Before the
FEDERAL COMMUNICATIONS COMMISISION
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

REPLY COMMENTS OF
BELLSOUTH CORPORATION

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BellSouth Corporation, on behalf of itself and its wholly owned subsidiaries ("BellSouth"), hereby submits its reply comments in the above-captioned proceeding. [1]

I. INTRODUCTION AND SUMMARY

As the record demonstrates, there are a number of different ways to design a non-rural high-cost support mechanism, each with its own strengths and weaknesses. Notwithstanding the availability of various alternatives – some more far-reaching than others – the Commission need not radically depart from the existing mechanism in order to ensure that the objectives of Section 254 are met in a manner that follows the Tenth Circuit's remand instructions. Rather than completely overhauling the current high-cost support system, as some commenters have suggested, the Commission is well-advised to focus on the more narrow tasks at hand: (1) defining the statutory terms "reasonable comparability" and "sufficiency" and (2) demonstrating

[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*, 20 FCC Rcd 19731 (2005) ("*Notice*").

with empirical support[2] and reasoned analysis how the non-rural high-cost mechanism satisfies the relevant principles of Section 254. The Commission can accomplish these objectives by adopting the rate-based benchmark proposal ("RBB") set forth in BellSouth's comments. The RBB plan provides the Commission a solid framework to ensure the reasonable comparability of rural and urban rates across the nation in compliance with the Tenth Circuit's remand order.

BellSouth's proposal involves a two-step process. In brief, the first step compares the rates both within a state and among states to determine a carrier's eligibility status for federal support. Once carrier eligibility status is established under step one, the amount of high-cost support available to that state is calculated. The level of support continues to be based upon statewide averaged costs, as determined using the existing Synthesis Model. These costs are then compared to a national urban rate benchmark (instead of a cost-based benchmark as used under the current mechanism) to calculate the amount of federal high-cost support received by the non-rural carriers operating in that state. BellSouth's rate-based benchmark mechanism is narrowly and appropriately tailored to address the definitional gaps identified by the Tenth Circuit by ensuring reasonable comparability between urban and rural rates and achieving a sufficient high cost fund that preserves and advances universal service.

[2] One of the Tenth Circuit's primary concerns with the Commission's decision adopting the current non-rural high-cost mechanism was the absence of empirical data and findings to support the Commission's actions. *See Qwest Communications Int'l, Inc. v. FCC*, 398 F.3d 1222, 1237 (10th Cir. 2005) ("*Qwest II*"). The record contains extensive sets of rate data collected and analyzed by parties such as BellSouth, the National Association of State Utility Consumer Advocates ("NASUCA"), and Verizon. The Commission should build upon these efforts and gather available rate data so that it may conduct a comprehensive review of rural and urban rates as instructed by the court.

II. BELLSOUTH'S PROPOSAL: A RATE-BASED BENCHMARK

BellSouth's rate-based benchmark proposal offers several advantages over some of the other recommended plans. One of the major advantages is that the BellSouth proposal retains a number of the elements found in the existing mechanism, including (1) continued use of the Synthesis Model to determine statewide average costs per line and (2) continuing to base the amount of federal support received by non-rural carriers on a comparison of statewide average costs and a nationwide benchmark. In order to address the Tenth Circuit's concerns, however, BellSouth proposes two primary adjustments. First, instead of a nationwide *cost-based* benchmark to determine support levels, BellSouth recommends the use of a nationwide *rate-based* benchmark.[3] Second, BellSouth's proposed benchmark is based upon an average urban rate figure, instead of a national average that combines rural and urban areas. The chart below compares the elements of the current non-rural support mechanism and the BellSouth proposed mechanism.

[3] NASUCA similarly advocates a rate-based plan as an alternative. Under NASUCA's proposal, rates are used to determine eligibility for support, while costs are used to calculate the level of support. NASUCA recommends the creation of a national average urban rate benchmark against which average rural and urban rates can be compared. *See* NASUCA Comments at 71-81.

	CURRENT MECHANISM	BELLSOUTH RBB PROPOSAL
Cost Model:	Synthesis Model	Synthesis Model
Cost Model Inputs:	Forward-Looking Costs	Forward-Looking Costs
Geographic Size:	Statewide Averaging	Statewide Averaging
Support Benchmark:	National Average Cost	National Average Urban Rate
Basis of Support:	Cost Compared to Costs	Cost Compared to Rates

Another advantage of BellSouth's proposal is that it promotes the principle of reasonable comparability by basing federal support on a demonstration of rural and urban rate comparability as well as a comparison of costs and rates, instead of just a cost-based determination. As described more fully below, BellSouth's bifurcated mechanism employs two steps. The first step focuses solely on rates and determines a non-rural carrier's eligibility status for federal support by applying two rate comparability tests. The second step determines the level of federal support based upon non-rural carriers' costs.

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 rate comparability test applied to determine a non-rural carrier's eligibility status for high-cost support focuses on reasonable rate comparability at the state level. In order to pass this "in-state" comparability test, a carrier's average rural residential rate within a state must be no greater than 15% above[4] that carrier's average urban residential rate within that state.[5] The test is as follows:

> Carrier A's Average Rural Residential Rate Within State Z $\leq$ 115% of
> Carrier A's Average Urban Residential Rate Within State Z

As a number of commenters point out and the Commission acknowledges, throughout the nation, a carrier's rural residential rates within a state rarely exceed that carrier's urban residential rates within the same state.[6]

B. Reasonable Comparability Part II – Urban Residential Rate Average Plus One Standard Deviation

The second test compares the non-rural carrier's average rural residential rate within a state to the national average urban residential rate plus one standard deviation.[7] The carrier's average rural residential rate in the state must be equal to or less than the national average urban

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[4] 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.

[5] 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. BellSouth's analysis uses 2003 MSA identifications.

[6] *Notice*, 20 FCC Rcd at 19740, n.71; *see also* BellSouth Comments at 4, 13 (citing Appendix A (Mar. 27, 2006); NASUCA Comments at 41; Qwest Comments at 26-27; Verizon Comments at 3.

[7] The use of one standard deviation to develop the rate-based benchmark is a statistically reasonable approach that accounts for state-by-state rate variations. As BellSouth stated in its comments, the Tenth Circuit did not object to the use of standard deviations. Rather, the Court was concerned with the failure to demonstrate with empirical evidence how the use of this statistical tool would result in reasonably comparable rural and urban rates. BellSouth Comments at 17-18.

benchmark (which is the national average urban residential rate plus one standard deviation). The test is as follows:

> Carrier A's Average Rural Residential Rate Within State Z $\leq$ RBB (*i.e.*, National Average Urban Residential Rate + One Standard Deviation)

C. Carrier Eligibility Status For Federal Non-Rural High-Cost Support

If the non-rural carrier passes both rate comparability tests, that carrier is eligible to receive federal high-cost support. If, however, a carrier fails to meet one or both of the rate comparability tests, that carrier might still receive support through an established "safety net" process. Under this "safety net" procedure, the carrier would have to demonstrate in a written request why support is needed to achieve the goals of Section 254. Partial support might be awarded, for example, if rural residential rates had been adjusted upward in a recent rate rebalancing effort and, as a result, the affected carrier is unable to meet one or both of the comparability tests, despite having costs that exceed the RBB. In this instance, additional funding could be provided to recover the difference between the carrier's total cost as determined by the Synthesis Model and the rebalanced rates. This approach helps ensure that those states that undertake gradual rate rebalancing are not penalized.

