NASUCA
NATIONAL ASSOCIATION
OF STATE UTILITY
CONSUMER ADVOCATES

VIA ELECTRONIC DELIVERY

April 6, 2007

Chairman Kevin Martin
Commissioner Jonathan Adelstein
Commissioner Michael Copps
Commissioner Deborah Tate
Commissioner Robert McDowell
Federal Communications Commission (via e-mail)

Re: Ex Parte Communication, FCC Dockets 96-45, 01-92, 03-133, 04-36, 06-122

Dear Chairman Martin and Commissioners:

On March 15, 2007, the Federal Communications Commission ("FCC" or "Commission") announced that the federal Universal Service Fund ("USF") contribution factor for the second quarter of 2007 ("2Q07") will be 11.7%.[1] This sets a new record high for the contribution factor, and represents a 200 basis point increase from the 1Q07 factor of 9.7%. The National Association of State Utility Consumer Advocates ("NASUCA") is writing to express concern over this unprecedented increase in the contribution factor, and to recommend that the Commission take immediate steps to constrain the future growth of the USF. The first such step that should be taken is to cap the high-cost portion of the USF, which is the primary source of growth in the fund. Then the Commission should take the more detailed actions proposed by NASUCA in previous filings in these dockets, in order to ensure the long-term sustainability of the USF. Those actions are discussed below.

[1] DA 07-1330.

The growth in the contribution factor does not mean that the basis for the contribution mechanism should change.

Before we proceed to discuss means to limit the size of the fund, it should be noted that the increase in the USF contribution factor is largely the result of increases to the size of the fund, not decreases to the contribution base of interstate and international revenues.[2] NASUCA has pointed out in numerous previous filings that the changes in the contribution base do **not** mean there is a need to move from the current revenue-based mechanism to a numbers - or connections-based mechanism.[3] As stated in NASUCA's February 27, 2006 letter filed in Dockets 96-45, 01-92 and 03-133:

> NASUCA continues to oppose these proposals because a connection-based mechanism inevitably shifts USF responsibility from those who use interstate services (as with the current revenue mechanism) to those who merely have access to the local network, regardless of their interstate usage, or even of their intrastate usage. This inevitably shifts the burden of supporting the entire USF and all the programs it contains onto lower use and lower income consumers. This shifting of burdens is not in the public interest.

The most recent data continues to support NASUCA's position that the Commission should not move away from the current revenue-based USF contribution mechanism. As described in numerous NASUCA filings and summarized here, there are more gradual, less radical changes that will adequately preserve and advance the USF. Further, as NASUCA has previously demonstrated, the revenue-based mechanism is actually more robust and equitable than a connection-based mechanism, even when the needs of the fund grow substantially.[4]

Capping the fund as an interim step.

It appears that the Federal-State Joint Board on Universal Service ("Joint Board") will soon be recommending that the Commission impose a cap on the USF. NASUCA supports that recommendation; a cap on the fund appears to be the best means of preventing the contribution factor from growing to even higher levels than that seen in the current quarter. Embarq asserted in a February 15, 2007 ex parte that if the Commission were to grant all of the pending competitive eligible telecommunications

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[2] See attached charts.

[3] NASUCA ex parte (January 22, 2007); see also NASUCA ex parte (June 21, 2006); NASUCA ex parte (February 27, 2006); NASUCA 96-45 Comments (September 30. 2005). It appears that, inadvertently, the January 22, 2007 ex parte was filed only in Docket WC 06-122. A copy is attached here, so that it can be reflected in the records of all five indicated dockets. The issues are set forth in the summary of NASUCA positions included here as Appendix A.

[4] CC Docket No. 96-45, et al., NASUCA Reply Comments on Staff Study (May 16, 2003) at 7-11. No party has, to NASUCA's knowledge, attempted to refute these findings.

carrier ("CETC") applications before it, this would add some $150 million to the current fund.[5] This increase would clearly push the contribution factor even higher.[6]

What kind of cap? A cap on what?

It is clear that the growth problem lies with the so-called "high-cost" portion of the fund.[7] The other three components of the fund -- schools and libraries, low-income and rural telemedicine -- are relatively static or small. By contrast, the high-cost fund grew by over a billion dollars from 2003 to 2007. Thus the focus for constraining the USF should be on the high-cost fund.

Within the high-cost fund, support to incumbent ETCs has actually declined.[8] All of the growth in the high-cost fund is attributable to CETCs, specifically to wireless ETCs. Thus a cap on CETC funding would be the simplest way to constrain the growth in the fund while more permanent solutions are sought.

Some would say that such a cap would not be "competitively neutral," which is one of the Commission's goals.[9] To avoid such arguments, a cap could be imposed that would "share the pain" among all carriers, by awarding carriers proportionate shares of the cap. For example, to oversimplify almost to absurdity, one could assume a high-cost fund of $4 billion, with a single rural incumbent getting $2.5 billion (62.5%), a single non-rural incumbent getting $0.5 billion (12.5%), and a single CETC getting $1.0 billion (25%). Assume that another CETC entered, and would -- absent a cap -- receive $1.0 billion. This would inflate the entire fund to $5 billion, with the rural incumbent getting its $2.5

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[5] Embarq also estimated that if AT&T Mobility (f/k/a Cingular) were to receive CETC status, this would add another $250 million to the fund.

[6] Other proposals before the Commission would explode the fund to unsustainable heights. For instance, the proposals of the Missoula Plan Supporters and Several State Utility Commissions ("MPSSSUCs") would add $3.25 billion to the current $7 billion fund. See NASUCA Comments in 01-92 (March 19, 2007) at 12-13. These increases would be cumulative to the CETC increases mentioned in the text. It is interesting, to say the least, that AT&T -- the prime architect and supporter of these plans -- is now recommending "that long-term reform should begin by getting control over the growth of the high-cost fund." AT&T ex parte (April 2, 2007) at 1. This is especially ironic because in comments filed last year in 05-337, AT&T acknowledged that its proposals would increase the size of the non-rural high-cost fund. Comments of AT&T (March 27, 2006) at 4.

[7] Major portions of the "high-cost" fund actually go to carriers without regard to their costs. See 96-45, 05-337, NASUCA Comments (March 27, 2006) at 15-19 (non-rural carriers) ("NASUCA 3/27/06 Comments"). In addition, the "equal support" rule means that CETCs receive support based on the costs of the underlying ILEC. See id. at 57-58.

[8] See "The Challenge of Adapting Universal Service to a Competitive Environment," Testimony of Billy Jack Gregg Before the Communications Subcommittee, Senate Commerce, Science and Transportation Committee (March 1, 2007) at 5-6.

[9] See CC Docket 96-45, Ninth Report and Order and Eighteenth Order on Reconsideration, FCC 99-306 (1999), ¶ 90.

billion (or 50%), the non-rural incumbent getting its $0.5 billion (or 10%), the old CETC getting $1 billion (20%) and the new CETC also getting $1 billion (again, 20%). If these percentages were applied to the current $4 billion level of the fund, then the rural incumbent would receive $2 billion (50%), the non-rural incumbent would receive $0.4 billion (10%), and the old and new CETCs each receive $0.8 billion (their 20% shares). Obviously, if no new ETCs were approved, each carrier would continue to receive the current level of funding in future years (or at least until the system is rationalized).[10]

Fundamental decisions need to be made

As accurately pointed out in ex partes filed in CC Docket 96-45 and WC Docket 05-337 on March 19, 2007 by a number of state regulatory commissions, the FCC has yet to resolve some of the most fundamental issues regarding universal service, including the definition of the key terms "reasonably comparable" and "sufficient" on which the entire high-cost support system depends.[11] These issues were remanded to the Commission for a second time by the United States Court of Appeals for the Tenth Circuit in 2005,[12] and despite having sought and received comment on the issue, it does not appear that the Commission is any closer to resolving these questions. A cap on the fund will preserve the status quo pending this Commission decision.

