Before The
FEDERAL COMMUNICATIONS COMMISSION
Washington, D.C. 20554

In the Matter of	)	
	)	WC Docket No. 05-337
High-Cost Universal Service Support.	)	

COMMENTS OF THE NATIONAL ASSOCIATION OF STATE UTILITY CONSUMER ADVOCATES ON "LONG-TERM, COMPREHENSIVE HIGH-COST UNIVERSAL SERVICE REFORM"

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I. INTRODUCTION AND SUMMARY

The National Association of State Utility Consumer Advocates ("NASUCA")[1] submits these comments on the issues regarding high-cost universal service support set forth in the Public Notice released on May 1, 2007.[2] To begin, NASUCA must point out that certain of the five items described in the Public Notice are not crucial for "long-term, comprehensive" reform of the federal high-cost universal service mechanisms. Indeed, there are other items -- discussed in previous comments to the Federal-State Joint Board

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[1] NASUCA is a voluntary, national association of consumer advocates in more than forty states and the District of Columbia, organized in 1979. NASUCA's members are designated by the laws of their respective states to represent the interests of utility consumers before state and federal regulators and in the courts. *See, e.g.*, Ohio Rev. Code Chapter 4911; 71 Pa. Cons. Stat. Ann. § 309-4(a); Md. Pub. Util. Code Ann. § 2-205(b); Minn. Stat. Ann. Subdiv. 6; D.C. Code Ann. § 34-804(d). Members operate independently from state utility commissions, as advocates primarily for residential ratepayers. Some NASUCA member offices are separately established advocate organizations while others are divisions of larger state agencies (*e.g.*, the state Attorney General's office). Associate and affiliate NASUCA members also serve utility consumers, but have not been created by state law or do not have statewide authority.

[2] FCC 07J-2 ("Public Notice"). Unless indicated otherwise, all citations herein are to orders and filings in CC Docket 96-45 or WC Docket 05-337.

on Universal Service ("Joint Board") and the Federal Communications Commission ("FCC" or "Commission") -- that should be addressed before the items keyed up in the Public Notice. Those items are addressed later in these comments.

That said, NASUCA submits the following recommendations on the five issues set forth in the Public Notice"

- **Reverse auctions**[3]: NASUCA reiterates its opposition to the use -- at this time -- of reverse auctions to supplant the high-cost mechanism. NASUCA does support the use of auctions in pilot programs, particularly for support for broadband service.

- **Geographic information systems/network cost modeling**[4]: NASUCA reserves its comments in this area pending a review of other comments. NASUCA notes, however, that the use of newer technology "to more efficiently calculate and target support at more granular levels"[5] should not have the effect of increasing the size of the fund, as opposed to redirecting support to areas that demonstrate the greatest need.

- **Disaggregation**[6]: The disaggregation of rural carriers' support below the study area level or below the wire center level need not be a high priority.

- **Competitive eligible telecommunications carrier ("ETC") support**[7]: Elimination of the equal support rule should be a priority for the Joint Board and for the Commission. Competitive ETCs ("CETCs") should have their support based on their own costs. CETC support should be capped at the level of support received by the incumbent local exchange carrier.

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[3] Public Notice, ¶ 4.

[4] Id., ¶ 5.

[5] Id.

[6] Id., ¶ 6.

[7] Id., ¶ 7.

- **Broadband**[8]: Broadband service may be poised to meet the eligibility standard for universal service support set forth in 47 U.S.C. 254(c)(1). But the Joint Board and the Commission must proceed carefully in evaluating whether broadband service should be supported, to avoid the missteps that have taken place for traditional telephone service. That is one reason why NASUCA supports a pilot program for broadband support using reverse auctions.

As with the subject of reverse auctions, some of the issues set forth in the Public Notice run the risk of distracting the Joint Board and the FCC from more pressing issues, which may be difficult of resolution but which nonetheless must be decided in order to put the high-cost USF on a solid footing. Further, while efforts like this are underway to enact "long-term, comprehensive" reforms for the USF, discussions of structural changes to the USF contribution mechanism[9] should be put "on hold."

II. THE JOINT BOARD'S AND THE COMMISSION'S EFFORTS AT RESOLVING UNIVERSAL SERVICE ISSUES DO NOT SEEM TO BE FOCUSED ON RESULTS.

The stakeholders in the universal service discussions -- consumers and their representatives, the industry, and state and federal regulators -- continue to puzzle over the myriad of issues surrounding this complex subject. Unfortunately, those in charge of making the decisions -- the Joint Board and the Commission -- although deserving of praise for the amount of energy devoted to the debate, appear not to be able to come to a resolution in any significant area, and appear to be easily distracted by new issues while older issues remain unresolved.

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[8] Id., ¶ 8.

[9] See NASUCA ex parte (April 6, 2007) at 2.

The prime example is the resolution of the most fundamental issue for high-cost universal service support: definitions of what constitute "reasonably comparable" and "affordable" rates and services, and what would make the USF "sufficient." These key terms in 47 U.S.C. 254(b) are the underpinnings of the universal service programs yet remain undefined. The Commission's definitions have twice been rejected by the Courts.[10] And the last round of reply comments on the issue were submitted over a year ago.[11]

Reaching even further back, reply comments on fundamental changes to the high-cost fund for rural carriers were submitted to the Commission in December 2004.[12] As for non-rural carriers, proposed changes for their high-cost programs were part of the comments on the definitions of the key terms discussed above.

Other long-pending inquiries include the process by which states can request supplemental universal service funding, where reply comments were filed in February 2004.[13] Then there is the proceeding reviewing the overall management, administration and oversight of the USF, where reply comments were filed in December 2005.[14]

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[10] *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*").

[11] See, e.g., NASUCA reply comments (May 26, 2006), in response to FCC 05-205. These issues arose in the context of the USF for non-rural carriers, but this is one respect in which the decision is likely also to apply to rural carriers. Otherwise, NASUCA reiterates its position (as explained in more detail in the attached supplement) that, in general, the support mechanisms for the smallest rural carriers should be different from the mechanism for the large non-rural carriers.

[12] See, e.g., NASUCA reply comments (December 14, 2004), in response to FCC 04J-2 (rel. August 16, 2004).