D. Determining Federal Support Amount Based Upon Costs And The Rate-Based Benchmark

Once a carrier qualifies as eligible, the amount of high-cost support it should receive is determined based upon a comparison of costs and rates. The formula used to calculate the federal non-rural support available to incumbent local exchange carriers ("ILECs") on a statewide basis is:

> (State Z Average Costs Per Line (as calculated by Synthesis Model) – RBB) x Eligible ILEC Lines Within State Z x 0.76[8] = Federal High Cost Model Support To Be Provided To Non-Rural ILECS Within State Z

The determination of federal support to be received by the qualifying carriers within a funded state would continue to follow the same procedures in place today pursuant to Section 54.309 of the Commission's rules.[9] 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.

Since filing its initial comments, BellSouth has updated and continues to verify rate and cost data relied upon in its prior proposal;[10] therefore, the data supplied herein are preliminary. For example, BellSouth has revised its cost figures to reflect Synthesis Model data based upon line counts and other inputs that were updated by the Commission in its *2004 Line Counts*

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[8] The use of the 0.76 multiplier follows the Commission's current rules for determining the amount of federal universal service provided to non-rural carriers. *See* 47 C.F.R. § 54.309(a)(4).

[9] *See* 47 C.F.R. § 54.309.

[10] In addition to updating cost and rate data, BellSouth has revised the list of non-rural ILECs in Appendix A. Two carrier entries listed in the Appendix filed in BellSouth's initial comments were mis-identified. In Washington, the Contel operating area was mis-assigned to Sprint rather than Verizon. In the revised Appendix A attached hereto, the Contel area is blended with the other Verizon Washington properties. In Oklahoma, the GTE-Verizon operating area was mis-identified as non-rural. In the revised Appendix A attached hereto, this entry has been removed.

Update Order.[11] As a result, some of the rate and cost data has changed from the initial filing. Appendix A attached hereto lists national average urban and rural rates and costs for residential flat service and business service based upon updated information. Encompassed within Appendix A are rural and urban rate and cost averages from every state. The national average rate and cost values (across all non-rural ILECs) are shown at the bottom of Appendix A.

The revised data show an average national rural residential flat rate of $19.48, and an average national urban residential flat rate of $20.56.[12] The standard deviation for the national average urban residential rate is $4.00, which results in a rate-based benchmark of $24.56 under BellSouth's proposal.

The following example demonstrates how the BellSouth rate-based benchmark proposal would work for the non-rural ILECs in Montana. Chart A is an excerpt from Appendix A listing the relevant rate and cost data that would be used in BellSouth's proposed rate comparability tests and federal funding determination. Chart B shows the application of the BellSouth RBB proposal. Chart C shows the total level of high-cost support that the non-rural ILECs in Montana would receive under the BellSouth plan.

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[11] *See Federal-State Joint Board on Universal Service*, CC Docket No. 96-45, *Order and Order on Reconsideration*, 18 FCC Rcd 26639 (Wireline Comp. Bur. 2004) ("*2004 Line Counts Update Order*"). The cost data included in BellSouth's initial comments was based upon Synthesis Model data using line counts from the *2002 Line Counts Update Order*. *See Federal-State Joint Board on Universal Service*, CC Docket No. 96-45, *Order*, 16 FCC Rcd 22418 (Com. Car Bur. 2001) ("*2002 Line Counts Update Order*"). Given that the cost data used in BellSouth's proposal is based upon 2004 Synthesis Model output, BellSouth's discussion of the impact of the RBB plan references 2004 non-rural funding levels for consistency.

[12] Appendix A Table at 2. The prior data contained in the initial comments and Appendix showed only slightly higher rate averages: (1) an average national rural residential rate of $20.25 and (2) an average national urban residential rate of $21.14. BellSouth Comments at 3 and Appendix A at 3 (Mar. 27, 2006). The updated data continue to show that, on average, the nation's rural residents pay less than the nation's urban residents – in this case, $1.08 less.

CHART A: MONTANA EXAMPLE

Company	Average State Cost Based on Synthesis Model[13]	Urban/Rural Based on 2003 MSAs[14]	Average Residential Rate[15]
Qwest	$33.06	Rural	$23.17
Qwest	$33.06	Urban	$22.88

[13] This column captures the universal service cost produced by the Synthesis Model using line count data from the *2004 Line Counts Update Order*. This cost is averaged across carriers, using an eligible line weighting of wire center costs.

[14] The master source for wire centers described herein is data from the Synthesis Model output. Each wire center in the Synthesis Model input has been defined as either "rural" or "urban." This classification is based upon whether the Synthesis 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.

[15] 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.

CHART B – RATE COMPARABILITY: MONTANA EXAMPLE

Company	Rate-Based Benchmark = National Urban Residential Rate Average + 1 Standard Deviation Average	Carrier Average Urban Residential Rate + 15%	RATE COMPARABILITY TEST 1: Is Carrier's Average Rural Residential Rate no greater than 15% above the Carrier's Average Urban Residential Rate?	RATE COMPARABILITY TEST 2: Is Carrier's Average Rural Residential Average Rate less than or equal to the RBB?	RESULTS: Does Carrier Qualify for Full Funding (*i.e.,* passes both rate comparability tests)?
Qwest	$24.56	$26.31	Yes $23.17 ≤ $26.31	Yes $23.17 ≤ $24.56	Yes

CHART C – FUNDING LEVELS: MONTANA EXAMPLE

Company	Does Statewide Average Costs Exceed the Rate-Based Benchmark?	Proposed Funding Amount Under BellSouth RBB Proposal	Current Mechanism Funding for 2004
Qwest	Yes $33.06 > $24.56	$28,235,121	$16,627,122

As noted above, the funding for the non-rural carriers in Montana is based upon the procedures currently codified in Section 54.309 of the Commission's rules.[16]

The above example provides details on the mechanics of BellSouth's rate-based benchmark proposal for a particular state. From a more global perspective, BellSouth's preliminary estimate is that, under its plan, the overall size of the non-rural high-cost model fund

[16] *See* 47 C.F.R. § 54.309.

would increase from its 2004 level of $219 million[17] for ILECs to approximately $548 million.[18] In addition, BellSouth's proposal would result in seven non-rural ILECs receiving federal support across 17 states. BellSouth recognizes that its proposal would increase the size of the non-rural fund; however, an increased fund size may be unavoidable if the Commission is to satisfy the objectives of Section 254 and the legal challenges posed by the Tenth Circuit's remand. Moreover, it is important to note that the increase in high-cost model support for non-rural ILECs that would result under BellSouth's plan would constitute approximately only 10% of the overall high-cost fund, which totaled $3.5 billion for 2004.[19]

BellSouth's proposal continues to rely on statewide averaging to determine a state's costs, while targeting that support to high-cost wire centers within the state. Although a number of other parties advocate using smaller geographic areas such as wire centers to determine

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[17] Universal Service Monitoring Report, CC Docket No. 98-202, 2005, Prepared by Federal and State Staff for the Federal-State Joint Board on Universal Service in CC Docket No. 96-45, Table 3.25, *available at* www.fcc.gov/wcb/stats.

[18] This preliminary estimate includes funding for non-rural ILECs only (*i.e.*, the funding for competitive eligible telecommunications carriers serving non-rural areas is not included).