The Commission also needs to work to increase the revenue contribution base.

As discussed in Appendix A, there are a number of actions the Commission can take within its current statutory framework to increase the contribution base from which USF contributions are assessed. These measures -- which recognize recent trends in the industry -- will assist in ensuring that the fund is sustainable, especially if the corrective steps to limit the size of the fund discussed in the next paragraph are taken.

Ways to constrain the current high-cost fund

In Appendix A, NASUCA provides a summary of the numerous proposals we have made to constrain the current fund. These include:

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[10] Other cap designs are possible. For example, in a February 9, 2007 ex parte, Verizon proposed two separate caps for each study area, one for wireline ETCs and the other for wireless ETCs.

[11] Two ex parte letters were filed together. The first was on behalf of the Maine Public Utilities Commission ("PUC") and the Wyoming Public Service Commission ("PSC"). The second was on behalf of the Vermont Public Service Board and Department of Public Service, the Kentucky PSC, the Montana PSC, the Nebraska PSC and the South Dakota PUC. Despite NASUCA's agreement that the FCC needs to address the fundamental definitional questions, we strongly disagree with the first letter's assertion that the Federal Benchmark Mechanism submitted in the context of the Missoula Plan in WC Docket 01-92 is any kind of solution for universal service issues. See NASUCA Comments in 01-92 (filed March 19, 2007). And we also strongly disagree with the proposition in both letters that "[c]onsumers in rural states served by non-rural carriers are being irreparably harmed by insufficient universal service funding." The error in the proposition is clearly shown by the non-rural carrier rate data filed in NASUCA's 3/27/06 Comments, Appendices C, D and F.

[12] See *Qwest Corporation v. FCC*, 258 F.3d 1191 (10th Cir. 2001) ("*Qwest I*"); *Qwest Communications v. FCC*, 398 F.3d 1222 (10th Cir. 2005) ("*Qwest II*").

- Restrict support to a single line per household[13];

- Apply rigorous tests to the designation of ETCs;

- Adopt economic public interest benchmarks for designation of multiple ETC (i.e., do not authorize multiple ETCs where current support is at high levels)

- For areas served by rural carriers, base CETC support on the CETC's own costs, not on the rural ILEC's embedded costs

- Transition rural carriers with more than 100,000 access lines to a forward-looking cost test[14]

- Combine study areas within a state of companies with common ownership

- First alternative for non-rural carriers: Base support on a comparison of rural wire center costs to the national urban average per-line revenue

- Second alternative for non-rural carriers[15]: First examine current rates, imputing current per-line support. Then support companies with high rates and high costs. Include state-initiated mechanism for additional support.

The use of auctions to establish the USF

The Commission recently accepted comments on the use of auctions to better size the USF. NASUCA's comments opposed a transition of the entire high-cost fund to auctions, for a number of reasons. In this regard, as with advanced services, the Commission could create and review the results of a pilot program with limited geographic scope in order to explore whether an auction system could work to replace the entire high-cost fund.

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[13] See also Appendix B. As shown in that Appendix, supporting only primary lines could save $1.4 billion of the current high-cost fund.

[14] Also use a national peer-group cost benchmark and use a "stair-step" support function.

[15] This proposal is explained in detail at pages 71-88 of NASUCA's March 27, 2006 comments in 96-45/05-337.

Support for broadband services

The high-cost fund does not currently support broadband services.[16] That is because the Commission has not yet found that advanced services meet the requirements for support set forth in 47 U.S.C. 254(c)(1).[17] The Commission has not yet really considered that question. Whether the Commission does so -- under the current statutory framework -- is a longer-range consideration.[18]

In the end, the best solutions for the USF will be both to broaden the contribution base and to limit the size of the fund. Currently, as noted above, some of the proposals on the intercarrier compensation issue threaten to balloon the fund while also increasing the burdens on end-use customers.[19] The Commission must not guarantee revenues to carriers in the name of universal service where the revenues are not demonstrably needed to create reasonably comparable, affordable, and just and reasonable rates. The Commission has many proposals before it to **limit** the growth in the fund. After capping and stabilizing the high cost fund as an interim measure, the Commission should adopt the long term reforms recommended in NASUCA's previous submissions, as summarized and updated in the attachment here.

[16] Although by supporting the infrastructure needed to provide other services, the fund does indirectly support the provision of advanced services.

[17] The Commission in determining which services to support must consider whether the services "(A) are essential to education, public health, or public safety; (B) have, through the operation of market choices by customers, been subscribed to by a substantial majority of residential customers; (C) are being deployed in public telecommunications networks by telecommunications carriers; and (D) are consistent with the public interest, convenience, and necessity." 47 U.S.C. 254(c)(1).

[18] Consistent with NASUCA's preference for incremental approaches for the USF, it appears that the Commission should establish and review the results of a pilot program providing support for broadband in a currently unserved area, before expanding any such program. See ALLTEL ex parte (February 16, 2007).

[19] See footnote 6, supra.