[13] See, e.g., NASUCA reply comments (February 13, 2004), in response to FCC 03-249. The single request to date under the initial supplemental support mechanism -- that of the State of Wyoming -- remains pending two-and-a-half years after the request was filed.

[14] See., e.g., NASUCA reply comments (December 19, 2005), in response to FCC 05-124.

These are proceedings before the Commission. But the rural high-cost comments discussed above were in response to a Joint Board notice. And in 2005, the Joint Board requested comments on four USF proposals submitted by members and staff of the Joint Board, which included short-term and long-term reforms to the existing rules.[15] No recommendation to the FCC came out of that effort.

Now the "Joint Board is committed to making further recommendations regarding long term, comprehensive high-cost universal service reform within six months."[16] Given the variety of subjects set forth in the Public Notice, some of which are not crucial to "long term, comprehensive high-cost universal service reform," NASUCA remains concerned that once again some of these issues will distract the Joint Board from the mission required by Section 254 of the 1996 Telecommunications Act, and move it further away from taking effective steps that have already been fully addressed.

Indeed, it does not appear that either the Commission or the Joint Board is doing anything formal to address the question of the accuracy of the Commission's studies of telephone subscribership.[17] If the flaw is in the data collection, then it should be fixed. If subscribership really is at the levels shown by the studies,[18] then the Joint Board and the Commission should give that problem the highest priority.

[15] See, e.g., NASUCA reply comments (October 31, 2005), in response to FCC 05J-1.

[16] Public Notice, ¶ 1.

[17] See NASUCA ex parte (August 11, 2005).

[18] Belinfante, Telephone Subscribership in the United States (rel. May 2007).

III. THE JOINT BOARD SHOULD RECOMMEND PILOT PROGRAMS FOR REVERSE AUCTIONS.

The Public Notice quotes FCC Chairman Kevin Martin's opening remarks at the February 20, 2007 *en banc* hearing of the Joint Board, to the effect that "reverse auctions could provide a technologically and competitively neutral means of controlling fund growth and ensuring a move to most efficient technology over time."[19] NASUCA submits that the Chairman's hopes for reverse auctions are inflated, especially given the substance of the comments filed in response to the Joint Board's request just a few months earlier.[20]

For example, in initial comments, NASUCA stated:

> One could look at this approach as bringing a market-based solution to an area that may show evidence of market failure; that is, where the market has not allowed affordable rates and services that are reasonably comparable to those seen in urban areas. On the other hand, auctions could be viewed as a market-based solution -- imposed for public interest purposes -- for areas where the market has operated perfectly in an economic sense, but imperfectly in an equitable sense. Either way, the possible contradictions should invite caution, not precipitous action.[21]

NASUCA's concerns were borne out by others' comments on reverse auctions. As NASUCA stated in reply comments:

> Few of the comments that were filed supported outright creation of an auction-based mechanism. Others supported the development of a mechanism but would place significant -- sometimes conflicting -- restrictions on the mechanism. The others either

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[19] *See Federal-State Joint Board on Universal Service to Hold En Banc Hearing on High-Cost Universal Service Support in Areas Served by Rural Carriers,* WC Docket No. 05-337, Public Notice, 22 FCC Rcd 2545 (2007). Statements, slides and audio transcripts are available at http://www.fcc.gov/wcb/tapd/universal_service/JointBoard/welcome.html.

[20] See FCC 06J-1 (rel. August 11, 2006).

[21] NASUCA Comments (October 6, 2006) at 3.

> outright opposed, asked numerous questions, or looked at auctions as a step to be considered after other matters are decided.
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> …
>
> The bottom line is that the Joint Board has no more basis now to recommend the use of auctions to the Federal Communications Commission ("FCC" or "Commission") than it had when last receiving comments on this issue three years ago.[22]

That is still the case. Yet the Joint Board now requests comment on three specific proposals, from Verizon and from CTIA – The Wireless Association® ("CTIA"),[23] and a broadband auction proposal filed by Alltel.[24] NASUCA comments on these proposals below. The Joint Board

> also invite[d] commenters to file additional auction proposals that detail how such an auction would be designed, what would be the geographic scope of the area to be auctioned, how the reserve price would be set, what obligations, including carrier of last resort, would be imposed on the auction winner or (winners), how to ensure affordable and reasonably comparable rates, and other issues related to using reverse auctions to calculate and distribute high-cost support.[25]

Given the previously-expressed view of the lack of need for auctions, NASUCA will not be presenting an auction proposal here.

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[22] NASUCA Reply Comments (November 8, 2006) at 2-3 (footnotes omitted).

[23] Letter from Kathleen Grillo, Vice President Federal Regulatory, Verizon, to Deborah Taylor Tate, Federal Chair and Ray Baum, State Chair, Federal-State Joint Board on Universal Service (dated Feb. 9, 2007) ("Verizon Proposal"); CTIA Reply Comments, Appendix (Controlling Universal Service Funding and Promoting Competition Through Reverse Auctions, by James Stegeman, Dr. Steve Parsons, Robert Frieden, and Mike Wilson) (filed Nov. 8, 2006) ("CTIA Proposal").

[24] Letter from Gene DeJordy, Vice President Regulatory Affairs, Steve R. Mowery, Vice President Public Policy, and Mark Rubin, Vice President Federal Government Affairs, Alltel, to Deborah Taylor Tate, Federal Chair, and Ray Baum, State Chair, Federal-State Joint Board on Universal Service (dated Feb. 16, 2007) ("Alltel Proposal").

[25] Public Notice, ¶ 4.

The Joint Board also sought "comment on whether any auction proposal should include an affordability benchmark."[26] It is not entirely clear what is meant by this request, but if the question is whether the results of any auction should include a requirement that the winner(s) maintain affordable rates in the territory covered by the auction, the answer is a definitive "Yes." Producing affordable rates is one of the key purposes of universal service support under the Act.[27] Likewise, any auction process should produce rates in rural areas that are reasonably comparable to urban rates, another key purpose of universal service support.[28]

Moving on to the proposals identified by the Joint Board, one first point regarding CTIA's filing is that it is not really a "specific" proposal.[29] And most of the concepts discussed there were not new, so as to have denied other parties the ability to comment thereon, as alluded to in the Public Notice.[30] Much of the discussion in the proposal does not actually come to a conclusion.[31]

That said, of the five items on CTIA's "check-list … for a well designed reverse auction,"[32] two are non-controversial: "transparency and accountability"[33] and the principle that "auctions should be designed to minimize opportunities for bidder collusion

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[26] Id.