[19] Universal Service Administrative Company 2004 Annual Report at 27, *available at* http://www.universalservice.org/_res/documents/about/pdf/2004-annual-report.pdf. Several variables may affect the total size of the high-cost fund, including the manner in which federal support is provided to competitive ETCs and rural carriers operating in high-cost areas. As AT&T, Verizon, and others point out, the current mechanism for providing support to competitive ETCs encourages inefficiencies by duplicating support for multiple networks. *See, e.g.*, AT&T Comments at 4; 32-33; Qwest Comments at 19-20; Verizon Comments at 18-19. BellSouth agrees that the Commission should consider modifications to the current high-cost system in order to promote disciplined fund growth without undermining the principles of Section 254 and encourages the agency to address these issues in the relevant proceedings. *See, e.g.*, *Federal-State Joint Board on Universal Service Seeks Comment on Proposals To Modify the Commission's Rules Relating to High-Cost Universal Service Support*, CC Docket No. 96-45, *Public Notice*, 20 FCC Rcd 14267 (2005); *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*, 19 FCC Rcd 16083 (2004).

support levels,[20] statewide cost averaging continues the existing policy of focusing interstate funding on differences in costs between states; implicit cross-subsidies that may exist within states remain the responsibility of the states in which such intra-state disparities exist. It is not (nor should it be) solely the Commission's responsibility to fund high-cost areas within low-cost states.

When it adopted statewide averaging, the Commission was fully aware "that averaging at the study area, UNE cost zone, or wire center levels would have the advantage of providing a more granular measure of support."[21] Nevertheless, the Commission concluded that:

> statewide averaging, coupled with . . . target[ing] the distribution of support to wire centers with the highest costs in a state, better balances the goal of targeting support to high-cost areas against the recognition that states can and should satisfy their own rate comparability needs to the extent possible before drawing support from other states.[22]

In BellSouth's judgment, it is still appropriate to rely on the states to use intrastate resources first to account for cost differences within their borders. Accordingly, BellSouth believes that statewide averaging continues to be a reasonable approach to determining federal universal service support levels.

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[20] *See, e.g.,* AT&T Comments at 3, 17-18 (wire centers or census blocks); CenturyTel Comments at 16-17 (exchanges); Qwest Comments at 29-31(wire centers); Washington Utilities and Transportation Commission Comments at 2, 4 (exchanges or wire centers).

[21] *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, 20459, ¶ 48 (1999) ("*Ninth Report and Order*"), *remanded, Qwest Corp. v. FCC*, 258 F.3d 1191 (10th Cir. 2001) ("*Qwest I*").

[22] *Id*.

In sum, the Commission should adopt BellSouth's rate-based benchmark proposal. The proposal is not only consistent with the core principles of Section 254, but also addresses the Tenth Circuit's concerns by establishing a relationship between costs and rates that helps achieve reasonable comparability between rural and urban rates.

III. OTHER PROPOSALS ARE EITHER INCONSISTENT WITH SECTION 254 OR UNNECESSARY TO ACCOMPLISH THE OBJECTIVES OF SECTION 254.

A number of commenters put forth detailed proposals to modify the existing non-rural mechanism. Some commenters recommend radical changes to the existing mechanism (*e.g.,* adoption of a voucher program;[23] use of a "net subscriber cost" standard as a benchmark[24]). Other commenters such as BellSouth propose measured adjustments in order to meet the objectives of Section 254 and to address the concerns of the Tenth Circuit. Although some of the proposals may have one or more certain appealing aspects, others either conflict directly with the Act, undermine the principles of universal service, rely upon faulty analyses, or promote objectives that can be accomplished through other means.

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23 New Jersey Division of the Ratepayer Advocate Comments at 18-19.

24 *See* Vermont Public Service Board, *et al.* Comments at 27-28 (the "net subscriber cost" standard is calculated by subtracting revenues (*e.g.*, intercarrier net revenues, special access revenues, private line revenues, and customer revenues from non-supported services) from carrier costs).

A. There Is Widespread Agreement That The Commission Should Not Grant States Authority To Distribute Federal Universal Support To Providers Through Block Grants.

There is already substantial evidence on the record in the proceeding regarding the rural high-cost mechanism[25] that allowing states to control the disbursement of federal universal service support to eligible telecommunications carriers ("ETCs") through state block grant programs is problematic under the current legislative framework and should not be adopted. Parties have aptly demonstrated here and in the above-referenced proceeding that: (1) the Commission cannot delegate its responsibility for a national universal service program to the states; (2) state block grant programs could lead to unpredictable and insufficient support in violation of Section 254; and (3) state block grant programs would be burdensome and costly to administer.[26] Accordingly, to ensure that all of the national universal service programs comply with the 1996 Act and to avoid arbitrary or inequitable results, the Commission should retain responsibility for allocating federal universal service support to ETCs.

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[25] *See Federal-State Joint Board on Universal Service Seeks Comment on Proposals to Modify the Commission's Rules Relating to High-Cost Universal Service Support*, CC Docket No. 96-45, *Public Notice*, 20 FCC Rcd 14267 (2005).

[26] *See, e.g.,* CenturyTel Comments at 10-12; Oregon Telecommunications Association and the Washington Independent Telephone Association Comments 4; BellSouth Comments at 2-6 (filed Sept. 30, 2005); CTIA Comments at 13-18 (filed Sept. 30, 2005); Montana Independent Telecommunications Systems Comments at 4-9 (filed Sept. 30, 2005); Washington Independent Telephone Association, *et al*. Comments at 2-3 (filed Sept. 30, 2005); Minnesota Independent Coalition Comments at 2-8 (filed Sept. 30, 2005); National Exchange Carrier Association ("NECA") Comments at 2-4 (filed Sept. 30, 2005); Nebraska Rural Independent Companies Comments at 2-3 (filed Sept. 30, 2005); TDS Telecommunications Corp. Comments at 6-10 (filed Sept. 30, 2005); National Telecommunications Cooperative Association ("NTCA") Reply Comments at 2-7 (filed Oct. 31, 2005).

B. The Blending of Both Residential and Business Rate and/or Revenue To Calculate Federal High-Cost Support Is Inconsistent With The Goals of The 1996 Act.

Multiple parties have proposed funding mechanisms that rely on a blending of business and residential rates and/or revenues. For example, Qwest recommends a funding benchmark that is derived from a weighted average of both residential and business rates for local service.[27] Similarly, Verizon's proposal and analysis calculates support based upon combined business and residential revenues.[28]

Basing federal support on blended rates and/or revenues as proposed by certain parties is inconsistent with the 1996 Act. As an initial matter, the current non-rural mechanism incorporates a nationwide urban rate benchmark that is based solely on *residential* rates.[29] The *Notice* asks whether the non-rural mechanism should address residential and business rates, or only residential rates.[30] BellSouth's rate-based benchmark proposal retains this aspect of the existing mechanism by defining the benchmark in terms of residential rates only. Although BellSouth's plan relies on residential basic flat rates to determine rate comparability and then compares a residential RBB against a blend of residential and business lines and costs to determine funding, as BellSouth indicated in its initial comments, the RBB plan could be

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[27] Qwest Comments at 23-24.

[28] Verizon Comments, Declaration of Patrick Garzillo, ¶ 27.

[29] *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, 22561-63, 22593-94, 22641-43, ¶¶ 4, 56, 148 (2003) ("*Tenth Report and Order*").