Respectfully submitted,

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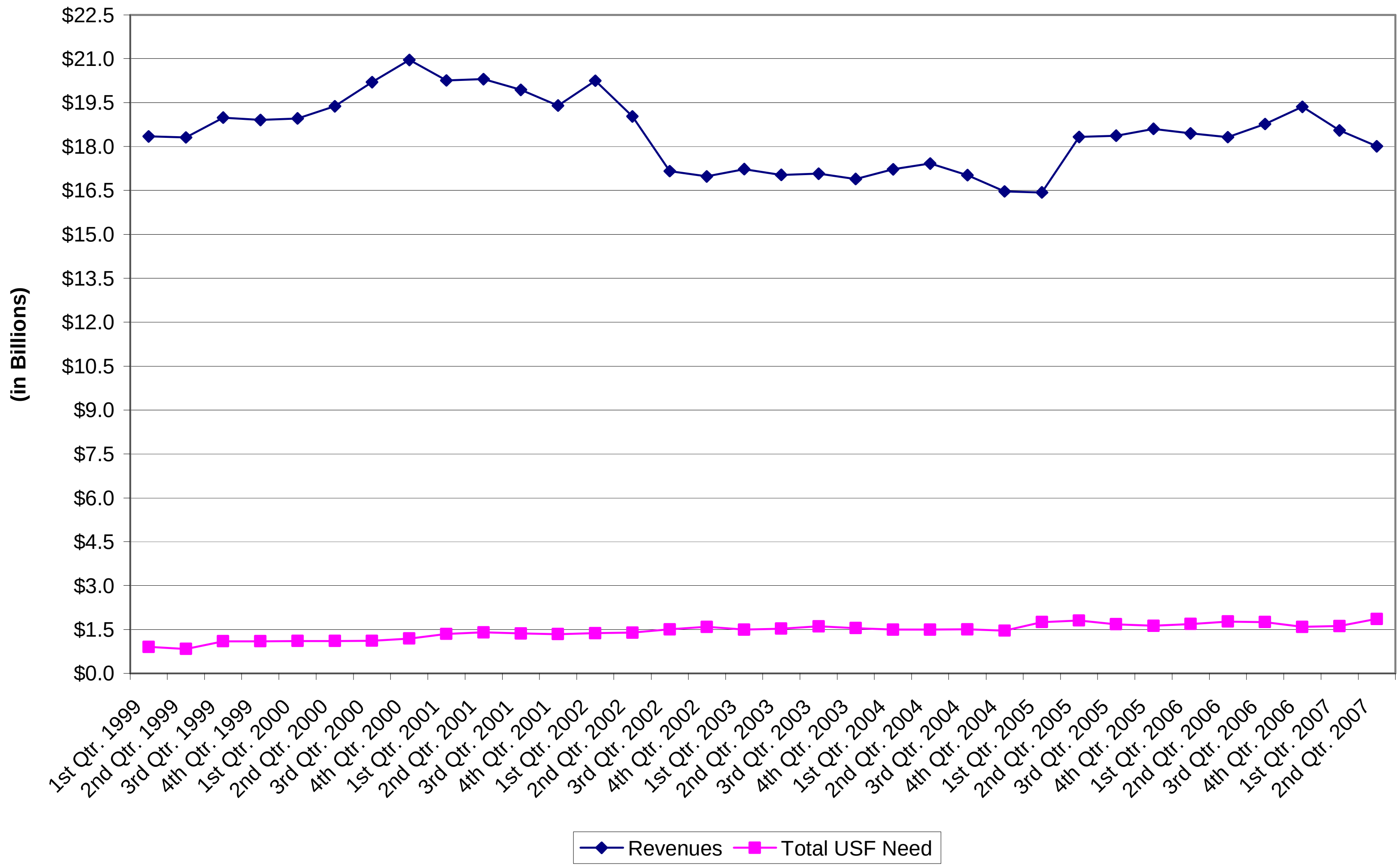
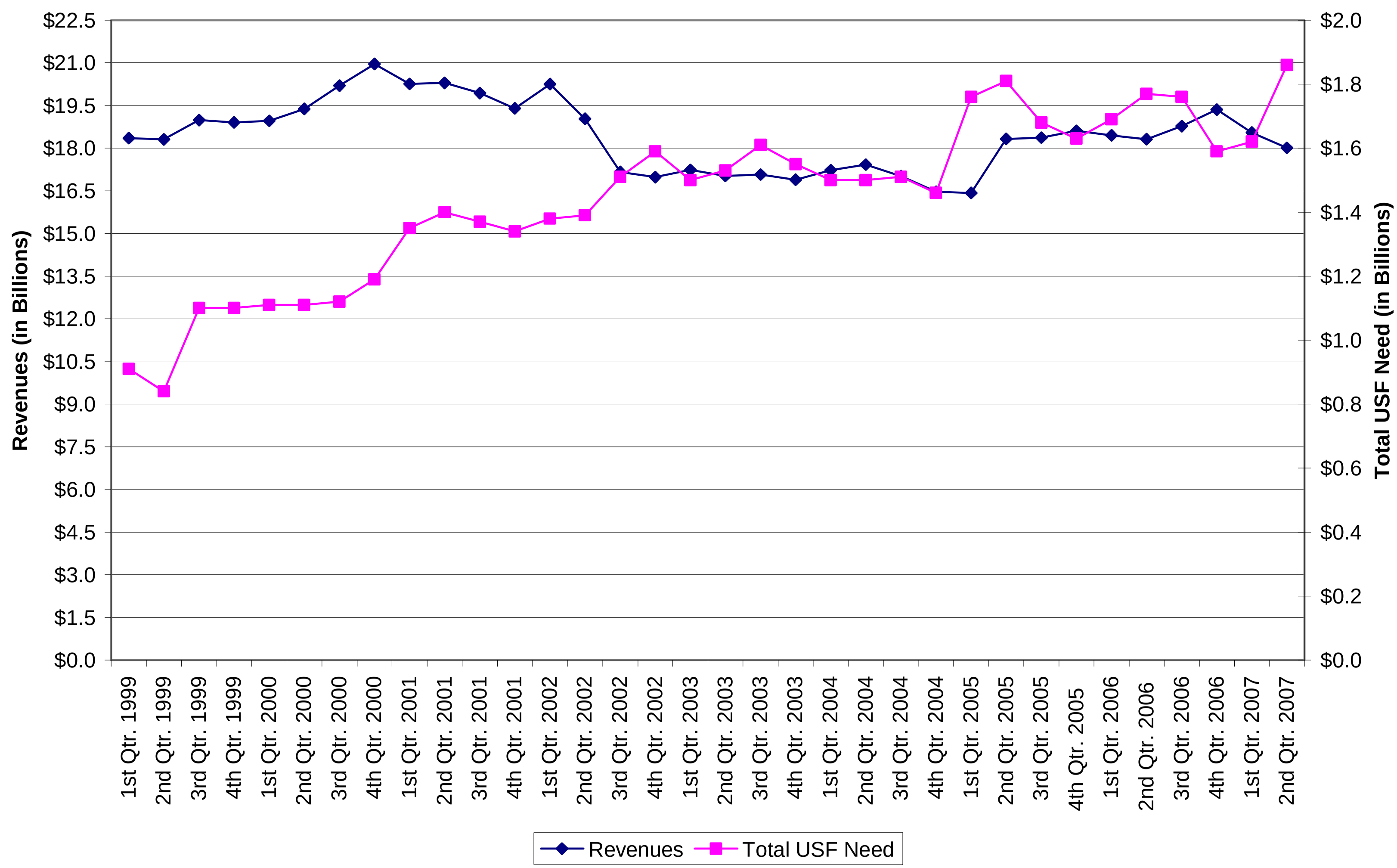
CC: Federal-State Joint Board on Universal Service (and Joint Board Staff).

Revenues and USF Needs (single scale)



Revenues and USF Needs (two scales)



USF Contribution Data

	Revenues	Total USF Need	Contribution Factor
1st Qtr. 1999	18.35	0.91	0.050
2nd Qtr. 1999	18.31	0.84	0.046
3rd Qtr. 1999	18.99	1.10	0.058
4th Qtr. 1999	18.91	1.10	0.058
1st Qtr. 2000	18.96	1.11	0.059
2nd Qtr. 2000	19.38	1.11	0.057
3rd Qtr. 2000	20.20	1.12	0.055
4th Qtr. 2000	20.96	1.19	0.057
1st Qtr. 2001	20.26	1.35	0.067
2nd Qtr. 2001	20.30	1.40	0.069
3rd Qtr. 2001	19.94	1.37	0.069
4th Qtr. 2001	19.40	1.34	0.069
1st Qtr. 2002	20.25	1.38	0.068
2nd Qtr. 2002	19.03	1.39	0.073
3rd Qtr. 2002	17.16	1.51	0.088
4th Qtr. 2002	16.98	1.59	0.093
1st Qtr. 2003	17.23	1.50	0.087
2nd Qtr. 2003	17.03	1.53	0.091
3rd Qtr. 2003	17.07	1.61	0.095
4th Qtr. 2003	16.89	1.55	0.092
1st Qtr. 2004	17.22	1.50	0.087
2nd Qtr. 2004	17.42	1.50	0.087
3rd Qtr. 2004	17.02	1.51	0.089
4th Qtr. 2004	16.47	1.46	0.089
1st Qtr. 2005	16.43	1.76	0.107
2nd Qtr. 2005	18.33	1.81	0.111
3rd Qtr. 2005	18.37	1.68	0.102
4th Qtr. 2005	18.61	1.63	0.102
1st Qtr. 2006	18.45	1.69	0.102
2nd Qtr. 2006	18.32	1.77	0.109
3rd Qtr. 2006	18.77	1.76	0.105
4th Qtr. 2006	19.36	1.59	0.091
1st Qtr. 2007	18.55	1.62	0.097
2nd Qtr. 2007	18.01	1.86	0.117

Source: Contribution Factor Public Notices.

