SC	Verizon		Rural	$ 36.94	$ 22.66	$ 39.59
SC	Verizon	26.06	Urban	$ 25.79	$ 23.05	$ 40.23
SD	Qwest		Rural	$ 34.80	$ 22.81	$ 38.29
SD	Qwest	27.77	Urban	$ 22.29	$ 24.39	$ 43.79
TN	BST		Rural	$ 38.02	$ 15.47	$ 37.30
TN	BST	26.38	Urban	$ 23.64	$ 18.56	$ 45.18
TX	AT&T		Rural	$ 38.06	$ 13.49	$ 24.64
TX	AT&T		Urban	$ 19.86	$ 15.03	$ 29.00
TX	Verizon		Rural	$ 43.90	$ 13.66	$ 25.08
TX	Verizon	21.90	Urban	$ 22.70	$ 13.79	$ 25.64
UT	Qwest		Rural	$ 33.63	$ 17.35	$ 26.35
UT	Qwest	21.19	Urban	$ 20.22	$ 17.35	$ 26.35
VA	Verizon		Rural	$ 39.47	$ 17.82	$ 40.86
VA	Verizon	21.88	Urban	$ 20.51	$ 23.95	$ 61.00
VT	Verizon		Rural	$ 35.68		
VT	Verizon	32.38	Urban	$ 25.57		

a	b	c	d	e	f	g
State	Company	Average State Cost based on 2002 Synthesis Model	Urban / Rural based on 2003 MSAs	Average Cost based on 2002 Synthesis Model	Average Residential Flat Rate	Average Business Flat Rate
WA	Qwest		Rural	$ 33.82	$ 18.35	$ 32.74
WA	Qwest		Urban	$ 20.21	$ 18.35	$ 32.74
WA	Sprint		Rural	$ 76.71	$ 21.93	$ 38.63
WA	Sprint		Urban	$ 31.77	$ 21.93	$ 38.63
WA	Verizon		Rural	$ 34.51	$ 21.83	$ 38.53
WA	Verizon	22.31	Urban	$ 22.21	$ 21.83	$ 38.53
WI	AT&T		Rural	$ 25.07	$ 21.95	
WI	AT&T		Urban	$ 19.65	$ 22.37	
WI	Verizon		Rural	$ 40.79	$ 24.31	
WI	Verizon	22.72	Urban	$ 32.51	$ 24.31	
WV	Verizon		Rural	$ 40.70	$ 35.50	$ 61.40
WV	Verizon	33.44	Urban	$ 28.55	$ 35.46	$ 61.25
WY	Qwest		Rural	$ 39.87	$ 29.68	$ 29.70
WY	Qwest	33.72	Urban	$ 22.69	$ 29.60	$ 29.60

Note: Missing rate values indicate that a "flat" rate service value could not be determined or was inconclusive. BellSouth will continue to process this data to fill in as many states as possible.

Simple Average		Rural	37.04	20.25	36.19
		Urban	22.85	21.14	39.70

(simple average across observations above)

Standard Deviation		Rural	9.81	3.95	7.05
		Urban	4.14	3.91	8.14

CERTIFICATE OF SERVICE

I do hereby certify that I have this 27th day of March 2006 served the following parties to this action with a copy of the foregoing **COMMENTS OF BELLSOUTH** by electronic filing and electronic mail addressed to the parties listed below.

+Marlene H. Dortch
Office of the Secretary
Federal Communications Commission
The Portals, 445 12th Street, S. W.
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+Best Copy and Printing, Inc.
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Juanita H. Lee

+ VIA ELECTRONIC FILING
*** VIA ELECTRONIC MAIL**

CERTIFICATE OF SERVICE

I do hereby certify that I have this 28th day of March 2006 served the following parties to this action with a copy of the foregoing **ERRATUM to the COMMENTS OF BELLSOUTH** by electronic filing and electronic mail addressed to the parties listed below.

+Marlene H. Dortch
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