[30] *Notice,* 20 FCC Rcd at 19743, ¶ 24.

bifurcated to address residential and business eligibility and funding separately.[31] Such a bifurcation would create separate tests for eligibility and separate calculations of funding levels (one for residential and the other for business).[32]

BellSouth takes no position at this time on whether the Commission should continue to consider residential rates only in establishing a national rate benchmark or develop two separate benchmarks, one for residential rates and the other for business rates. However, under no circumstances should the Commission develop a funding mechanism that uses blended residential and business rate and/or revenues to calculate support. Basing non-rural support on blended residential and business data would continue implicit cross-subsidization in violation of Section 254.

Despite its strenuous objections to the continuation of implicit subsidies in its appellate challenge of the Commission's *Remand Order*,[33] Qwest now appears to advocate an approach that is inherently at odds with its former position before the Tenth Circuit. Section 254(e) makes clear that universal service support should be "*explicit* and sufficient."[34] As Qwest acknowledges, higher margin services such as business services subsidize lower margin services,

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[31] BellSouth Comments at 11, n.33. In Appendix A, BellSouth lists average rate and cost data for residential and business service separately. Similar to BellSouth, the Vermont Public Service Board, *et al.* explains that "two comparability standards, one for residential and a second for business customers" might be a reasonable approach. Vermont Public Service Board, *et al*. Comments at 22.

[32] For example, the data collected by BellSouth (as shown in Appendix A) shows a national average rural business rate of $35.40 and a national average urban business rate of $39.39. If the one standard deviation proposed by BellSouth for its residential rate-based benchmark proposal is applied to business rates, the RBB for business rates would be $47.22. Appendix A Table at 2.

[33] *See Qwest II*, 398 F.3d at 1230, 1232.

[34] 47 U.S.C. § 254(e) (emphasis added).

which include basic residential flat rate services.[35] Nevertheless, Qwest recommends a funding benchmark that incorporates cross-subsidies into the mechanism by blending residential and business rates. The Commission should not sanction such an approach.

The Verizon plan, which relies on combined residential and business revenues, is similarly problematic because of its use of certain ARMIS data, specifically ARMIS Accounts 5001 and 5081.[36] First, similar to the Qwest proposal, Verizon's plan inappropriately blends business and residential data into a single metric. As compared to residential customers, businesses tend to order a broader array of services for which they generally pay higher rates. This difference, combined with varying ratios of business customers across jurisdictions, could lead to incorrect conclusions about rural and urban rate comparability. For example, in a jurisdiction with a high proportion of business customers or business customers that purchase higher-priced services, one could mistakenly conclude that residential customers are paying higher rates if blended residential and business revenues are considered. Second, the ARMIS accounts used in Verizon's analysis include revenues from foreign exchange and optional extended area services and other usage charges.[37] Therefore, the revenues relied upon by Verizon are generated from services that are not strictly part of the Commission's definition[38] of services designated for universal service support.[39]

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35 Qwest Comments at 24.

36 Verizon Comments, Declaration of Patrick Garzillo, ¶ 27.

37 Account 5001 also includes monthly charges for "other mobile service." *See* 47 C.F.R. § 32.5001.

38 *See* 47 C.F.R. § 54.101.

39 Other deficiencies with a revenue-based approach are discussed *infra* at 19-24.

C. The Qwest Proposal To Redistribute A Capped Fund Is Arbitrary And Inconsistent With Section 254.

Qwest recommends that the Commission create a combined rural and non-rural high-cost program (including Local Switching Support and Safety Net Additive Support) that is capped at 2004 levels.[40] For the non-rural component of the high-cost fund, Qwest specifically proposes that funding be determined at the wire center level, instead of statewide averaging, using a blended residential and business rate average that would (without a cap) grow the required non-rural fund by more than seven times its 2004 size of $273 million (which includes both ILEC and competitive ETC payments) to nearly $2 billion.[41]

BellSouth strongly objects to distributing a capped level of funds to an increasing number of carriers without any consideration given to the financial shortfalls that certain providers would experience under the Qwest mechanism. The Qwest proposal would limit artificially the amount of non-rural support to an amount that is 10 to 15% of the amount that would be required under its plan in the absence of the suggested cap. Reducing federal support to between 10 and 15% of the required level for non-rural support and simply redistributing that inadequate support is arbitrary and does not further the 1996 Act's directive that universal service support be "sufficient."[42] The costs that carriers incur to serve high-cost areas do not decline simply because federal universal service support has been capped and redistributed. The Qwest plan would leave carriers serving these high-cost areas without the necessary financial support to operate their networks and provide customers with affordable services at reasonably comparable

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[40] Qwest Comments at 32.

[41] This figure is an approximation based on the implementation of the Qwest benchmark and the use of wire centers as the geographic area to determine funding.

[42] 47 U.S.C. §§ 254(b)(5) and 254(e).

rates. This outcome is wholly inconsistent with Section 254's objective of sufficient and predictable support.[43] The Qwest plan, thus, is legally infirm and should not be adopted.

D. The Proposed Revenue-Based Mechanisms Would Not Provide "Predictable And Sufficient" Support.

The Commission should not adopt a mechanism that relies partly or solely on broadly defined revenues[44] to determine non-rural support as proposed by parties such as the National Association of State Utility Consumer Advocates ("NASUCA") and Verizon. Specifically, NASUCA recommends that the Commission establish a benchmark based upon a national urban average per-line revenue.[45] Under the NASUCA plan, the costs in all wire centers would be compared to the national urban average revenue, and support would be awarded to those wire centers with costs higher than the national urban revenue benchmark.[46] Although not explicitly stated in its comments, it appears that Verizon favors a pure revenue-based funding mechanism.[47]

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43 *See* 47 U.S.C. §§ 254(b)(5) and 254(e).

44 BellSouth's plan and its reliance on a rate-based benchmark can be distinguished from the proposed revenue-based plans. BellSouth's approach utilizes only the rates for basic local service, which is the service definition most closely aligned with the definition of supported services (*See* 47 C.F.R. §54.101) to determine rate comparability. This residential rate approach is similar to that taken by the Commission when it conducted its rate review and adopted the current national urban rate benchmark. *See Tenth Report and Order*, 18 FCC Rcd at 22561-63, 22593-94, 22641-43, ¶¶ 4, 56, 148. Conversely, the rate and revenue approaches advocated by NASUCA and Verizon include rates and revenues for services (*e.g.*, vertical services, access charges, advanced services, or business services that not only fall outside the scope of the Commission's definition of services designated for universal service support but also continue to implicitly subsidize rural rates.

45 The revenue figure would include revenue from all sources (basic service, subscriber line charges, optional/vertical services, access charges, and advanced services). NASUCA Comments at 3.

46 *Id*.

47 *See* Verizon Comments, Declaration of Patrick Garzillo, ¶¶ 24-42.

These proposed revenue-based mechanisms would undermine the principles of explicit, predictable, and sufficient universal service support. As stated above, the Commission is charged with making universal service support "explicit."[48] As such, the inclusion of revenues beyond those generated from the basic local services designated for support[49] conflicts with this mandate. Basing universal service funding on revenues that include business services and/or higher-priced (non-supported) services would only continue the unpredictable implicit cross-subsidization to which parties object and which Section 254 prohibits.