APPENDIX A: SUMMARY OF NASUCA USF POSITIONS

The key issues for the USF are the current level of the fund contribution factor and the need to restrain the growth in fund levels, while ensuring that the USF is used for the purposes directed by the Telecommunications Act of 1996. In order to preserve and advance universal service,[1] the first task is to preserve it.

A key sub-issue of the level of the fund is the current provisions of the rules that support multiple lines of multiple carriers per customer. NASUCA submits that, consistent with the Act, federal support should go only to a single line per customer. In this regard, NASUCA strongly supported the recommendation of the Joint Board in the February 27, 2004 Recommended Decision.[2] A separate summary of this specific issue is found in Appendix B, which addresses the actions of Congress in various budget bills to take this tool for needed reform out of the Commission's tool belt.

In addition, NASUCA urges the Commission to limit the growth in the USF by, among other things, restraining the support for ETCs generally. Further, NASUCA urges the Commission to adopt NASUCA's proposals for separately improving the high-cost support mechanisms for non-rural carriers and for rural carriers, which recognize the fundamental differences between the two classifications of carriers.

NASUCA also urges the Commission to continue the collection mechanism that is fairest to the customers who ultimately pay for the USF -- a collection mechanism that is based on interstate and international usage, rather than on mere access to the interstate and international networks.[3] There is no need to move to a numbers- or connections-based contribution mechanism.

I. CONTROLLING THE CONTRIBUTION FACTOR

Absent other action by the Commission, such as the use of surplus funds to increase the revenue base, determining the contribution factor is essentially a simple calculation: The total requirements of the USF are divided by total interstate and international revenues. As a mathematical exercise, then, the factor can be reduced by increasing the amount of revenues in the denominator or by decreasing the fund requirements in the numerator, or both.

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[1] 47 U.S.C. § 254(b).

[2] Recommended Decision, FCC 04J-1, 19 FCC Rcd 4257 (2004), ¶¶ 56-71.

[3] It is not necessary at this time to seek the legislative changes that would be required in order to assess intrastate revenues for federal universal service purposes. The members of NASUCA have varying views on whether the use of intrastate revenues for federal universal service purposes would be appropriate.

A. Increasing the revenues subject to contribution.

The contribution base has remained remarkably stable for the last eight years. Many parties continue to be concerned, however, about the long-term sustainability of the revenue base. There are clearly steps that can be taken to bolster the contribution base.

Wireless plans and bundling: In 2006, the Commission increased the safe harbor for wireless carriers, thus increasing the percentage of wireless traffic presumed to be interstate.[4] There is also concern over the bundling of local wireline service with interstate applications. NASUCA's February 28, 2003 comments had offered two solutions to this problem: either the use of a time-tested allocator such as the 25% used for allocating the cost of the local loop, or, indeed, a 100% interstate allocation -- for universal service purposes -- of the revenues from inter/intrastate bundles. This could also work on a carrier-specific basis: If a carrier claimed that it could not determine the percentage of interstate revenue in a bundle, the burden would be on that carrier to demonstrate why 100% of its revenues should not be treated as interstate.

Broadband and VoIP: In 06-94, the Commission also determined that voice over Internet protocol ("VoIP") service should contribute directly to the USF.[5] NASUCA has previously asserted that the Commission should reconsider its decision to exempt broadband service generally from USF responsibilities.[6] Under the Commission's definition of broadband, being information services that use telecommunications, broadband is within the Commission's discretion to assess for universal service purposes.[7] As such, 100% of the revenues from these services should be subject to assessment for the federal universal service fund.

The fact that broadband services do not receive universal service funding is irrelevant to whether they should be required to pay into the universal service fund: For example, stand-alone long distance providers do not receive universal service funds, despite the fact that interstate long distance revenues have traditionally been the primary source of funding for the federal fund. Further, many non-rural local carriers receive little funding, despite the fact that they pay into the fund based on their subscriber line charges being considered to be interstate revenues, as well as based on their own

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[4] *In the Matter of Universal Service Contribution Mechanism*, WC Docket 06-122, *et al*., Report and Order and Notice of Proposed Rulemaking, FCC 06-94, 21 FCC Rcd 7518 (rel. June 27, 2006) ("06-94").

[5] The Commission decision in 06-94 on VoIP was appealed as *Vonage v. FCC*, No. 06-1276 (D.C. Cir.). NASUCA intervened in that appeal and filed a brief in support of the Commission's decision.

[6] This includes both digital subscriber line service and cable modem service. The Commission has made similar rulings on broadband over power line ("BPL") and, most recently, for wireless broadband service. *In the Matter of Appropriate Regulatory Treatment for Broadband Access to the Internet Over Wireless Networks*, WC Docket No. 07-53, Declaratory Ruling, FCC 07-30 (rel. March 23, 2007).

[7] 47 U.S.C. § 254(d).

interstate traffic. The very nature of the fund dictates, among other things, that there will be imbalances, by industry, by state, and by carrier between amounts paid into the fund and benefits received.

B. Controlling the size of the fund.

The total requirements of the fund include those of the high-cost fund (for rural and for non-rural carriers), the schools and libraries fund, the low-income fund and the rural telemedicine fund.

We can look at the plan components in terms of their size. Together, the components make up the current $7 billion fund. The table on the next page shows the growth in the plan segments over time.

Components of the Universal Service Fund ($ millions)

Quarterly	Rural High-Cost	Schools and Libraries	Non-rural High-Cost	Low Income Support	Rural Health Care	Total
1Q2000 (a)(b)	$436.9	$491.9	$58.3	$124.4	$2.5	$1,114.0
1Q2001 (a)	$448.8	$527.4	$218.4	$164.4	$1.8	$1,360.8
1Q2002 (a)	$468.7	$559.5	$214.3	$158.7	$4.8	$1,406.1
1Q2003	$605.1	$526.3	$221.0	$186.1	$3.2	$1,541.7
1Q2004	$663.4	$511.7	$226.1	$163.3	$14.7	$1,579.1
1Q2005	$717.3	$822.9	$259.7	$195.9	$11.8	$2,007.6
1Q2006	$769.5	$498.0	$258.7	$234.7	$7.9	$1,768.7
1Q2007	$799.4	$454.9	$266.7	$168.6	$37.7	$1,727.3
Annualized						
Year 2000	$1,747.6	$1,967.6	$233.2	$497.6	$10.0	$4,456.0
Year 2001	$1,795.3	$2,109.4	$873.6	$657.5	$7.3	$5,443.0
Year 2002	$1,874.6	$2,238.1	$857.2	$635.0	$19.3	$5,624.2
Year 2003	$2,420.4	$2,105.2	$884.0	$744.4	$12.8	$6,166.8
Year 2004 (c)	$2,653.5	$2,046.7	$904.3	$653.4	$58.6	$6,316.5
Year 2005	$2,869.2	$3,291.6	$1,038.8	$783.6	$47.2	$8,030.4
Year 2006	$3,078.1	$1,992.0	$1,034.8	$938.6	$31.4	$7,074.8
Year 2007	$3,197.6	$1,819.7	$1,066.8	$674.3	$150.6	$6,909.0
Growth from 2000 to 2007	82.97%	-7.52%	357.46%	35.51%	1406.40%	55.05%

(a) Rural High-Cost Support does not include the Interstate Common Line Support component for these years.
(b) Non-rural high-cost support does not include Interstate Access Support.
(c) On February 26, 2004, the FCC released an Order and Second Further Notice of Proposed Rulemaking that merged Long Term Support with Interstate Common Line Support. As a result, LTS was eliminated effective July 1, 2004.