[27] 47 U.S.C. § 254(b)(1).

[28] 47 U.S.C. § 254(b)(3).

[29] Public Notice, ¶ 4.

[30] Id., n.10.

[31] See CTIA Proposal at 15-19 (regarding geographic unit to be used in the auction).

[32] Id. at 3.

[33] Id.

or price signaling…."[34] Of the remainder, the principle that "[r]equired service characteristics should be based on current customer preferences"[35] ignores the fact that under the law, only certain services can be supported.[36]

One key concept to CTIA's proposal is its use of a "winner takes more" basis for support -- where all ETCs get support, but the winner gets somewhat more support -- instead of a "winner takes all" approach, where only the winner receives support.[37] NASUCA disagrees with CTIA that a "winner takes all" approach is inconsistent with the pro-competitive themes of the Act. As NASUCA has previously stated, universal service support funds should not be used with a primary purpose to support competition.[38] We do agree with CTIA, however, that an "everybody wins" approach means that "there is virtually no auction-related incentive for firms to bid low…."[39]

CTIA also says that "there is no need for exceptions or separate auctions for different technology platforms."[40] Such a need is, in fact, dictated by the significantly different rate structures used by carriers on their technology platforms, particularly wireline and wireless, in addition to the significantly different cost structures of the platforms.[41]

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[34] Id. at 4.

[35] Id. at 3.

[36] 47 U.S.C. § 254(c)(1). Of course, "customer acceptance" is a factor there.

[37] CTIA Proposal at 4, 19-22. It is notable that even here, CTIA makes no specific proposal on how much more the winner should get than the "non-winners." (Under this structure, there are no "losers.")

[38] See, e.g., NASUCA Comments (May 4, 2003) at 3.

[39] CTIA Proposal at 20.

[40] Id. at 3.

[41] See Verizon Proposal at 7.

The concept of separate auctions for different technologies is key to Verizon's proposal.[42] Verizon proposes, "as an initial step, … auctions for wireless CETCs in areas in which multiple wireless ETCs currently operate and receive support."[43] This recognizes that the recent growth in the USF is almost entirely attributable to the designation of multiple wireless ETCs in many study areas.[44]

NASUCA agrees that a wireless auction should precede a broader test of the auction process. There should also be evaluation prior to proceeding to broaden the scope of auctions. That would include Verizon's next step, which is to hold auctions in areas where there is at least one wireline CETC.[45] Verizon notes that this would be "in a relatively limited number of areas, since wireline [C]ETCs are designated in about 90 study areas today."[46] Verizon correctly stresses the need to evaluate the results of all of these tests.[47]

Verizon suggests that the wire center should be used as the geographical unit for the auctions.[48] This would be problematic for the wireless CETC auction that Verizon proposes, given that wireless carriers' service areas do not match wire centers. Verizon

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[42] Verizon's proposal was not limited to the use of reverse auctions. Verizon also proposed a cap on the high cost fund. Id. at 3-5.

[43] Id. at 7.

[44] See id. at 8.

[45] Id.

[46] Id.

[47] Id. at 9. It may be premature to comment on Verizon's discussion of "representative bidding" (id.), but the concept appears to have been expanded to include econometric studies to "relate the results to the characteristics of a high cost area, such as size and density." Id. This somewhat mutes NASUCA's original criticism of the concept. See NASUCA reply comments in 05-337 (November 8, 2006) at 6.

[48] Verizon Proposal at 6.

also proposes "an auction design that allows bidders flexibility to submit bids for individual wire centers, or bids for packages of wire centers."[49] This is also problematic, unless each bidder submits a package for the same wire centers. It is not clear how the Commission would evaluate and compare, for example, one bid that covered wire center A, another that covered wire centers A and B, and a third bid that covered wire centers A, B and C, all of which could have different cost characteristics.

Verizon also includes two other notable features in its proposal. First, contrary to CTIA, Verizon appears to propose a "winner takes all" approach.[50] This makes sense if the goal of the auction is to reduce the total amount of support, rather than to subsidize competition. Finally, Verizon would set an "auction reserve" of the amount of support supplied to the geographic unit prior to the auction.[51] Again, this makes sense if the goal of the auction is to not increase the amount of support.[52]

The third reverse auction proposal mentioned by the Public Notice is that put forth by Alltel.[53] Alltel's proposal is for reverse auctions "that would <u>target funds to promote broadband deployment</u> in unserved or underserved rural areas."[54] Alltel proposes that "any ETC … could submit a bid for the minimum amount of support <u>per line</u> that it would need to make available substantial broadband service, as well as the

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[49] Id.

[50] See id. at 6-7; see also id. at 8 (wireless ETC auction would produce a single winner; wireline auction would also produce a single winner).

[51] Id. at 7.

[52] Verizon's proposal for a "wire center reserve amount" (id.) appears to be quite difficult to accurately translate into an actual dollar figure.

[53] Like Verizon, Alltel also addressed other USF issues. Alltel Proposal at 4-11.

[54] Id. at 1 (emphasis in original).

basic services and functionalities supported by the pre-existing high-cost program, to a minimum percentage of households in the Zip code area within a specified period of time."[55] Alltel proposes that "[f]or purposes of this initial pilot auction program only," broadband service would be included within the statutory definition of supported services.[56] NASUCA believes that such a pilot program would have merit as an experiment for broadband, especially because it would be incremental to the current program.

There are, however, problems with Alltel's proposal. First, Alltel's proposal would be, like CTIA's, "winner takes more."[57] The same concerns about subsidizing competition raised above for CTIA would also apply here. Second, Alltel would, like CTIA, also allow a "combinatorial" bid system.[58] This would also have the comparison problems discussed above for CTIA's proposal. Removing these features would probably improve Alltel's proposal.