In addition, as CenturyTel, Inc. ("CenturyTel") points out, the Commission has already considered and rejected the use of a revenue-based mechanism for determining high-cost support.[50] The Commission should do the same here.[51] In previously refusing to adopt a revenue-based benchmark, the Commission reasoned that reliance on revenues was problematic as the bundling of supported and non-supported services increased.[52] The continued growth of bundled service offerings in today's competitive marketplace makes revenues a less reliable tool. The Commission has recognized this fact in other contexts. For example, the Commission is currently considering moving away from a revenue-based methodology for assessing universal

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48 47 U.S.C. § 254(e).

49 *See* 47 C.F.R. § 54.101.

50 *Federal-State Joint Board on Universal Service; Access Charge Reform*, CC Docket Nos. 96-45 & 96-262, *Seventh Report & Order and Thirteenth Order on Reconsideration in CC Docket No. 96-45, Fourth Report & Order in CC Docket No. 96-262 and Further Notice of Proposed Rulemaking*, 14 FCC Rcd 8078, 8108, ¶ 61 (1999) ("*Seventh Report and Order*").

51 CenturyTel Comments at 9-10

52 *Seventh Report and Order*, 14 FCC Rcd at 8108, n.157.

service contributions to a mechanism based upon telephone numbers.[53] Given the Commission's acknowledgement that purely revenue-based mechanisms are becoming less viable and reliable, it would be inappropriate to base critical universal service support on a revenue-based benchmark as proposed by NASUCA.

Similarly, the Commission should not adopt Verizon's revenue-only-based funding approach. Based on its review and analysis of certain revenue data, Verizon claims that the current non-rural mechanism provides more support than is necessary in many areas.[54] Verizon therefore recommends that the Commission discontinue providing federal support to a state when competitive alternatives exist regardless of a carrier's costs, on the grounds that carriers can increase rates.[55] The Commission should not adopt this approach. A closer examination of the underlying assumptions and data used by Verizon to support its proposal reveals fundamental flaws in Verizon's analysis that render its findings and conclusions unreliable.

As an initial matter, Verizon's suggestion that carriers can replace the support received from the universal service fund simply by charging higher rates to generate additional revenue[56] is problematic. The process of rate-setting is influenced by a number of factors (the most obvious being state rate regulation) that may preclude a carrier from charging higher rates. Therefore, simply substituting universal service support with revenues from higher rates, though possible in the abstract, is not always possible in reality. Moreover, Verizon's suggested

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[53] *Federal-State Joint Board on Universal Service, et al.*, CC Docket No. 96-45, *et al.*, *Further Notice of Proposed Rulemaking and Report and Order*, 17 FCC Rcd 3752, 3758, ¶ 13 (2002).

[54] Verizon Comments, Declaration of Patrick Garzillo, ¶¶ 24-26.

[55] Verizon Comments at 18.

[56] *Id*.

solution to raise rural rates appears to disregard the Tenth Circuit's concern about rural and urban rate disparity.[57]

The reasonableness of Verizon's analysis is further compromised because there appears to be no use of cost information to determine where universal service funding should be provided. Verizon's pure revenue-based plan seems to fund only those states whose carrier revenue per line is the highest. For example, under the Verizon approach, SureWest Telco ("SureWest") would appear to have "insufficient resources to charge reasonably comparable rates." [58] According to Verizon's analysis, the average revenue generated by SureWest is \$40.92,[59] which is above the Commission's current urban rate benchmark of \$34.21.[60] Verizon, however, fails to consider the costs incurred by SureWest to operate in California (approximately \$17.76 per line as derived from the Synthesis Model and listed in Appendix A)[61] in determining whether SureWest has sufficient resources to charge reasonably comparable rates. As this example demonstrates, Verizon's mechanism appears to provide support to certain carriers with high revenues and low costs – a result inconsistent with ensuring that carriers serving high-cost areas receive sufficient support to provide reasonably comparable rural and urban services and rates.[62]

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[57] *Qwest II*, 298 F.3d at 1236.

[58] Verizon Comments, Declaration of Patrick Garzillo, ¶ 38.

[59] Verizon Comments, Attachment E, Charts 2.A, 2.B.

[60] Verizon Comments, Declaration of Patrick Garzillo, ¶ 38.

[61] Appendix A Table at 1.

[62] Moreover, Verizon's approach appears to have the perverse effect of rewarding states that have established high rates that arguably may be neither "reasonably comparable" nor "affordable." Indeed, as the above example demonstrates, Verizon's proposal appears to allow non-rural carriers in a low-cost state to raise rural rates to a higher level (*i.e.*, above the current rate benchmark of \$34.21) and still receive additional high-cost funding.

The data analysis supporting Verizon's proposal also has several deficiencies that render its conclusions unreliable. First, Verizon's use of ARMIS data (Accounts 5001 and 5081) as a proxy for rates is flawed,[63] because it blends both rural and urban revenues, in addition to blending residential and business revenues. One of the Tenth Circuit's primary objections to the existing non-rural mechanism was the Commission's failure to demonstrate how the high-cost mechanism achieved reasonable comparability between urban and rural rates. Verizon's reliance on blended rural and urban revenues does not address this shortcoming as identified by the Tenth Circuit as it provides no information or mechanism to compare rural and urban rates.

Second, Verizon erroneously assumes that the ARMIS revenue accounts used in its analysis capture high-cost support received by a carrier. Relying on this inaccurate assumption, Verizon subtracts high-cost support from the ARMIS revenues in order to calculate revenues received directly from end users.[64] BellSouth, however, does not book high-cost support in either one of the ARMIS accounts used by Verizon in its analysis.[65] Accordingly, Verizon's entire per-line revenue analysis rests on faulty assumptions and, thus, is flawed and unreliable.

Third, Verizon claims that, if non-rural carriers were to charge higher rates to replace lost universal service support, these carriers would be in the same position and not suffer any financial shortfalls.[66] Using Mississippi as an example, Verizon's analysis shows that BellSouth

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[63] Verizon Comments, Declaration of Patrick Garzillo, ¶ 27. BellSouth demonstrated earlier in Section III.B. that Verizon's use of blended residential and business revenues was an inappropriate proxy for rates. *See supra* text at 15-17.

[64] Verizon Comments at 4; Verizon Comments, Declaration of Patrick Garzillo, ¶ 30.

[65] BellSouth books high-cost support in ARMIS Account 5200.

[66] Verizon Comments at 18.

is receiving $33.01 per line per month in total revenues, including high cost support.[67] According to Verizon, $33.01 therefore is a reasonable proxy for rates that BellSouth could charge customers in Mississippi if it received no federal high-cost support. One of the flaws in Verizon's analysis is the fact that the average cost in Mississippi is approximately $36 (as derived from the Synthesis Model and listed in Appendix A[68]). Under Verizon's approach, Mississippi would be underfunded as the costs to provide service to customers in this high-cost state would continue to exceed BellSouth's revenue proxy and/or rates. The result here is the exact opposite of that in the SureWest example. In that example, a company with low cost appears to be eligible for federal funding solely based upon high revenues. Verizon makes no attempt to explain this apparent deficiency in its approach. Additionally, Verizon fails to address how the use of blended urban and rural revenues as well as combined residential and business revenues achieves rate comparability in Mississippi. As the foregoing demonstrates, Verizon's recommended use of blended revenues as a proxy for rates, its inappropriate use of certain ARMIS data in its analysis, and its apparent exclusion of costs from the determination of those carriers that require federal support render its proposal statutorily infirm. Accordingly, the Commission should not adopt the Verizon approach.