Source: Contribution Factor Public Notices

In order of size, the components, together with NASUCA's primary recommendations, are:

1. **Rural high-cost support** ($3.2 billion for 2007; 46% of the total $6.9 billion) -- NASUCA's primary recommendation for the rural and non-rural high-cost funds has long been to restrict support to a single line per

household (see Appendix B).[8] Likewise for both funds, the Commission should apply rigorous tests to the designation of all ETCs, including CETCs (see below). Further, CETC support should be based on the CETCs' costs, not on the embedded costs of the rural carriers as allowed by the current system.[9]

Specific to the rural fund, larger rural carriers with 100,000 or more access lines should be transitioned over five years to a support system based on forward-looking costs. These large rural carriers have much more in common with the smaller non-rural carriers that currently base support on forward-looking costs, using the FCC's Synthesis Model, than they do with the smallest rural carriers. Companies under common ownership within a state should be combined for this analysis.[10]

The current non-rural mechanism supports 76% of a company's costs that are in excess of two standard deviations of the national average of forward-looking costs for non-rural companies. By contrast, the current rural high-cost mechanism begins to provide support at 115% of the national average cost, progressively increasing to cover 75% of the carrier's costs above the benchmark. Such a "stair-step" support function, rather than the simple "on/off" function used for non-rural carriers, would be more appropriate for the larger rural carriers that would use forward-looking costs under NASUCA's proposal. The stair-steps should be the same as those used for the current rural mechanism.

In order to further recognize the distinctions between even the larger rural carriers and the non-rural carriers, the benchmark upon which support is based should be the nationwide average of the peer group of larger rural carriers, those with 100,000 or more access lines within a state, instead of the statewide average benchmark used for the non-rural carriers.[11] Support for rural carriers -- both large and small -- should be determined by comparing each company's costs to the relevant benchmark.

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[8] Estimates of the cost savings to the rural and non-rural carrier funds from the move to supporting only primary lines are included in Appendix B.

[9] Given the uncertainty over CETC costs, no attempt to estimate savings from these changes has been made.

[10] Due to this combining, some rural carriers will lose local switching support as a result of exceeding the 50,000 access line threshold for that form of support. Similarly, rural study areas of companies that have non-rural study areas within a state should be combined with the non-rural areas and excluded from the rural sample.

[11] The differences between rural carriers as a whole and non-rural carriers are significant, and the Commission should exercise caution in addressing the question of whether and how to combine the two mechanisms. NASUCA Comments (October 15, 2004) at 7-9, 15-19.

As of 2005, NASUCA calculated that the results of these proposals would be an approximate $200 million decrease in the rural high-cost fund, spread out over five years. The bulk of this change (a net $146 million reduction) results directly from transitioning the larger rural carriers to forward-looking costs. Another $39 million comes from combining study areas of rural carriers such that they no longer meet the 50,000 access line threshold for local switching support. And $15 million comes from merging study areas of rural carriers with the study areas of their non-rural affiliates.

2. **Schools and libraries support** ($1.82 billion for 2007; 26% of the total): Since its inception, the Schools and Libraries fund has been capped at $2.25 billion annually. Issues for managing this component were most recently decided in 2004.[12]

3. **Non-rural high cost support** ($1.07 billion for 2007; 15.5% of the total): As previously noted, the Commission should continue to treat non-rural carriers (and large rural carriers) differently from the smaller rural carriers. Primary line and CETC restrictions should apply for non-rural carriers as well. The Commission should continue the current practice of statewide cost averaging for non-rural carriers. Where statewide average cost for a non-rural carrier is below the relevant federal benchmark,[13] it is appropriate for support, if any, to be an intrastate issue decided by individual states.

NASUCA has presented two alternatives for the Commission's consideration.[14] Both alternatives are based on the fact that the key purpose of the non-rural high-cost fund is to meet the statutory principle that non-rural companies' rates in the high-cost and rural portions of their service territories should be "reasonably comparable" to rates in urban areas. Having this as the key purpose is consistent with the requirement of *Qwest II* that the Commission shall consider each of the principles in 47 U.S.C. § 254(b) in developing universal service policies.[15] Both of NASUCA's proposals replace the current three pieces of the non-rural high-cost USF with a single fund.

[12] *In the Matter of Schools and Libraries Universal Service Support Mechanism*, CC Docket No 02-6, Fifth Report and Order, FCC 04-190, 19 FCC Rcd 15808 (2004).

[13] 96-45, Order on Remand, FCC 03-249 (rel. October 27, 2003) ("*Order on Remand*"), ¶¶ 49, 64.

[14] See NASUCA Comments (March 27, 2006) ("NASUCA Non-rural High-Cost Comments").

[15] *Qwest II*, 398 F.3d at 1234.

In order to determine whether rural rates are reasonably comparable to urban rates, it is necessary to know what current rural and urban rates are.[16] In the NASUCA Non-rural High-Cost Comments, NASUCA presented data to the Commission that encompassed rates as of February 2006 in more than 11,000 wire centers nationwide -- urban, rural, and in between -- served by non-rural carriers. NASUCA did not, however, propose a specific standard for comparability.

NASUCA's first alternative proposal moves in a new direction that simplifies the way in which high-cost support for non-rural carriers is determined. The second alternative proposal retains much of the current mechanism, while attempting to meet the concerns on which the Tenth Circuit based its rejection and remand of prior Commission orders; in that respect it is more complicated than either the current mechanism that was overturned in *Qwest II* or the first NASUCA alternative.

NASUCA's first alternative proposal for non-rural carrier support begins by determining a benchmark based on national urban average per-line **revenue**, being revenue from all sources, not just basic service. This includes basic service, subscriber line charges ("SLCs"), optional/vertical services, access charges, and advanced services, in recognition that the network is constructed to provide multiple services, both traditional and advanced. Then, the basic service **costs** in all wire centers are compared to that national urban average revenue. Support is then awarded to all wire centers with costs that are higher than the national urban revenue benchmark.[17] The presumption contained in this proposal is that areas with costs that are greater than the urban revenue benchmark **will find it impossible** to have basic service rates that are reasonably comparable to urban rates in the absence of support.

NASUCA's second alternative for non-rural carriers begins and ends by looking at rural rates, which federal support is intended to help make reasonably comparable to urban rates. The mechanism first determines **eligibility** for support through an examination of rates. This follows the law and the Tenth Circuit's rulings. Then, following the current mechanism, the **amount** of support is based on costs. That is the appropriate method for apportioning support from the federal USF, placing the primary responsibility for ratemaking on the states, while assisting with support for areas in states that have -- as a whole -- high costs that otherwise would be accounted for in rates. In the end, the support awarded is again compared to the local service rate, in order to judge whether the support produces reasonably comparable rates.

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[16] It is also necessary to define urban "areas" and rural "areas," in order to know which rates are which. NASUCA's proposals did so by using Census Bureau definitions.

[17] All rural and all high-cost wire centers are eligible for support. 47 U.S.C. § 254(b)(3). If an urban wire center happened to be high-cost enough that its costs were greater than the national urban average per-line revenues, it would likely need support to maintain reasonable comparability of rates.

