

**Before the  
FEDERAL COMMUNICATIONS COMMISSION  
Washington, D.C. 20554**

In the Matter of	)	
	)	
Connect America Fund	)	WC Docket No. 10-90
	)	
A National Broadband Plan For Our Future	)	GN Docket No. 09-51
	)	
High-Cost Universal Service Support	)	WC Docket No. 05-337

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**TABLE OF CONTENTS**

- I. INTRODUCTION AND SUMMARY..... 1**
- II. NOTICE OF PROPOSED RULEMAKING: HOW TO FREE UP USF SUPPORT FOR BROADBAND..... 7**
  - A. The Commission Should Protect Consumers By Capping The High Cost Fund Close To Its Current Level And Managing The Size Of The Fund In The Interim By Capping Incumbent Support By Study Area..... 7**
  - B. Continued Growth In Some High Cost Voice Mechanisms And Significant Shifts In Existing USF Support Between Carriers Is Not Sustainable Or Desirable..... 12**
  - C. The Commission Should Phase Out LEC Support From Legacy High Cost Mechanisms On The Same Schedule For Both ROR LECs And Price Cap LECs..... 15**
  - D. The Commission Should Phase Out Existing Support To All Wireless CETCs On The Same Schedule, Not Single Out Verizon Wireless And Sprint..... 19**
  - E. The Commission Must Use Savings From Funding Reductions to Decrease the Contribution Factor Until It Creates And Better Defines The CAF And Mobility Fund. .... 22**
  - F. Fixing The Broken USF Contribution System Must Be A Priority And Should Be Addressed Before or At The Same Time The Commission Establishes The CAF And Mobility Fund. .... 24**
- III. NOTICE OF INQUIRY: HOW BEST TO DISTRIBUTE BROADBAND FUNDING..... 26**
  - A. The NBP Model Is A Useful Tool, But The Commission Should Rely Principally On Market-Based Mechanisms To Distribute Broadband Funding, Not Cost Or Revenue Models. .... 26**
  - B. Efforts To Fast Track Broadband Support To Certain Unserved Areas Must Still Be Narrowly Tailored To Areas In Which There Is No Private Sector Business Case For Broadband Deployment. .... 30**
- IV. CONCLUSION. .... 34**

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**COMMENTS OF VERIZON<sup>1</sup> AND VERIZON WIRELESS**

**I. INTRODUCTION AND SUMMARY.**

The National Broadband Plan<sup>2</sup> sets the Commission on the right path toward repurposing the high cost Universal Service Fund (USF or “fund”) to support broadband expansion. There are many hard choices to be made about what universal service funding should be reoriented for broadband and when, and what the best way is to distribute this new broadband support. But the Commission’s proposal to phase out the legacy high cost voice mechanisms and phase in support for broadband over the next several years strikes an appropriate balance. Going forward in this proceeding,<sup>3</sup> the Commission must be guided by two principles: (1) to protect consumers, the fund cannot grow beyond its current size; and (2) to be fair to providers and their customers,

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<sup>1</sup> In addition to Verizon Wireless, the Verizon companies participating in this filing (“Verizon”) are the regulated, wholly owned subsidiaries of Verizon Communications Inc.

<sup>2</sup> See Federal Communications Commission, “Connecting America: The National Broadband Plan” <http://www.broadband.gov/download-plan/> (March 16, 2010) (NBP).

<sup>3</sup> See *Connect America Fund; A National Broadband Plan for Our Future; High-Cost Universal Service Support*, Notice of Inquiry and Notice of Proposed Rulemaking, 25 FCC Rcd 6657 (2010) (“*NOI/NPRM*”).

reductions in USF support for voice services designed to free up funding for broadband must be spread equally among all wireline providers and among all wireless providers.

Verizon supports the NBP's overall goal of providing everyone with affordable access to broadband—regardless of where they live—and the basic framework of the all-broadband Connect America Fund (CAF) envisioned by the NBP. In addition to keeping the size of the fund in check, critical aspects of that framework include these elements:

- Broadband universal service support should be direct and explicit.
- Subsidies for broadband should be extended only where there is no private sector business case for deployment, and initially targeted to unserved areas.
- At most, the Commission should subsidize one broadband provider in an area with a sufficient amount of funding that is as efficient as possible.
- Eligibility for broadband support should be provider- and technology-agnostic.
- Recipients of broadband support should be accountable for its use.

Consistent with these principles, and to lay a solid foundation for the CAF, the Commission should take the following steps:

***Set a budget for the CAF.*** The NBP appropriately recognizes that consumers have limited resources, and that increasing the size of the high cost fund significantly is not a viable option. As it stands, the fund is already projected to have doubled this decade. The Commission should follow through on the NBP's recommendation to limit the fund to 2010 levels and adopt an overall budget, or cap, for the CAF. This will ensure that consumers—who contribute to the USF through charges on their monthly bills—will not be forced to pay more than they can afford, and that the Commission satisfies its statutory obligation to reasonably manage the size of the fund.

***Cap existing voice support by study area.*** It will not be possible to free up USF support

for broadband without first taking control of legacy voice support to wireline incumbent carriers. For rural, rate-of-return (ROR) local exchange carriers (LECs) this support is growing today. As a first step, the Commission should cap high cost funding for each incumbent LEC on a study area basis. This will prevent the fund from increasing during the transition to the CAF and will also ensure that carriers have a high cost funding stream to continue providing voice services.