E. Affordability Can Be Addressed Through The Overall Universal Service Programs, Including The Low-Income Programs.

Access to affordable communications services is an important concept that the federal universal service programs should address. BellSouth submits that its RBB proposal, which

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[67] Verizon Comments, Declaration of Patrick Garzillo, ¶ 41.

[68] Appendix A Table at 1.

promotes reasonable comparability by comparing rural and urban rates both among states as well as within each particular state, includes an affordability component. Reasonable comparability, if achieved and maintained, inherently addresses "affordability." As Congress explained, "the term 'affordable' is made in reference to what consumers are able and willing to pay for a particular service included in the definition of universal service."[69] The nation's high penetration rate is evidence that the vast majority of Americans are able to (and, in fact, do) subscribe to supported basic services.

BellSouth also points out, as do a number of other commenters, that "affordability," which is included among the principles enumerated in Section 254,[70] can be, and, in fact, is being addressed today through the existing Lifeline and Link-Up programs.[71] BellSouth agrees with the Vermont Public Service Board, *et al.*, that, if the Commission desires to promote further the principle of affordability, a key area in which the Commission should consider modifications is the existing low-income program.[72] The Commission has already convened a joint working group comprised of Commission staff, state commission representatives, and consumer advocates to examine the effectiveness of current outreach programs for Lifeline/Link-Up and to develop recommendations to enhance these efforts.[73] The Commission could consider

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69 S. Rep. No. 104-230, at 26 (1995).

70 47 U.S.C. § 254(b)(1).

71 *See, e.g.*, BellSouth Comments at 22; Nebraska Rural Independent Companies Comments at 9-10; New Jersey Division of the Ratepayer Advocate Comments at 11; Vermont Public Service Board, *et al*. Comments at 9-10.

72 Vermont Public Service Board, *et al.* Comments at 10-11.

73 *Working Group on Lifeline and Link-up Telephone Services Seeks Information on Effective Outreach to Low-Income Consumers*, *Public Notice*, DA 06-41 (rel. Jan. 10, 2006).

modifications beyond expanded outreach, including, among other things, increasing Lifeline discounts and encouraging more states to match Federal contributions to Lifeline.[74]

Further, as Congress has explained, the states assume a critical role in ensuring that customers have access to communications services at affordable rates. According to Congress, "the States will have the primary role in determining what is an affordable rate for any particular area."[75] Thus, the Commission need not try to achieve the goal of affordability alone or solely through its high-cost mechanism. Rather, the Commission should advance the principle of affordability in a way that takes into account each of the universal service programs to ensure that they are operating together in the most effective and efficient manner possible.

IV. CONCLUSION

For all of the foregoing reasons, the Commission should take the actions requested herein and adopt the rate-based benchmark proposal recommended by BellSouth.

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[74] Vermont Public Service Board, *et al.* Comments at 10-11.

[75] S. Rep. No. 104-230, at 26 (1995).

Respectfully submitted,

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APPENDIX A
BellSouth Reply Comments
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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 continuing to verify the data, and as such, the data is preliminary and 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 Synthesis Model output using line counts from the Commission's *2004 Line Counts Update Order*. *See Federal-State Joint Board on Universal Service*, CC Docket No. 96-45, *Order and Order on Reconsideration*, 18 FCC Rcd 26639 (Wireline Comp. Bur. 2004). (Note that in BellSouth's initial comments filed on March 27, 2006, the master source of wire center data was the Synthesis Model output using the Commission's *2002 Line Counts Update Order*). *See Federal-State Joint Board on Universal Service*, CC Docket No. 96-45, *Order*, 16 FCC Rcd 22418 (Com. Car Bur. 2001). The data herein provides the wire center detail for all non-rural ILECs.

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

Column B: Company
Using the National Exchange Carrier Association, Inc. ("NECA") Code provided in the Synthesis 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 Synthesis Model. The cost is averaged by state (across carriers) using an eligible line weighting of wire center costs.

Column D: 2003 MSA based Urban/Rural
Each wire center in the Synthesis Model input has been defined as either "rural" or "urban." This classification is based upon whether the Synthesis 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 Synthesis Model. The cost is averaged by state, by carrier, and by the Urban/Rural definition of the wire centers. Averages are developed using an eligible line weighting of wire center costs.

Column F: 2004 Synthesis Cost Model Residential Average Cost
This column captures the universal service cost produced by the Synthesis Model. The cost is averaged by state, by carrier, and by the Urban/Rural definition of the wire centers. Averages are developed using an eligible Residential line weighting of wire center costs.

Column G: 2004 Synthesis Cost Model Business Average Cost
This column captures the universal service cost produced by the Synthesis Model. The cost is averaged by state, by carrier, and by the Urban/Rural definition of the wire centers. Averages are developed using an eligible Business line weighting of wire center costs.

Column H: Average Residential Flat Rate
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, and in the absence of other credible sources of equivalent flat rate data, BellSouth is looking to develop a process to create a rate proxy for an equivalent flat rate service (this would 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 I: 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 cost and rate average standard deviation values are based on a simple average of the values in the table.