Backstopping the process throughout is a mechanism where individual states can set forth specific conditions that justify providing support in areas that -- through the standard operation of the mechanism -- would not receive support. Here again, NASUCA's second alternative builds on the current system.[18]

NASUCA's second alternative proposal is designed as a gradual, iterative process where the industry, the Commission, the states and consumers learn as the process is implemented. This is consistent with the evolving nature of universal service.[19]

Under the current system, only ten states receive support for their non-rural companies explicitly based on their high costs. Forty states, the District of Columbia and Puerto Rico receive no funding based on high costs, due to the fact that their statewide average costs do not exceed the Commission's benchmarks. Non-rural ILECs in 45 jurisdictions, however, receive interstate access or interstate common line support, which were designed as revenue replacement mechanisms, but fall under the high-cost rubric.[20]

Only Wyoming has requested additional support under the Commission's supplemental mechanism.[21] The state commissions in the other states have not requested funding under the Commission's supplemental mechanism. It would be safe to assume, then, that those commissions believe their rural rates to be reasonably comparable to urban rates under the current benchmark. That is borne out by the rate data submitted by NASUCA. Support in these states can be presumed to be adequate.

NASUCA's second alternative proposes that the reform of the non-rural high-cost mechanism begin with states that currently have high rural rates for their non-rural carrier(s) but receive no high-cost funding, and then progress to states that currently receive high-cost funds but still have high rural rates. Then states that have reasonably comparable rates but receive large amounts of high cost funds would be reviewed, to determine whether the funding amount is appropriate. A next step would be to review the states that, without the current high-cost funding, would likely have rates that would nonetheless be reasonably comparable; this support would be deemed not needed and could be eliminated.

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[18] See *Order on Remand*, ¶ 93.

[19] 47 U.S.C. § 254(c)(1).

[20] USAC filings for 1Q07, Appendix HC01.

[21] CC Docket No. 96-45, "Joint Petition of the Wyoming Public Service Commission and the Wyoming Office of Consumer Advocate for Supplemental Federal Universal Service Funds for Customers of Wyoming's Non-Rural Incumbent Local Exchange Carrier" (December 21, 2004). The Commission has taken no action on Wyoming's request -- other than requesting public comment -- in the more than two years since the Joint Wyoming Petition was filed.

Under the Commission's current non-rural mechanism, non-rural carriers receive a total of $730 million in funds paid by consumers without any actual requirement to show that the funds result in reasonably comparable rates or, conversely, that without the funds rates would no longer be reasonably comparable. (The currently-required state certifications[22] that follow the determination of support under the current mechanism do little to provide this assurance.) The mechanism must be fixed so that the statutory connection is made.

4. **Low income support** ($674 million in 2007; 9.8% of the total): In 2004, the Commission also issued a decision on the Lifeline and Link-up programs.[23] The Commission, NARUC and NASUCA have participated on a task force to improve the reach of Lifeline and Link-up.[24] In addition, the Commission is seeking to refresh the record on Lifeline issues.[25] It should be noted that, unlike the other funds, the low-income fund demonstrably and directly benefits individual consumers.

5. **Rural health care support** ($151 million in 2007; 2.2% of the total[26]): This component remains minimal. In late 2004, the Commission issued a decision that should give this component greater impact, as shown by the recent increase to this fund.[27]

CETC ISSUES: The applications of and designations of CETCs have been responsible for much of the growth in the high-cost funds. The table on the next page shows high cost funding for CETCs and total high cost funding over the last sixteen quarters:

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[22] *Order on Remand*, ¶ 89.

[23] *In the Matter of Lifeline and Link-up*, WC Docket No. 03-109, Report and Order, FCC 04-87, 19 FCC Rcd 8302 (2004).

[24] See http://www.lifeline.gov/.

[25] See http://hraunfoss.fcc.gov/edocs_public/attachmatch/DA-07-1241A1.pdf.

[26] These percentages do not sum to 100% due to rounding.

[27] *In the Matter of Rural Health Care Support Mechanism*, CC Docket 02-60, Second Report and Order, FCC 04-289, 19 FCC Rcd 24613 (2004).

CETC AND TOTAL HIGH COST FUNDING ($ millions)

Quarter	CETC Funding	Total High Cost Funding	CETC Funding as % of Total
3Q2003	$61.6	$853.4	7.2%
4Q2003	$62.9	$857.8	7.3%
1Q2004	$94.5	$889.1	10.6%
2Q2004	$111.5	$906.9	12.3%
3Q2004	$133.7	$940.0	14.2%
4Q2004	$131.4	$946.6	13.9%
1Q2005	$168.8	$977.0	17.3%
2Q2005	$182.0	$992.4	18.3%
3Q2005	$204.7	$1,018.8	20.1%
4Q2005	$202.4	$1,012.8	20.0%
1Q2006	$230.5	$1,028.3	22.4%
2Q2006	$257.8	$1,052.5	24.5%
3Q2006	$244.6	$1,033.8	23.7%
4Q2006	$261.3	$1,044.8	25.0%
1Q2007	$290.2	$1,066.0	27.2%
2Q2007	$310.0	$1,086.5	28.5%

These numbers show that CETCs are consuming a growing amount of the high-cost fund. In fact, 112% of the growth of the fund over the last four years can be attributed to CETCs.[28] The Commission took a first (limiting) step toward ensuring that the designation of CETCs is in the public interest in *Virginia Cellular*.[29] However, in the more recent generic Report and Order, the Commission failed to apply these standards to state designation of ETCs, merely urging the states to raise the bar in their ETC designations.[30] Given that these are federal funds, the Commission should *require* states to follow the federal standards for past and future ETC designations.

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[28] This is primarily from wireless CETCs: In 2002, wireless CETCs received $45 million in high-cost support; in 2003, the number was $126 million; and in 2004, Wireless CETCs received $323 million in high-cost support. (Source: USAC Annual Reports.)

[29] CC Docket No. 96-45, FCC 03-338, 19 FCC Rcd 1563 (2004) ("*Virginia Cellular*").

[30] CC Docket No. 96-45, Report and Order, FCC 05-46, 20 FCC Rcd 6371 (2005), ¶ 58.

For rural carriers, the Commission should also adopt the economic public interest benchmarks proposed by Joint Board member Billy Jack Gregg.[31] Further, in rural carrier areas, the Commission should base support for CETCs on the CETC's cost, but should cap support at the rural ILEC's cost.[32] If the CETC's cost is higher than the ILEC's, support at the CETC's cost would be subsidizing competition.

As previously noted, if all wireless carriers became ETCs this would add $2 billion (27%) to the Staff-projected 2007 fund. The measures discussed here and in Appendix B will prevent this level of growth, which would be both unnecessary and contrary to the public interest..

II. RETAINING THE CURRENT CONTRIBUTION MECHANISM

A. The current mechanism.

The FCC Staff Study[33] showed that the current revenue-based mechanism is as sustainable for the near-term as any of the three proposed connection - or numbers-based mechanisms reviewed there.[34] FCC Staff estimated revenues, program needs, and

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[31] Mr. Gregg is Director of the Consumer Advocate Division for the State of West Virginia. The proposal was first discussed at the en banc meeting of the Joint Board in Denver, Colorado on July 31, 2003.

The proposal is that in rural study areas receiving $30 per line per month in support or more, it should be presumed that only one ETC -- for now, the ILEC -- should be designated. In rural study areas receiving $20 per line per month or more, but less than $30 per line per month, it should be presumed that only one ETC in addition to the ILEC should be designated. There should be no presumed limit on the number of ETCs in rural areas receiving less than $20 per line per month in support.

These presumptive benchmarks are based on the average amount of support for all study areas ($30.74 per line per month) and the median amount of support for all study areas ($18.33). These presumptive benchmarks clearly identify high-cost areas where it is not in the public interest to subsidize an unlimited number of ETCs.