All told, although there are items of interest in the concept of reverse auctions, it does not appear that either the concept or the particulars of the proposals by CTIA, Verizon or Alltel should be high priorities for the Joint Board or the Commission. If any auction project is attempted, it should be explicitly limited to a pilot, rather than a global

[55] Id. (emphasis in original). It is not clear whether Alltel assumes that such "unserved or underserved" areas currently receive high-cost support. If they do not, the support should be limited to the broadband service.

[56] Id. at 2.

[57] Id. at 3.

[58] Id.

replacement for the current program.

IV. IMPROVEMENTS IN GIS AND MODELING SHOULD BE ADOPTED, BUT SHOULD NOT BE USED AS A REASON TO INCREASE THE USF.

The Public Notice describes how:

> at the *en banc* hearing, a GIS expert presented a brief overview of GIS technology – the hardware, software, and methods that allow people to create, store, analyze and distribute spatial information. In addition, an expert in network cost modeling described the significant advances in network modeling, such as utilizing road-based networks, that have occurred since the Commission adopted its cost model.[59]

NASUCA has argued for years that the Commission's cost models for universal service support were outdated, and need serious overhauling.[60] Clearly, improving the cost model should be a high priority for the Joint Board and the Commission. NASUCA looks forward to reviewing the comments of others on cost modeling, with a view toward endorsing specific improvements in the models.

The Joint Board asks, "Could these tools be used to identify those areas where competition and market forces alone will not result in the provision of services comparable to those available in more urban areas of the country, and thus where support might be most needed?"[61] Unfortunately, this is expanding the power of even the most

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[59] Public Notice, ¶ 5 (footnotes omitted).

[60] See, e.g., NASUCA Comments (May 27, 2005) at 63-64. In those comments, in addition to the customer location issue discussed at the en banc hearing, NASUCA noted that switch and special access data needed to be brought up-to-date, including the allocation of special access among wire centers. NASUCA also noted that the costs of broadband services needed to be excluded from the costs of basic service. Finally, NASUCA presented data that would allow the Commission to focus its cost model on urban costs vs. rural costs.

[61] Public Notice, ¶ 5.

updated tools beyond their capabilities. Although cost modeling can identify areas of high cost compared to urban areas, modeling cannot specify those areas where competition (such as it is) will not appear, or where rates -- set by state commissions -- will be no longer reasonably comparable. That is dependent on a constellation of factors well beyond direct cost.[62] And obviously, where there is no competition, there are no "market forces" to speak of.

The Public Notice also describes how "a representative of Embarq discussed the importance of calculating support at the sub-wire center level."[63] This is a topic more closely related to disaggregation of support (the next topic), so will be discussed there.

V. SUPPORT NEED NOT BE DISAGGREGATED BELOW THE STUDY AREA OR WIRE CENTER LEVEL.

In the Public Notice, the Joint Board points out that:

> [i]n the *Rural Task Force Order*, the Commission adopted three paths for the geographic disaggregation and targeting of rural high-cost support at or below the study area level, and provided a deadline for rural carriers to choose one of the paths[64] Disaggregation allows incumbent carriers to target explicit support to regions within a study area that cost relatively more to serve, ensuring that a competitive entrant receives the targeted support only if it also serves the high-cost region. At the same time, it prevents the competitive entrant from receiving greater support than needed to serve relatively low-cost regions, which, if

[62] For example, there was the FCC's determination that, nationwide, competitors were not impaired in the absence of access to unbundled local switching.

[63] Public Notice, ¶ 5.

[64] *See Rural Task Force Order*, 16 FCC Rcd at 11302-09, ¶¶ 144-64. Under Path One, a carrier could choose not to disaggregate. Under Path Two, a carrier has the option of disaggregating in accordance with a plan approved by the appropriate regulatory authority. Under Path Three, a carrier has the option of self-certifying to the appropriate regulatory authority a disaggregation plan of up to two cost zones per wire center that are reasonably related to the cost of providing service within each zone. *See* 47 C.F.R. § 54.315(b)-(d).

> permitted, would give the competitive carrier a potential price advantage over the incumbent. The overwhelming majority of rural telephone companies chose not to disaggregate support under Path One.[65]

Despite this, the Joint Board seeks

> comment on whether the Commission should provide rural carriers with another opportunity to disaggregate support below the study area or wire center level under Paths Two or Three. Should the Commission require rural carriers to disaggregate under Paths Two or Three and eliminate the option not to disaggregate under Path One?[66]

There does not appear to be any support in the record to show either that there are in fact significant numbers of competitive wireline carriers out there in rural carriers' territories, or that the competitive carriers who are out there are serving only the "low cost" portions of rural carriers' study areas/wire centers. Thus it makes sense that the rural carriers did not undergo the effort and cost to disaggregate support under either Paths Two or Three. And it would make little sense to give rural carriers another opportunity or especially to **require** rural carriers to go through this exercise, in the absence of evidence of competition.

This is particularly true from the USF perspective. It is clear that most of the CETC funding goes to wireless carriers, who are, at base, not affected by the cost considerations that led to the disaggregation decisions in the first place, and whose service areas are not contiguous with ILEC wire centers.

In the paragraph of the Public Notice dealing with improvements in cost modeling, the Joint Board mentions Embarq's position on the importance of calculating

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[65] Public Notice, ¶ 6 (footnotes omitted).

[66] Id. (footnotes omitted).

support at the sub-wire center level.[67] The Joint Board refers to the slide presentations of Embarq's Dr. Staihr at the en banc hearing.[68] Dr. Staihr's conclusion is that "support must be calculated at a more granular level: sub-wire center."[69] Based on a review of the slide presentation -- and a listen to the recording of the en banc hearing -- a few things become clear.

First, the key reason for Dr. Staihr's conclusion is his combined statement that:

- Competition prevents low-cost wire centers from subsidizing high-cost wire centers;
- Competition prevents low-cost portions of a wire center from subsidizing high-cost portions of the same wire centers.[70]

These premises are presented as "facts."[71] It is, therefore, appropriate for those "facts" to be subject to questions.

- To what extent is there real competition in low-cost wire centers that is not present in high-cost wire centers?
- To what extent is there real competition in low-cost portions of "high-cost" wire centers that is not present in high-cost portions of those wire centers?
- Is there any record of ILECs having reduced residential or small business rates in low-cost areas due to competition?[72]

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[67] Id., ¶ 5.

