Before the
Federal Communications Commission
Washington, D.C. 20554

In the Matter of	)	
	)	WC Docket No. 06-122
Universal Service Contribution	)	
Methodology	)	
	)	

REPLY COMMENTS

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I. Introduction.

The American Cable Association ("ACA") files these Reply Comments in support of the August 8, 2006, Comments filed in this docket by the Office of Advocacy, U.S. Small Business Administration ("SBA").

As an initial matter, ACA supports the SBA's recommendation that the Commission implement a number-based contribution methodology for USF. A numbers-based system would significantly simplify the now-onerous reporting burdens related to USF, and it would be an accurate and non-discriminatory method of assessing contributions. Until the Commission adopts such a methodology, ACA supports the following recommendations made by SBA in its Comments:

- Lowering the safe harbor for VoIP.
- Eliminating the pre-approval requirement for traffic studies.
- Removing the fine for small providers that incorrectly estimate their revenue projections.
- Simplifying Forms 499-A and 499-Q.
- Increasing the *de minimis* threshold.

About ACA. ACA represents nearly 1,100 small and medium-sized cable companies that serve more than 8 million cable subscribers, primarily in smaller markets and rural areas. ACA member systems are located in all 50 states and in virtually every congressional district. The companies range from family-run cable businesses serving a single town to multiple system operators that focus on serving smaller markets. More than half of ACA's members serve fewer than 1,000 subscribers. All ACA members face the challenges of upgrading and operating broadband networks in lower-density markets. ACA members are leading the market in providing competitive VoIP services to smaller-market and rural subscribers.

II. The Commission should adopt a numbers-based contribution methodology.

The current contribution methodology is inaccurate, unnecessarily complex, and discriminatory, especially in regard to interconnected VoIP services.

Most, if not all, of the ACA members providing VoIP services market these services as a flat-rate, bundled product. In other words, intrastate services, interstate services, equipment, and non-telecommunications services (such as integrated messaging) are all provided for a single price. The bundled product is what consumers want. But as the Commission has acknowledged, it is an extremely difficult task to accurately separate out non-telecommunications and intrastate revenues from a bundled product.[1]

Moreover, most ACA members use a third-party provider to interconnect to the PSTN. Many ACA members report that their underlying providers are currently unable to provide them with accurate usage allocation data, further compounding the problem of identifying interstate revenues.

Because of the inherent interstate/intrastate allocation problems, the FCC has set a "safe harbor" allocation of 64.9% for VoIP providers. As explained in ACA's August 9, 2006, Comments in this docket ("ACA's Comments"), this safe harbor is discriminatory and far too high. Those few ACA members that do have access to

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[1] *See, e.g., Federal Communications Commission Adopts Interim Measures to Maintain Universal Service Fund*, 2002 WL 31778725 (2002) at *1 ("the increased availability of bundled service packages…make it difficult to differentiate interstate revenues from intrastate revenues and to distinguish between telecommunications and non-telecommunications service products"); *In the Matter of Federal-State Joint Board on Universal Service, Further Notice of Proposed Rulemaking and Report and Order*, 17 FCC Rcd. 3752 (2002) at ¶ 12 (bundled pricing plans "compound[ ] the inherent difficulty of identifying interstate revenues...").

actuals report a significantly lower percentage of interstate revenues. This strongly indicates that the safe harbor is much too high for most ACA members, artificially raising the cost of providing competitive voice services in low-density and rural areas.

In summary, for ACA members, the current Byzantine contribution scheme is a considerable administrative and financial burden. Devoting limited administrative resources to the complex Forms 499-A and 499-Q is expensive and time-consuming, and the 64.9% safe harbor further raises costs and impairs members' ability to provide competitively-priced services.

In contrast, as many commenters recognize, a numbers-based methodology would be accurate, easy to administer, and fair.[2] A numbers-based methodology would make a critical difference for ACA's members, allowing them to offer more competitive pricing in low-density and rural markets.

III. Until the Commission adopts a numbers-based methodology, it should lower the safe harbor, streamline reporting requirements, and raise the *de minimis* threshold.

ACA supports SBA's recommendations that the Commission lower the safe harbor, streamline reporting requirements, and raise the *de minimis* threshold until the Commission can move to a numbers-based methodology.

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[2] *See, e.g.*, *In the Matter of Universal Service Contribution Methodology, Comments of Time Warner, Inc.*, WC Docket No. 06-122 (August 9, 2006) at 3-6 (explaining how a numbers-based approach would be simpler to administrate, equitable, and non-discriminatory); *In the Matter of Universal Service Contribution Methodology, Comments of the Iowa Utilities Board*, WC Docket No. 06-122 (August 9, 2006) at 3 (explaining how a numbers-based approach would reduce administrative burden).

As explained above and in ACA's Comments in this docket, the safe harbor is far too high. A 12.8% safe harbor would more accurately reflect the percentage of interstate revenue realized by interconnected VoIP providers.[3]

ACA also supports SBA's recommendations to streamline and ease the burden of reporting requirements by simplifying Forms 499-A and 499-Q, eliminating the discriminatory pre-approval requirement for traffic studies, and removing the fine for small providers that incorrectly estimate projected revenues. Adopting these recommendations would significantly ease the administrative burden on ACA's members, most of which have extremely limited administrative resources.

ACA also supports SBA's recommendation to raise the *de minimis* threshold. Given the 64.9% safe harbor, current 10.5% contribution factor, and a price for bundled VoIP services of about $39.95 per month, ACA calculates that a very, very small interconnected VoIP provider with fewer than 325 subscribers would exceed the *de minimis* threshold. Surely the Commission did not intend to impose the regulatory burdens of administering USF contributions on such small providers.

V. Conclusion.

Small and medium-sized cable companies are leading the charge to provide competitive voice services in smaller markets. This deployment will be impeded if the Commission does not lessen the unnecessary administrative burdens and costs imposed on these companies by the current USF scheme. To promote deployment of advanced services in low-density and rural markets, the Commission should adopt the numbers-based contribution methodology proposed by SBA and other commenters.

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[3] *See ACA's Comments* at 4-7.

Until it does, the Commission should adopt SBA's proposals to lower the safe harbor, streamline and ease the burden of reporting requirements, and raise the *de minimis* threshold.

Respectfully submitted,

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