Based on data published by USAC, study areas with support of $20 per line per month or more represent only 1.7% of access lines in the United States, but receive 45% of total high-cost support. Commission data requests in pending ETC applications have attempted to get at some of the same high-cost issues by asking for information, such as customer density in application areas. Support per line data distills all cost-influencing factors -- such as density, distance and topography -- into readily available information.

[32] Currently, rural ILEC support is based on the ILEC's embedded costs. As discussed here, NASUCA proposes that larger rural ILECs should be transitioned to using forward-looking costs as the basis for their support. CETCs in non-rural carrier areas have their support determined according to forward-looking costs already.

[33] Public Notice, FCC 03-31, 18 FCC Rcd 3006 (2003). The Staff Study was attached to the Public Notice.

[34] See NASUCA Reply Comments (May 16, 2003) at 2, 7-11.

resultant contribution factors. These are compared to actual experience in the table below:

Staff Projected and Actual Contribution Factors

Year	Staff Contribution Factor	Actual Contribution Factor
2002	0.080	0.068-0.093
2003	0.093	0.087-0.095
2004	0.096	0.087-0.089
2005	0.100	0.102-0.111
2006	0.106	0.091-0.109
2007	0.114	0.097-0.117

Staff's projections thus appear to have been within a range of reasonableness. This increases the likelihood that the two key results of the Staff study are valid: 1) That the three proposed mechanisms increased the burden on residential and small use customers compared to the revenue-based mechanism; and 2) That none of the proposed access-based mechanisms -- based on per-line contributions or per-number contributions -- would be able to weather increases in the fund without concomitant increases in contributions.

The current mechanism is, in concept, both equitable and non-discriminatory, and has been upheld by the courts.[35] There is no need to adopt a radically-different connection-based mechanism that assesses universal service support on carriers and their customers based on access to, not usage of, the interstate network.

Neither increased fund size nor declining revenue base mandate the radical change encompassed in the varied proposals of numerous parties for a connection-based mechanism. The better course, as consistently argued by NASUCA and many others, would be to combine restraint of the fund with further improvements to the revenue-based mechanism.

Equally importantly, the Staff Study did not include any consideration of the costs to the carriers of implementing any of the proposed mechanisms. Given the carriers' complaints about the effort required, and the cost, of minor changes to the current mechanism,[36] the costs of these massive structural changes cannot be ignored.

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[35] *Texas Office of Pub. Util. Counsel*, 183 F.3d 393, 426-430 (5th Cir. 1999).

[36] See CC Docket 96-45 *et al.*, SBC Petition for Reconsideration (January 29, 2003) at 6; *id.*, Verizon Comments on Petitions for Reconsideration (February 27, 2003) at 4.

B. The results of the Staff Study show that each of the three alternative methodologies would unreasonably burden residential and small business consumers.

The record is clear that the connection-based methods burden residential and small business customers.[37] These methods, by their very nature, also specifically increase the burden of universal service on low-use customers.

C. The results of the Staff Study show that each of the three alternative methodologies would allow interexchange carriers to avoid responsibility for contributing to the federal USF, contrary to 47 U.S.C. § 254(d).

The Act directs that all interstate carriers shall contribute to the USF and requires that such contributions be "equitable and nondiscriminatory." 47 U.S.C. § 254(d). As the Staff Study showed, the connection-based mechanisms allow interstate carriers that do not also offer local service to evade almost all responsibility for funding universal service.[38]

D. The lack of consensus on the mechanisms.

When the Commission sought comment on the Staff Study, large ILECs variously supported the current mechanism and each of the three access-based proposals (or variants thereof). Smaller ILECs either supported the current mechanism or one -- and only one -- of the connection-based mechanisms. Wireless carriers either supported the current mechanism or expressed support for one of the connection-based mechanisms as the best of a bad lot. Consumer advocates supported the revenue-based mechanism, except for Ad Hoc, which supported the numbers-based mechanism.[39] AT&T and MCI, the only IXCs commenting, supported two different connection-based mechanisms.

The connections-based mechanisms got another go-round in the Commission's intercarrier compensation proceeding, where carriers proposed hefty increases in the USF either to directly make up for lost intercarrier revenues or to make up for the fact that the revenue would be recovered in local rates, which would then no longer be affordable or reasonably comparable. As demonstrated in NASUCA's comments, however, changes to the contribution mechanism were an attempt to conceal the USF increases. The same holds true with regard to the so-called "Missoula Plan" submitted in the intercarrier compensation docket, where the calculation of the Plan's costs and benefits had a numbers-based mechanism built in.

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[37] See NASUCA Reply Comments (May 16, 2003) at 24-26.

[38] Id. at 27-29.

[39] The numbers-based mechanism favors the large customers represented by Ad Hoc.

Most importantly, as noted above, the connection-based mechanism is no better able to protect consumers from massive increases in the fund -- such as those proposed in the intercarrier docket -- than is the revenue-based mechanism. And the connection-based mechanism most burdens those who have access to the network but little usage.

Each of the three connection- or numbers-based proposals was opposed by various consumer advocates, wireless carriers, and ILECs. None of the stakeholders critical of the revenue-based mechanism have shown that their preferred mechanism will be able better to adjust to growth in the fund. This is true for whichever of the three proposals, or variant of the three, they support.

Fundamentally, none of the supporters of a connection-based mechanism explain why it is lawful or reasonable to assess universal service contributions based on access to, rather than usage of, the interstate network.[40] That basic error is reason enough to reject the connection-based proposals. Further, each of the proposals will add to the burden on residential and small business customers, and unlawfully allow many carriers to evade their duty under the law to support universal service.[41]

E. Conclusion

The current revenue-based structure of the contribution mechanism should be retained. Things that *are not* necessary to preserve the federal universal service fund include rate rebalancing, increasing intrastate rates to maximum levels deemed to be affordable, or removing implicit support on the intrastate level.

[40] See Supplemental Comments of NASUCA (February 28, 2003) at 17-19.

[41] Id. at 20-21.

APPENDIX B: THE USF SHOULD SUPPORT ONLY PRIMARY LINES.

In late 2004, Congress passed, as one provision in a voluminous revenue bill, a provision that forbade the FCC from implementing a rulemaking that would limit support to a single line per customer. This provision has continued year-by-year, most recently in a continuing spending bill passed in February 2007.[1] By approving this provision as it did, Congress was clearly not making a final and open determination on this issue. For the reasons set forth here, limiting support to a single line per customer would be in the public interest and consistent with statutory law.

In comments filed in May 2003, NASUCA noted that the then-current impact on the fund of serving only primary lines would be to eliminate $350M with the long-run impact being preventing some $2B in growth in the fund. Under these circumstances, those favoring continuing support for multiple lines per household should bear a heavy burden of persuasion.

Statutory purpose: Fundamentally, providing support for multiple lines per household -- whether those are wirelines or wireless connections -- violates the central purpose of § 254 of the Act: that this Commission establish universal service programs to support the basic services designated under § 254(c)(1), and no other services.[2] Section 254(e) says that federal universal support should be used only for the purposes specified in the Act.

Second lines do not meet the test. This is most obviously true for second wirelines, because they do not meet the § 254(c)(1)(A)-(D) tests. They are not vital for the public interest, and they have not been subscribed to by anywhere near a majority of customers exercising their choices in a competitive environment, per § 254(c)(1)(B).

On the other hand, given the number of wireless subscribers, it might be argued that wireless service meets the test of § 254(c)(1)(B) -- being subscribed to by a majority of customers. As the Commission noted in the *Triennial Review Order*, however, wireless service is most appropriately characterized as a supplement to wireline service.[3] That remains true today, in most cases. The true test under § 254(c)(1) is, therefore, not the 234 million wireless access lines[4] -- most of which are used as supplements to

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[1] H.J.Res. 20, § 105 (governing spending through September 30, 2007).