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State	Company	Average State Cost based on 2004 Synthesis Model	Urban / Rural based on 2003 MSAs	Average Cost	Average Residence Cost	Average Business Cost	Average Residential Rate	Average Business Rate
AK	Anchorage	19.93	Urban	$ 19.93	$ 21.04	$ 16.95		
AL	BST		Rural	$ 37.84	$ 38.44	$ 35.83	$ 21.76	$ 42.72
AL	BST		Urban	$ 25.92	$ 27.08	$ 22.85	$ 22.72	$ 42.73
AL	CenturyTel		Rural	$ 48.24	$ 49.77	$ 38.58	$ 21.99	$ 45.06
AL	CenturyTel	29.85	Urban	$ 32.78	$ 33.46	$ 29.61	$ 23.74	$ 49.02
AR	AT&T		Rural	$ 37.15	$ 39.39	$ 32.44	$ 20.36	$ 36.39
AR	AT&T	26.35	Urban	$ 21.91	$ 23.47	$ 19.54	$ 22.28	$ 41.76
AZ	Qwest		Rural	$ 30.84	$ 32.31	$ 26.73	$ 18.89	$ 36.29
AZ	Qwest	20.46	Urban	$ 19.93	$ 20.58	$ 18.29	$ 19.14	$ 36.41
CA	AT&T		Rural	$ 28.07	$ 29.07	$ 25.51	$ 15.19	
CA	AT&T		Urban	$ 16.25	$ 16.90	$ 15.23	$ 15.10	
CA	SureWest		Urban	$ 17.76	$ 17.83	$ 17.55		
CA	Verizon		Rural	$ 61.07	$ 60.93	$ 62.31	$ 21.27	
CA	Verizon	17.09	Urban	$ 18.75	$ 19.04	$ 17.74	$ 23.09	
CO	Qwest		Rural	$ 33.49	$ 33.72	$ 32.93	$ 21.38	$ 41.52
CO	Qwest	22.83	Urban	$ 21.19	$ 21.91	$ 19.67	$ 21.33	$ 41.45
CT	AT&T		Rural	$ 27.67	$ 27.78	$ 27.32	$ 17.36	$ 36.86
CT	AT&T	21.73	Urban	$ 21.21	$ 21.67	$ 20.27	$ 18.24	$ 39.34
DC	Verizon	14.69	Urban	$ 14.69	$ 16.53	$ 13.84	$ 16.72	
DE	Verizon		Rural	$ 23.39	$ 23.59	$ 22.75	$ 17.50	$ 31.88
DE	Verizon	19.44	Urban	$ 18.21	$ 18.82	$ 17.23	$ 17.14	$ 30.09
FL	BST		Rural	$ 28.90	$ 29.84	$ 26.15	$ 16.12	$ 30.77
FL	BST		Urban	$ 19.14	$ 19.70	$ 17.86	$ 18.31	$ 35.53
FL	Verizon	19.52	Urban	$ 19.64	$ 20.15	$ 18.05	$ 20.30	$ 37.40
GA	BST		Rural	$ 34.34	$ 35.10	$ 32.49	$ 19.36	$ 32.32
GA	BST	21.68	Urban	$ 20.32	$ 21.30	$ 18.43	$ 22.66	$ 49.66
HI	Hawaiian		Rural	$ 24.05	$ 25.70	$ 19.55		$ 31.50
HI	Hawaiian	19.15	Urban	$ 16.62	$ 17.17	$ 15.31		$ 42.10
IA	Qwest		Rural	$ 29.87	$ 30.43	$ 28.44	$ 14.23	$ 28.34
IA	Qwest	23.76	Urban	$ 21.40	$ 22.25	$ 19.74	$ 18.75	$ 39.01
ID	Qwest		Rural	$ 34.79	$ 35.85	$ 31.87	$ 20.00	$ 34.61
ID	Qwest	26.22	Urban	$ 23.02	$ 23.98	$ 20.78	$ 22.76	$ 35.82
IL	AT&T		Rural	$ 28.06	$ 29.27	$ 25.22		
IL	AT&T		Urban	$ 18.28	$ 19.26	$ 16.81		
IL	Verizon		Rural	$ 38.15	$ 39.89	$ 31.97		
IL	Verizon	20.29	Urban	$ 30.06	$ 31.14	$ 26.39		
IN	AT&T		Rural	$ 29.25	$ 30.39	$ 26.10	$ 15.30	$ 37.57
IN	AT&T		Urban	$ 20.30	$ 21.44	$ 18.33	$ 16.84	$ 42.20
IN	Verizon		Rural	$ 35.65	$ 36.81	$ 31.30	$ 10.43	$ 19.18
IN	Verizon	23.46	Urban	$ 25.35	$ 26.28	$ 22.53	$ 20.44	$ 34.33
KS	AT&T		Rural	$ 30.41	$ 31.22	$ 29.02	$ 20.90	$ 31.68
KS	AT&T	22.92	Urban	$ 19.59	$ 20.77	$ 17.88	$ 20.62	$ 35.37
KY	Alltel		Rural	$ 43.82	$ 44.98	$ 38.96	$ 16.25	$ 24.41
KY	Alltel		Urban	$ 24.18	$ 25.16	$ 21.24	$ 23.75	$ 35.02
KY	BST		Rural	$ 35.21	$ 36.61	$ 30.83	$ 22.03	$ 42.40
KY	BST		Urban	$ 24.27	$ 25.83	$ 20.41	$ 23.92	$ 40.89
KY	CBT	28.76	Urban	$ 23.84	$ 24.59	$ 21.86	$ 27.41	$ 58.16
LA	BST		Rural	$ 36.94	$ 38.36	$ 31.95	$ 18.88	$ 39.07
LA	BST	24.81	Urban	$ 21.75	$ 22.88	$ 19.12	$ 18.77	$ 39.04
MA	Verizon		Rural	$ 19.92	$ 19.98	$ 19.77		
MA	Verizon	18.68	Urban	$ 18.67	$ 19.24	$ 17.56		
MD	Verizon		Rural	$ 26.72	$ 27.40	$ 25.04	$ 21.23	
MD	Verizon	18.61	Urban	$ 18.11	$ 18.86	$ 16.82	$ 22.51	
ME	Verizon		Rural	$ 33.71	$ 35.65	$ 26.31		
ME	Verizon	28.19	Urban	$ 24.50	$ 25.45	$ 21.78		
MI	AT&T		Rural	$ 32.24	$ 33.98	$ 28.18	$ 20.59	
MI	AT&T		Urban	$ 19.71	$ 20.60	$ 18.16	$ 19.88	
MI	Verizon		Rural	$ 36.61	$ 37.42	$ 33.52	$ 23.89	
MI	Verizon	22.84	Urban	$ 32.35	$ 32.79	$ 30.31	$ 24.58	
MN	Qwest		Rural	$ 33.14	$ 33.70	$ 31.55	$ 19.34	$ 39.53
MN	Qwest	22.36	Urban	$ 20.35	$ 21.51	$ 18.21	$ 19.69	$ 46.83
MO	AT&T		Rural	$ 32.66	$ 34.75	$ 28.37	$ 13.56	$ 26.52
MO	AT&T		Urban	$ 19.08	$ 20.51	$ 17.10	$ 15.49	$ 37.47
MO	CenturyTel		Rural	$ 54.06	$ 58.94	$ 34.11	$ 10.11	
MO	CenturyTel	23.20	Urban	$ 30.24	$ 31.28	$ 26.41	$ 15.90	
MS	BST		Rural	$ 41.56	$ 43.82	$ 34.98	$ 23.29	$ 42.95
MS	BST	36.08	Urban	$ 29.17	$ 30.86	$ 25.14	$ 24.34	$ 42.96
MT	Qwest		Rural	$ 40.07	$ 42.67	$ 33.03	$ 23.17	$ 40.41
MT	Qwest	33.06	Urban	$ 25.52	$ 26.59	$ 23.01	$ 22.88	$ 40.30
NC	BST		Rural	$ 29.24	$ 30.01	$ 26.97	$ 22.20	$ 36.52
NC	BST		Urban	$ 20.53	$ 21.67	$ 18.38	$ 23.17	$ 39.91
NC	NorthState		Rural	$ 26.81	$ 26.81	$ 26.81		
NC	NorthState		Urban	$ 22.68	$ 22.83	$ 22.44		
NC	Verizon		Rural	$ 34.25	$ 34.64	$ 32.28	$ 24.23	$ 47.99
NC	Verizon	22.63	Urban	$ 24.21	$ 26.45	$ 19.98	$ 22.38	$ 45.63