[68] Id.

[69] Presentation of Brian Staihr, Embarq, available at http://www.fcc.gov/wcb/tapd/universal_service/JointBoard/welcome.html ("Staihr Presentation") at 14.

[70] Id.

[71] Id. at 5.

[72] We suspect not. Indeed, in Ohio, under plans adopted by the Public Utilities Commission of Ohio, ILECs are permitted to **increase** rates in areas that are deemed to be subject to competition. Similar schemes have been adopted in other states.

NASUCA submits that there has not been any kind of showing that the “prevention” of “cross-subsidization” referred to by Dr. Staihr is a “fact.”

If such were, in fact, the case, for Sprint at least -- and for all other ILECs, presuming that the phenomena to which Dr. Staihr refers are not limited to Embarq -- one would expect there to be moves to increase rates in the high-cost wire centers and portions of wire centers in, for example, Florida, Indiana, Kansas, Minnesota, Ohio and Texas (the states noted by Dr. Staihr). One would also expect the telephone companies to seek to increase rates in the higher-cost portions of their rate centers.

That does not appear to be happening. It may simply be that it is easier for Embarq to attempt to convince a national Joint Board and the FCC to assist it with universal service funds than it is for Embarq to seek rate increases in these states for these wire centers and portions of wire centers. But that turns the universal service support issue basically backwards.

Looking at Ohio, where Dr. Staihr complains about the fact that the Reinersville “high-cost” wire center receives no support despite its high modeled cost, a few facts put the lack of support into context: First, in Ohio, in 2002 Embarq (then known as Sprint) voluntarily “opted-in” to a regulatory plan that capped basic service rates throughout its territory, giving total pricing flexibility for most other services.[73] Thus Embarq does not appear to be moving toward removing the supposedly unsustainable “cross-subsidy” on

[73] *In the Matter of the Application of United Telephone Company of Ohio dba Sprint for Approval of an Alternative Form of Regulation Pursuant to Chapter 4901:1-4, Ohio Administrative Code,* PUCO Case No. 02-2117-TP-ALT, *Finding and Order* (October 3, 2002). This alternative regulation plan also enshrined Sprint’s antique value of service pricing, zone charges, and an end-user surcharge to replace lost access charge revenue.

the state level. There is, therefore, no reason why the federal USF should pick up the slack.

Second, there appears to be another reason why Embarq is not doing anything with its rates on the state level, in Ohio at least: According to its annual report to the Public Utilities Commission of Ohio, in 2006 Embarq's earned return on equity in Ohio was (drum roll, please) **41.55%**! (Its fifteen-year average return on equity was 25.95%.) Despite this (or in part because of this), Embarq receives $500,000 a year in federal high-cost support in Ohio.[74]

The bottom line is that the premises on which Embarq's proposal are based are fundamentally flawed, making the conclusion equally flawed, and the disaggregation effort based on those premises and that conclusion is largely unnecessary. Although as discussed above the capability to disaggregate exists because of the improvements in cost modeling, that does not make it a useful endeavor.

It should also be pointed out that the averaging of support that Dr. Staihr says is not sustainable is one of the important constraints on the size of the fund. As noted in CTIA's proposal:

> This averaging has the effect of keeping the size of the federal fund, currently estimated at $291 million for 2005, low. If funding were to change (without a move to auctions, or without any other change in revenue benchmarks or other offsetting adjustments) to carrier funding (rather than an aggregation of carrier wire centers within the state), we estimate the non-rural funding for ILECs would nearly double. If, instead, funding were to change to the wire center (i.e., all high-cost wire centers would receive support -- even those located on [sic] lower average cost states), we estimate

[74] USAC Appendix HC01, http://www.usac.org/about/governance/fcc-filings/2007/Q2/HC01%20-%20High%20Cost%20Support%20Projected%20by%20State%20by%20Study%20Area%20-%202Q2007.xls.

> the non-rural funding for ILECs would grow to over $2 billion, a nearly seven-fold increase to the current fund size.[75]

And that is just for the non-rural companies; the additional impact if this approach were taken for the rural companies -- such as Embarq in all of the states identified in Dr. Staihr's presentation -- would obviously be substantially greater.

It has not been shown that the situation described by Dr. Staihr is not, in fact, sustainable at this point in time. It should also be recalled that addressing such intrastate implicit subsidies is not required by the 1996 Act.[76] Therefore, the exercise of recalculating the benchmarks to ensure that the fund does not explode as a result of this new approach -- as advocated by Dr. Staihr at the en banc hearing -- is also unnecessary.

VI. THE JOINT BOARD SHOULD RECOMMEND SIGNIFICANT CHANGES IN CETC SUPPORT.

In the Public Notice, the Joint Board notes that "[i]n the companion *Recommended Decision*, we recommend that the Commission consider abandoning or modifying the so-called identical support or portability rule."[77] The Joint Board seeks "comment on whether the Commission should replace the current identical support rule with a requirement that competitive ETCs demonstrate their own costs in order to receive support."[78]

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[75] CTIA Proposal at 16.

[76] *Qwest Communications Internat'l, Inc. v. FCC*, 398 F.3d 1222, 1232-1233 (10th Cir. 2005).

[77] Public Notice, ¶ 7, citing *Federal-State Joint Board on Universal Service*, WC Docket No. 05-337, CC Docket No. 96-45, Recommended Decision, FCC 07J-1 (rel. May 1, 2007), ¶ 12.

[78] Public Notice, ¶ 7.

NASUCA has argued for years that CETC support should be based on the CETC's own costs, rather than, as is currently the case in rural carriers' territories, on the rural carrier's embedded costs.[79] Further, NASUCA argued that CETC support should be capped at the ILEC's cost.[80] The Commission's rationale for basing CETC support on the ILEC's cost is no longer valid, particularly when almost all of the CETC funding goes to wireless carriers, with their radically different cost structures. And it should be clear that the identical support rule is itself not competitively neutral. It is competitively neutral to give each carrier only what it needs to ensure that its rates are affordable and reasonably comparable, **based on its own costs**. The cap at ILEC costs results from the need to avoid subsidizing competition through the universal service fund.