[2] See 47 U.S.C. 254(c)(3), which allows the Commission to add other service for schools and libraries and health care providers.

[3] *In the Matter of Section 251 Unbundling Obligations of Incumbent Local Exchange Carriers*, CC Docket No. 01-338 et al., Report and Order and Order on Remand, FCC 03-36, 18 FCC Rcd 16978 (2003) ("*Triennial Review Order*"), ¶ 445.

[4] According to the Cellular Telecommunications and Internet Association. See http://www.wow-com.com/.

wireline service -- but the small percentage of wireless subscribers who use their wireless phones exclusively.[5] This is no majority of consumers.

Reasons to support all lines are insufficient: Proponents of supporting all lines of all networks have claimed that such support is necessary for:

- Supporting entire networks
- Upgrading and building out new networks
- Promoting mobility
- Funding competitive entry.[6]
- Funding new investment opportunities
- Maintaining revenue streams (or ensuring total cost recovery) for small telephone companies[7]

Although these arguments may describe secondary benefits of universal service support, none of these issues touch on the real purpose for the federal universal service funds: providing basic access to all Americans to basic telecommunications services.

Interestingly, both incumbents and competitors oppose limiting support to only primary lines. The ILECs say that a primary line restriction would not be competitively neutral because they would be harmed; wireless ETCs say that the restriction would not be competitively neutral because they would be harmed. The fact is that limiting support to primary lines will ensure that the high cost support system is competitively neutral for all parties, and that all ETCs will compete for the universal service support.[8]

As proposed by NASUCA, when a CETC is designated in a rural carrier's territory, there should be a freeze on the level of per-line support. This, coupled with limiting support to primary lines, will ensure that the presence of a CETC will not *increase* universal service funding, as is currently the case.

Reasonably comparable rural rates: Those who argue that the USF must support all lines base much of their argument on the Act's goal that rural services and rates be reasonably comparable to urban services and rates. Because urban customers

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[5] See http://www.cdc.gov/nchs/products/pubs/pubd/hestats/wireless2006/wireless2006.htm (9.6% of adults have only a wireless phone).

[6] *Virginia Cellular* and the FCC order moved away from that purpose.

[7] Means such as those recommended by the Joint Board (see Recommended Decision at ¶¶ 73-80) may be used to ease the transition away from support for multiple lines for rural carriers.

[8] It must be remembered that there will be no competition for universal service support unless and until an additional ETC is designated within a study area. As discussed above, the states and the Commission should restrict the number of ETCs in rural study areas receiving high levels of support.

have access to multiple lines from multiple providers, they argue, so must rural customers.

Many have argued that limiting support to primary lines will automatically or inevitably raise the price of second wirelines in rural areas, resulting in second line prices that are no longer reasonably comparable in price to urban second lines. These arguments overlook a number of key factors:

- Second line service has minimal incremental cost.

- In the *Order on Remand*, the Commission determined that rural rates for non-rural carriers that are within two standard deviations of the national average urban rate will be deemed reasonably comparable to urban rates.[9] Using this standard, rural second line rates that are within two standard deviations of the national urban rate for second lines would also be reasonably comparable to urban second line rates.[10] There has been no showing that the withdrawal of federal support from second lines would produce rural second line rates that are in excess of this standard. Despite the specific standard being overturned in *Qwest II*, it does not appear that any reasonable standard would be different in this respect.

- This is particularly so because the rates for second lines remain within the jurisdiction of ratemaking and universal service efforts within the states.

The Act does not direct that rural rates will be equal to urban rates. Rural rates are supposed to be "reasonably comparable" to urban rates. That's all the law directs.

Others have argued that limiting support to primary lines will limit the growth of wireless service. These arguments are also groundless. First, wireless carriers have historically served rural areas and built out their networks without federal support (as contrasted to ILECs that have always had such support in one form or another).

Second, no one makes the claim that rural wireless customers are entitled to receive service at rates that are reasonably comparable to urban wireline rates. The comparison should be to urban wireless rates. There has been no showing that, if support for second lines is eliminated, rural wireless customers will pay rates that are not reasonably comparable to urban wireless rates. Again, there is no requirement that rural rates be *equal to* urban rates.

Serving a single line per household is competitively neutral. In fact, it appropriately requires carriers to compete in order to receive the universal service support intended for the services defined pursuant to § 254(c)(1).

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[9] *Order on Remand*, ¶ 38.

[10] Urban second line rates tend to be equal to primary line rates.

Practical issues: Opponents of a primary line-only support policy argue that it will difficult to determine which line is primary and which lines are not. NASUCA believes that customers should be allowed to choose which line is primary for universal service purposes. Allowing the customer to choose is the ultimate expression of the consumer sovereignty that is supposed to apply in a competitive market. It should also be recalled that concerns over slamming arise only where customers can choose.

Although there may be practical difficulties in transitioning to a primary line support system, these administrative issues can be overcome. Carriers should be required to submit uniform ballots to customers and retain all returned ballots for future audit. Support for the lines of customers not submitting ballots will default to the incumbent carrier. Customers should be permitted to change primary line designation only once every six months. The primary line for customers submitting multiple ballots should be the first one postmarked. Carriers would report the number of primary lines to USAC on a quarterly basis.

The difficulties in identifying primary lines -- whatever they might be -- do not justify continuing to support all lines. And no one seriously contends that the cost of identifying primary lines outweighs the cost of continuing to support those lines.

In 1996, the Joint Board originally proposed limiting support only to primary lines. Again in 2004 the Joint Board has recommended basing support on primary lines. It is time for the Commission to finally adopt this position, which best carries out the fundamental promise of the Act: affordable access to the public switched network for all Americans -- even those in rural and high-cost areas.

Conclusion: As noted above, in 2003, NASUCA estimated that restricting support to primary lines would save the high-cost fund $336 million ($293 million in wireline second lines -- being 10% of the wireline total of high-cost support -- and $43 million for wireless -- being all but 4% of the total wireless support).[11]

To update those numbers: According to Trends in Telephone Service, in 2005 non-primary residential lines represented 11.2% of the total 107.7 million access lines.[12] This means that the assumption that 10% of the wireline high-cost fund would be eliminated if there were no funding for non-primary lines still reasonable; 10% of the annualized 2Q07 wireline high-cost USF of $3,106 million would be $310 million.[13] Based on the reports that 90% of wireless service is non-primary,[14] this would mean that some 90% of the CETC high-cost USF funding would be eliminated, or $1,116 million

[11] See 96-45 NASUCA Reply Comments (May 16, 2003) at 17-18.

[12] Trends in Telephone Service (February 9, 2007), Table 7.4.

[13] USAC reports.

[14] If 10% of all consumers have wireless service only.

out of the annualized CETC total of $1,240 million.[15] **Combining these numbers, eliminating support for non-primary lines could cut $1,426 million ($310 million + $1,116 million), or 32% of the $4,346 million annualized 2Q07 annualized high-cost fund.** This is just another sign of the unnecessary current support for multiple lines and networks.

For the long run, the impact on the fund would essentially be to prevent the estimated $2 billion in growth that would result from all wireless carriers across the country becoming ETCs. Wireless carriers (and other CETCs) that won the customer's primary line selection would receive support; support would be removed from wireline carriers that lost the line, with the net result being a $2 billion savings for the fund.

[15] USAC Reports. (This also assumes that most of the high-cost CETC funding goes to wireless carriers.)