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ND	Qwest		Rural	$ 38.69	$ 39.19	$ 37.33	$ 25.49	$ 35.38
ND	Qwest	24.58	Urban	$ 21.50	$ 22.33	$ 19.83	$ 23.82	$ 38.75
NE	Alltel		Rural	$ 50.32	$ 54.33	$ 34.22	$ 26.02	$ 37.46
NE	Alltel		Urban	$ 25.11	$ 27.67	$ 20.84	$ 26.70	$ 39.60
NE	Qwest		Rural	$ 37.68	$ 39.19	$ 33.59	$ 23.48	$ 32.46
NE	Qwest	28.92	Urban	$ 19.73	$ 20.77	$ 17.72	$ 23.65	$ 32.46
NH	Verizon		Rural	$ 27.42	$ 28.84	$ 23.38	$ 18.76	$ 40.94
NH	Verizon	23.67	Urban	$ 21.11	$ 21.65	$ 19.93	$ 21.21	$ 47.66
NJ	Verizon	17.91	Urban	$ 17.91	$ 18.26	$ 17.30	$ 15.11	
NM	Qwest		Rural	$ 32.51	$ 33.61	$ 29.34	$ 18.75	$ 40.87
NM	Qwest	25.11	Urban	$ 22.73	$ 23.60	$ 20.39	$ 18.75	$ 40.87
NV	AT&T		Rural	$ 65.75	$ 73.28	$ 42.29	$ 13.22	$ 21.18
NV	AT&T		Urban	$ 18.61	$ 19.76	$ 16.63	$ 16.00	$ 27.25
NV	Sprint	18.78	Urban	$ 16.36	$ 16.98	$ 15.03	$ 14.19	$ 24.53
NY	Frontier		Rural	$ 30.14	$ 31.94	$ 26.18	$ 13.75	
NY	Frontier		Urban	$ 22.42	$ 23.33	$ 20.68	$ 17.81	
NY	Verizon		Rural	$ 33.32	$ 34.46	$ 28.52	$ 24.46	
NY	Verizon	19.42	Urban	$ 18.54	$ 19.48	$ 16.56	$ 18.35	
OH	Alltel		Rural	$ 44.07	$ 44.28	$ 43.49	$ 17.05	$ 27.70
OH	Alltel		Urban	$ 26.68	$ 27.55	$ 24.39	$ 19.31	$ 32.10
OH	AT&T		Rural	$ 31.27	$ 32.27	$ 28.23	$ 20.64	
OH	AT&T		Urban	$ 19.66	$ 20.54	$ 17.87	$ 20.42	
OH	CBT		Urban	$ 21.10	$ 21.83	$ 19.40	$ 22.54	$ 51.86
OH	Verizon		Rural	$ 38.19	$ 39.12	$ 34.34	$ 19.91	$ 34.29
OH	Verizon	22.98	Urban	$ 30.49	$ 31.19	$ 27.66	$ 21.01	$ 37.99
OK	AT&T		Rural	$ 30.41	$ 32.35	$ 26.68	$ 16.12	$ 33.29
OK	AT&T	24.10	Urban	$ 20.79	$ 22.32	$ 18.55	$ 17.89	$ 41.41
OR	Qwest		Rural	$ 31.36	$ 32.06	$ 29.48	$ 17.09	$ 34.52
OR	Qwest		Urban	$ 21.94	$ 22.97	$ 19.78	$ 17.00	$ 33.70
OR	Verizon		Rural	$ 39.12	$ 40.50	$ 34.70	$ 19.42	$ 31.71
OR	Verizon	23.65	Urban	$ 21.33	$ 22.15	$ 19.11	$ 20.53	$ 33.76
PA	Verizon		Rural	$ 27.77	$ 28.99	$ 23.99	$ 15.96	
PA	Verizon	20.00	Urban	$ 19.11	$ 19.89	$ 17.57	$ 17.41	
PR	PRTC		Rural	$ 31.82	$ 31.86	$ 30.43		
PR	PRTC	24.01	Urban	$ 23.67	$ 24.42	$ 18.44		
RI	Verizon		Rural	$ 17.81	$ 17.81	$ 17.81		
RI	Verizon	20.01	Urban	$ 20.02	$ 20.39	$ 18.86		
SC	BST		Rural	$ 33.94	$ 34.48	$ 32.11	$ 20.19	$ 42.87
SC	BST		Urban	$ 23.33	$ 24.33	$ 21.00	$ 21.54	$ 48.23
SC	Verizon		Rural	$ 36.86	$ 38.17	$ 32.64	$ 22.59	$ 39.85
SC	Verizon	25.29	Urban	$ 26.21	$ 27.30	$ 23.75	$ 23.02	$ 39.80
SD	Qwest		Rural	$ 35.65	$ 37.90	$ 31.04	$ 22.62	$ 37.93
SD	Qwest	28.44	Urban	$ 22.05	$ 22.83	$ 20.55	$ 24.41	$ 44.03
TN	BST		Rural	$ 35.67	$ 36.37	$ 33.13	$ 15.50	$ 37.50
TN	BST	25.27	Urban	$ 22.69	$ 23.68	$ 20.13	$ 18.54	$ 45.27
TX	AT&T		Rural	$ 35.57	$ 37.24	$ 31.78	$ 13.47	$ 24.60
TX	AT&T		Urban	$ 18.66	$ 19.90	$ 17.07	$ 14.94	$ 29.33
TX	Verizon		Rural	$ 44.09	$ 46.03	$ 36.48	$ 12.21	$ 23.49
TX	Verizon	20.97	Urban	$ 23.23	$ 24.46	$ 19.77	$ 12.97	$ 24.71
UT	Qwest		Rural	$ 28.62	$ 29.51	$ 26.07	$ 17.35	$ 26.35
UT	Qwest	20.22	Urban	$ 19.77	$ 20.47	$ 18.26	$ 17.33	$ 26.35
VA	Verizon		Rural	$ 36.62	$ 38.72	$ 29.78	$ 16.65	$ 40.77
VA	Verizon	20.97	Urban	$ 19.67	$ 20.90	$ 17.60	$ 23.56	$ 48.40
VT	Verizon		Rural	$ 33.35	$ 35.59	$ 25.78		
VT	Verizon	30.50	Urban	$ 24.50	$ 25.72	$ 22.03		
WA	Qwest		Rural	$ 21.67	$ 21.59	$ 21.99	$ 18.04	$ 32.61
WA	Qwest		Urban	$ 19.18	$ 19.94	$ 17.43	$ 18.35	$ 32.74
WA	Verizon		Rural	$ 37.21	$ 37.75	$ 35.06	$ 21.83	$ 38.53
WA	Verizon	20.66	Urban	$ 21.64	$ 22.33	$ 19.56	$ 20.65	$ 36.68
WI	AT&T		Rural	$ 24.27	$ 24.37	$ 24.06	$ 21.95	
WI	AT&T		Urban	$ 19.09	$ 19.78	$ 17.81	$ 18.98	
WI	Verizon		Rural	$ 40.40	$ 40.93	$ 38.23	$ 20.68	
WI	Verizon	22.27	Urban	$ 32.32	$ 32.85	$ 30.34	$ 17.73	
WV	Verizon		Rural	$ 37.04	$ 38.86	$ 30.13	$ 36.50	$ 63.26
WV	Verizon	30.67	Urban	$ 26.35	$ 27.87	$ 22.56	$ 37.54	$ 63.18
WY	Qwest		Rural	$ 39.01	$ 40.88	$ 35.06	$ 29.54	$ 29.72
WY	Qwest	32.77	Urban	$ 21.32	$ 21.26	$ 21.43	$ 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	$ 34.71	$ 36.00	$ 30.69	$ 19.48	$ 35.40
		Urban	$ 22.00	$ 22.93	$ 19.93	$ 20.56	$ 39.39

(simple average and standard deviation across observations above)

Standard Deviation		Rural	$ 8.38	$ 9.14	$ 6.47	$ 4.55	$ 7.71
		Urban	$ 3.90	$ 3.98	$ 3.38	$ 4.00	$ 7.84

CERTIFICATE OF SERVICE

I do hereby certify that I have this 26th day of May 2006 served the following parties to this action with a copy of the foregoing **REPLY COMMENTS OF BELLSOUTH CORPORATION** 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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