The Public Notice also states:

> In light of the uncontrolled growth in competitive ETC support in recent years, we also seek comment on how we should view the funding of multiple carriers in high-cost areas. Do we need to recommend additional principles under section 254(b)(7) of the Act to govern where multiple ETCs should receive support? We also seek comment on whether modification of the identical support rule or adoption of additional principles that could limit the number of ETCs in high-cost areas would be consistent with the principle of competitive neutrality.[81]

This is another broad issue that has been discussed many times.

The designation of ETCs is governed by 47 U.S.C. 214(e)(2). That statute states:

> A State commission shall upon its own motion or upon request designate a common carrier … as an eligible telecommunications carrier for a service area designated by the State commission. Upon request **and consistent with the public interest,**

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[79] See, e.g., NASUCA Comments (May 5, 2003) at 11-14.

[80] Id.

[81] Public Notice, ¶ 7.

> **convenience, and necessity**, the State commission may, in the case of an area served by a rural telephone company, and shall, in the case of all other areas, designate more than one common carrier as an eligible telecommunications carrier for a service area designated by the State commission…. Before designating an additional eligible telecommunications carrier for an area served by a rural telephone company, the State commission shall find that the designation is in the public interest.

(Emphasis added.) As the statute makes clear, the designation of any ETC must be consistent with the public interest; that requirement is doubled for designation of ETCs in rural carriers' territories. It is certainly reasonable to conclude that the designation of multiple ETCs for a single high-cost territory, burdening the USF and thereby consumers throughout the nation, may not be in the public interest. No additional principles need be adopted for § 254(b)(7) to govern where additional ETCs should receive support.

Again with the emphasis on rural carriers, NASUCA presents (again) the proposal made by Joint Board member and NASUCA representative Billy Jack Gregg.[82] 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

[82] Mr. Gregg is Director of the Consumer Advocate Division for the State of West Virginia.

> 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. … Support per line data distills all cost-influencing factors -- such as density, distance and topography -- into readily available information.

(NASUCA hopes to be able to update these numbers in the reply comments.)

With regard to whether a limitation of support to only one or two ETCs is consistent with the principle of competitive neutrality, it should first be recalled that this "principle" is not found in Section 254. It was derived by the Commission based on its ability to adopt "additional principles" pursuant to 47 U.S.C. 254(b)(7).[83] Depending on the context, one principle may be important enough to trump any or all the other principles.[84] In this situation, the need for "specific, predictable and sufficient" support[85] can override the derived principle of competitive neutrality. As the Joint Board has found, "sufficient" also implies "no more than sufficient."[86]

Likewise, it will certainly be (and has already been) argued that the Joint Board's proposal for a cap on the high-cost USF is not competitively neutral.[87] That subject will be discussed in comments on the Commission's Notice of Proposed Rulemaking

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[83] [83] See *In the Matter of the Federal-State Joint Board on Universal Service, CC Docket No. 96-45, Report and Order*, 12 FCC Rcd 8776 (1997) ("*First Report and Order*"), ¶¶ 48-49.

[84] Id., ¶ 52.

[85] 47 U.S.C. 254(b)(5).

[86] Recommended Decision, FCC 02J-2, 17 FCC Rcd 20716 (2002), ¶¶ 14, 16.

[87] See http://www.ctia.org/media/press/body.cfm/prid/1689.

regarding the proposed cap,[88] but for now it suffices to say that this is another indication that it is possible for other principles to trump that of competitive neutrality.

As discussed above, elimination of the identical support rule is itself competitively neutral. And limiting the number of ETCs in high-cost areas does not require the adoption of additional principles because the principle of competitive neutrality does not trump the principles explicitly set forth in the Act.

VII. THE JOINT BOARD SHOULD RECOMMEND THE ADOPTION OF PILOT PROGRAMS FOR SUPPORTING BROADBAND SERVICE.

The Joint Board requests comment on a number of broadband issues.[89] Section 254(c) of the Act requires the Commission to define the services that are supported by the USF. The statute sets forth three factors that must be considered when determining whether a service can be added to the list.[90]

It appears that, based on the level of subscriptions to broadband services,[91] broadband service may be poised to qualify as a supported service under 47 U.S.C. § 254(c)(1)(B). It is poised to meet the other criteria as well.[92]

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[88] See http://hraunfoss.fcc.gov/edocs_public/attachmatch/DOC-273027A1.pdf.

[89] Public Notice, ¶ 8.

[90] Note that § 254(c) defines telecommunications services that can be supported. This is another reason why the Commission's previous determinations on broadband as an information service are not in the public interest.

[91] Wireline Competition Bureau, Industry Analysis and Technology Division, "High-Speed Services for Internet Access: Status as of June 30, 2006," (rel. January 2007) a1 (as of June 30, 2006, there were 64.6 million lines providing Internet access).

[92] Those being whether the services are essential to education, public health or public safety (§ 254(c)(1)(A)), whether the services are being deployed in the networks (§ 254(c)(1)(C)), and whether support is consistent with the public convenience, and necessity (§ 254(c)(1)(D)).

The Joint Board has previously noted that advanced services under the Act are "supported" by other provisions of the Act.[93] There are also other federal programs supporting broadband deployment, for example the Rural Utility Service.[94] There are also state programs.

The fundamental question is whether broadband is being deployed expeditiously throughout the country without federal universal service support. Based on the comments filed in GN Docket No. 07-45,[95] it appears that there are areas where broadband is not being deployed, but there are also many rural areas -- especially those served by small telephone companies -- where broadband is being deployed in the absence of explicit universal service support for broadband.

These facts support NASUCA's preference for a broadband support pilot program.[96] Such a program should focus first on areas where customer demand has not yet yielded deployment. The pilot program should be kept separate from the rest of the USF. Establishing such a focused a pilot program should ease concerns over the impact of supporting broadband on the USF.[97]

Finally, the Joint Board and the Commission should also consider the adoption of a low-income broadband support program, in order to bring the benefits of broadband

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[93] See Recommended Decision, FCC 02J-1, ¶ 18.

[94] See http://www.usda.gov/rus/telecom/broadband.htm.

[95] *In the Matter of Inquiry Concerning the Deployment of Advanced Telecommunications Capability to All Americans in a Reasonable and Timely Fashion, and Possible Steps to Accelerate Such Deployment Pursuant to Section 706 of the Telecommunications Act of 1996*, GN Docket No. 07-45, *Notice of Inquiry*, (rel. April 16, 2007). See also id., NASUCA Initial Comments (May 16, 2007) at 12-15.

[96] See Section III., supra.

[97] Public Notice, ¶ 8.

more consumers where broadband is already deployed. A pilot broadband discount could be adopted, separate from the current Lifeline program.

VIII. THERE ARE OTHER HIGH-PRIORITY ISSUES FOR WHICH THE JOINT BOARD SHOULD MAKE RECOMMENDATIONS.

As mentioned before, the Commission should not rush to change the structure of the USF contribution mechanism. The Commission also should not attempt to combine the rural and non-rural support mechanisms, but should make changes to each, as discussed here. The first thing that the Commission should do to limit the fund, however, if permitted by Congress, should be to limit support to a single line per household.[98]

Then there are other actions that need to be taken:[99]

1. Rural high-cost support ($3.2 billion for 2007; 46% of the total $6.9 billion USF): -- 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 than they do with the smallest rural carriers. Companies under common ownership within a state should be combined for this analysis.[100]

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

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[98] Failing that, the Commission should allow support for only one carrier per household.

[99] These recommendations are adapted from the most recent NASUCA ex parte summary of positions (filed April 6, 2007).

[100] 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.

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.[101] Support for rural carriers -- both large and small -- should be determined by comparing each company's costs to the relevant benchmark.

2. Non-rural high cost support ($1.07 billion for 2007; 15.5% of the total USF): As noted above, the Commission should update and refine the cost model. Further, consistent with the above-expressed position that CETC support should be capped at the level of the ILEC's costs, support for non-rural ILECs should be capped at the lesser of their actual costs and the model costs.[102] The Commission should also 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,[103] 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.[104] 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.[105] Both of NASUCA's proposals replace the current three pieces of the non-rural high-cost USF with a single fund.

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.[106] 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 --

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[101] 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.

[102] This recommendation has been revived from NASUCA's 1997 comments in 96-45, based on the fact that non-rural carriers in some states have actual costs below the model costs.

[103] 96-45, Order on Remand, FCC 03-249 (rel. October 27, 2003), ¶¶ 49, 64.

[104] See NASUCA Comments (March 27, 2006).

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

[106] 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.

urban, rural, and in between -- served by non-rural carriers. NASUCA did not, however, propose a specific standard for comparability.

NASUCA incorporates its first and second alternative proposals here as if fully rewritten. The Joint Board and the Commission should consider these proposals for the long run, because they bring the USF closer to its statutory purposes.

Backstopping both proposals would be 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, both of NASUCA's proposals build on the current system.[107]

NASUCA also supports strengthening the qualifications for ETCs, especially CETCs. The Commission took a first (limiting) step toward ensuring that the designation of CETCs is in the public interest in *Virginia Cellular*.[108] In the more recent generic Report and Order, however, the Commission failed to apply these standards to state designation of ETCs, merely urging the states to raise the bar in their ETC designations.[109] Given that these are federal funds, the Commission should *require* states to follow the federal standards for past and future ETC designations.

IX. CONCLUSION

The Joint Board should adopt NASUCA's recommendations as set forth herein.

Respectfully submitted,

/s/ David C. Bergmann
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[107] See *Order on Remand*, ¶ 93.

[108] CC Docket No. 96-45, FCC 03-338, 19 FCC Rcd 1563 (2004).

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

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SUPPLEMENT: Maintaining separate rural and non-rural mechanisms [1]

It may be that it is possible to unify the rural and non-rural carrier programs to some extent. For now, however, it appears that adding the largest non-rural carriers to the smallest rural carriers cannot help but harm the smallest of the small. The small companies are significantly different from their non-rural counterparts.[2]

The non-rural carriers are, by definition, the largest ILECs in the nation. They serve rural areas in the various states, yet their predominant service areas -- as signaled by the term "non-rural" -- are not rural, and indeed encompass most of the urban, low-cost areas in the states. The Commission should recognize the characteristics of those companies, and not attempt to adopt a single support mechanism for carriers of all sizes.

The Commission has adopted a different cost-evaluation methodology for the non-rural carriers than for the rural carriers: Non-rural carriers are subject to a cost model that uses forward-looking costs, while the rural carriers' analysis continues to use embedded costs.[3] NASUCA has proposed that larger rural carriers (with more than 100,000 access lines within a state) be transitioned to a forward-looking cost model.[4]

This differential treatment is justified by the significant differences between rural carriers and non-rural carriers. The Rural Task Force paper on "The Rural Difference"

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[1] This material is adapted from NASUCA's initial comments (October 3, 2005), in response to FCC 05J-1.

[2] That is why, for example, NASUCA proposed, for the meantime, shielding carriers with fewer than 100,000 access lines within a state from the move to basing costs on a forward-looking cost model; indeed, recognizing these differences is behind NASUCA's proposal that larger rural carriers not be treated the same as non-rural carriers even under forward-looking costs. See NASUCA Reply Comments (December 14, 2004) ("NASUCA RHC Reply") at 20-21.

[3] Compare *Ninth Report and Order and Eighteenth Order on Reconsideration*, 14 FCC Rcd 20432 (1999), ¶ 2 to *Fourteenth Report and Order, Twenty-Second Order on Reconsideration, and Further Notice of Proposed Rulemaking*, 16 FCC Rcd 11244 (2001) ("*Fourteenth Report and Order*"), ¶ 8.

[4] NASUCA RHC Reply at 20-21.

authoritatively summarizes these differences, focusing on the characteristics of the rural carriers.[5]

In most states, the non-rural companies' rural territory is a small part of the ILEC's operation, dominated by urban and suburban territory. In almost all cases, these companies are affiliates of some of the largest corporations in the country. And in most cases, these local companies produce healthy earnings for their investors.

All of these distinctions support definitions of "sufficient" and "reasonably comparable" for the non-rural carriers that tend to limit, rather than expand, the level of federal universal service support provided to the non-rural carriers. Many of these carriers clearly have the resources -- on the intrastate level and the interstate level -- to ensure that their rural rates are reasonably comparable to their urban rates, without support from the federal universal service fund.

Moving to the rural side, it is important to recognize why rural rates might tend to be higher than urban rates. The first reason is that many of the direct costs of service in rural areas will tend to be higher than in urban areas.[6] The second reason is that most of the service in urban areas is provided by large telephone companies, which may also serve rural areas. By contrast, much of the service in rural areas is provided by smaller companies. The smaller companies have less of an ability to spread their common and

[5] "The Rural Difference," Rural Task Force White Paper 2 (January 2000) (available at http://www.wutc.wa.gov/rtf) ("*The Rural Difference*"); see *Fourteenth Report and Order*, ¶ 17. As shown in *The Rural Difference*, the smaller the carrier, the greater would be its difficulty in adapting to a rate structure that does not include current levels of support from all sources.

[6] Although there might be exceptions: For example, some of the costs of laying lines in urban areas can be higher, because they involve digging up and repairing streets.

other costs across a smaller customer base without increasing rates to levels that might not be reasonably comparable to those of their larger urban counterparts.

Indeed, it is this ability to spread common costs -- and indeed, all higher costs of service -- across a larger customer base, that underlies much of the current federal support program for non-rural companies. The use of statewide average costs[7] allows larger companies to maintain reasonably comparable rural rates because they are supported by the lower urban costs the company also experiences. For example, AT&T Ohio serves considerable rural territory across the state of Ohio.[8] Yet AT&T Ohio also serves seven of the eight major metropolitan areas in the state.[9] As a result, AT&T Ohio's *statewide average* costs are low, and no explicit universal service support is needed to ensure comparable rates.

By contrast, in Ohio a small telephone company -- like the state's smallest, Vaughnsville Telephone Company with 350-some access lines in northwestern Ohio -- serves only rural territory, and has only a few customers over which to spread its common costs.[10] Thus for Vaughnsville, rates will tend to be not reasonably comparable to urban rates, unless there is explicit universal service support.

This is true in rural areas of northwest Ohio where conditions are hardly extreme.[11] It is even more true in rural areas in other states, where mountainous

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[7] *Remand Order*, ¶ 25. This principle was not reversed by *Qwest II*, which reversed other portions of the *Remand Order*.

[8] See http://www.puc.state.oh.us/pucogis/statewidemaps.htm.

[9] Id.

[10] See http://www.puc.state.oh.us/website/telserv3.

[11] Flat, but not "extremely" so.

conditions or very widely scattered customers make the costs of service significantly higher than a "lower cost" rural company.[12] These costly conditions are also, of course, observed for large non-rural telephone companies like Qwest in Colorado, but, as in Ohio for AT&T Ohio, Qwest in Colorado has lower-cost areas to balance out its high-cost areas. Once again, because Qwest's statewide average costs in Colorado are low,[13] no additional explicit support is necessary.

The presumption should be that, unless a larger rural carrier overall has high costs, it does not have a need for federal support in order to keep service affordable and reasonably comparable in the high-cost areas of its territory. High costs, especially high deployment costs, would be reflected in a company-specific forward-looking cost test, as NASUCA discusses below.

As described in NASUCA RHC Reply, a key recommendation is that the Commission move from the current system, which essentially recognizes only two categories of carriers -- rural and non-rural -- to a system that subdivides the rural category according to the significant differences among rural carriers.[14] In the *Fourteenth Report and Order*, the Commission said that the rural mechanism adopted there "strikes the appropriate balance at this time."[15] It is time to further adjust the mechanism.

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[12] For example, Vaughnsville's approximately 400 customers are spread over service territory of less than ten square miles. By contrast, rural carriers in Alaska and Wyoming serve, respectively, areas with 0.58 and 1.25 persons per square mile. *The Rural Difference* at 9.

[13] As shown on Appendix HC16 of USAC's universal service fund projections for the 4th quarter of 2005, the average non-rural carrier costs of Colorado and Ohio are virtually the same, $23.26 per line vs. $23.27 per line. *Federal Universal Service Support Mechanisms Fund Size Projections for the Fourth Quarter 2005*, USAC (August 2, 2005).

[14] NASUCA RHC Reply at 20-21.

[15] *Fourteenth Report and Order*, ¶ 28.

The Rural Difference shows not only the many differences between non-rural carriers and rural carriers, but the diversity among rural carriers. It should be intuitively obvious that a carrier with 400 access lines would not have much in common with a carrier that had 100,000 access lines, and, of course, have even less in common with a carrier that had a million or two access lines. But *The Rural Difference* specifically shows that, by and large, carriers that serve more than 20,000 access lines have embedded cost characteristics that are not radically different from non-rural carriers (one could say that their embedded costs are reasonably comparable to non-rural carriers).[16] Once below 20,000 access lines, cost structures increase substantially until the smallest carriers (those with less than 1,000 access lines) have embedded operational costs double and triple those of the average rural carrier, and three or four times those of non-rural carriers.

The Rural Difference discusses a range of "operational related variables."[17] The graphs included in that discussion show commonalities among carriers with 20,000-50,000 lines, with 50,000-100,000 lines and with more than 100,000 lines, in contrast to the 10,000-20,000 lines and the five smaller groups. Commonalities are seen in the following categories: average lines per local switch,[18] loops per sheath mile,[19] total plant

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[16] Indeed, because the comparison in *The Rural Difference* is between rural carriers and all non-rural carriers (including the largest regional Bell Operating Companies), it appears likely that a comparison between rural carriers and the smaller non-rural carriers (like Roseville and Northstate) would show even less of a difference.

[17] *The Rural Difference* at 43-57.

[18] Id. at 45.

[19] Id. at 46.

(gross) investment per loop,[20] average gross central office equipment ("COE") investment per loop,[21] average COE transmission investment (gross) per loop,[22] variability in COE transmission investment per loop,[23] average cable and wire facilities investment per loop,[24] and average plant expenses per loop.[25]

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[20] Id. at 47.

[21] Id. at 50.

[22] Id. at 51.

[23] Id. at 52.

[24] Id. at 53.

[25] Id. at 54.