***Phase out wireline voice support on a common schedule.*** The Commission proposes to free up some funding for the CAF by reducing and eventually eliminating the two high cost access replacement mechanisms—Interstate Common Line Support (ICLS; for ROR carriers) and Interstate Access Support (IAS; for price cap carriers). This is a reasonable place to start. Access charge replacement funding, designed to give carriers a soft landing following reductions in intercarrier compensation rates, cannot last forever in a competitive environment. In today’s marketplace—in which consumers demand converged, any-distance services—all carriers must adapt sustainable business models based primarily on end-user revenues. All access replacement funding, however, should be phased out over time and addressed on the same schedule. ICLS and IAS serve the same function for different classes of carriers. There is no legitimate policy reason to privilege ROR carriers and burden price cap carriers with a disproportionate obligation to fund the CAF. In addition, as is the case with all high cost funding that is freed up for broadband in this proceeding, until the Commission establishes the CAF and the Mobility Fund and begins distributing support, the savings from such reductions must go towards reducing the USF contribution factor. Funding savings cannot simply be “stockpiled” for another day.

***Phase out wireless voice support on a common schedule.*** The Commission also proposes to eliminate competitive eligible telecommunications carrier (CETC) support—almost all of which is wireless funding—over time in favor of a new Mobility Fund that targets areas

that lack 3G wireless coverage today and, potentially, to fund the CAF. As with wireline access replacement funding reductions, this is a reasonable approach. The high cost fund is currently supporting multiple providers in areas that are, in theory, prohibitively expensive for even one carrier to serve. Congress did not envision the USF as a vehicle to fund competition in high cost areas. However, like wireline funding reductions, all wireless funding changes should occur on the same schedule. Forcing Verizon Wireless and Sprint to suffer funding reductions ahead of the rest of the wireless industry because of two-year-old merger conditions unfairly disadvantages them and advantages their competitors. The merger conditions adopted by the Commission explicitly state that comprehensive universal service reform initiatives will supersede the conditions. To phase down support to Verizon Wireless and Sprint ahead of the rest of the industry *despite* comprehensive reform is inconsistent with the conditions and the Commission's associated orders. In addition, the carriers agreed to the reductions based on the reasonable assumption that comprehensive reform would, within a short time, restore parity to the robustly competitive wireless industry. They should not now be penalized for the years of delay that followed these transactions and was beyond their control. If nothing else, the Commission should defer implementation of the merger conditions and instead commence these phase-outs at the same time it draws down support for all CETCs.

***Fix the broken universal service contribution system.*** The current interstate revenue-based universal service contribution system cannot survive, and it is critical to update the mechanism immediately. The system is based on out-of-date distinctions between interstate and intrastate services and between telecommunications and information services. The new converged, any-distance services that consumers demand do not draw such distinctions, and the problems with the current contribution system worsen every day as these services replace

traditional services. This forces providers to make different, arbitrary revenue allocations and skews the market toward services and providers that do not contribute to the USF. The NBP suggests expansion of the universal service contribution base, and the Commission anticipates issuing yet another notice of proposed rulemaking regarding contribution reform in the fourth quarter of this year. Universal service contribution reform must be made a priority. The Commission has considered contribution reform for years and sought comment on the issue many times, resulting—regrettably—in little movement and no action plan. It is particularly important to get the USF contribution system right as the Commission begins transitioning to the CAF. The contribution factor continues to trend upward and has recently been as high as 15 percent. At this level, the USF is already on the brink and in no shape to support the CAF or the new 3G Mobility Fund. The Commission should replace the revenue-based system with a small charge on each working phone number and/or network connection, an approach that is broadly supported. The Commission needs a stable contribution system for the CAF to succeed. Universal service contribution reform cannot wait.

***Rely on market-based mechanisms, not a cost model, to distribute CAF support.*** The Commission should adopt its proposal to rely on market-based mechanisms—such as competitive bidding or a reverse auction—to distribute broadband funding from the CAF. Competitive bidding is the standard means by which the government procures goods and services. Structured properly, a competitive bidding mechanism can work well to determine the most efficient amount of support necessary for a provider to deploy broadband and maintain quality service in an unserved area. The cost and revenue model developed by the Commission for the NBP is a useful analytical tool. For the first time, the Commission was able to estimate the number of Americans that lack access to broadband and make a reasoned preliminary

judgment about the cost of extending a high-speed network to their homes. The model also demonstrates the importance of several factors, including the substantial role that 4G fixed wireless services may play in extending broadband networks, the high cost of fiber in low-density areas, and the problem with a broadband speed requirement that is set too high. The Commission's substantial experience with cost models, however, teaches that it would take a long time to develop a workable model that could be used to actually distribute broadband funding. Development of such a model would be controversial and result in years of protracted litigation. Instead, the Commission could consider using a model in a limited role to set a reserve price for competitive bids, further analyze trade-offs between increasing broadband speeds and costs, and help prioritize unserved areas that may need support.

*Narrowly tailor any "fast track" broadband funding.* Now that the NBP is done, the Commission, appropriately, proposes to get broadband universal service support in place as quickly as possible. As a part of that endeavor, the Commission seeks comment on how some broadband funding could be distributed to certain unserved areas on a fast track, even before the CAF is fully operational. A limited, grant-based pilot program that the Commission could get up and running quickly may make sense. The program could be structured to award funding in response to very specific provider proposals to build broadband in areas that do not have service today. Such a program may also provide experience that will be useful in structuring the larger CAF. But there is reason to be cautious. The NBP has many moving parts, and the market is likely to expand broadband networks soon—particularly wireless broadband networks using 4G technology—into some unserved areas without need for any subsidy at all. Moreover, there are other broadband grant programs through the Rural Utilities Service (RUS) and in various states that are already deploying new funding for broadband networks. And, importantly, for

broadband funding to be effective the Commission must have reliable data to identify those areas that are truly unserved. Such data will not be available until the National Telecommunications and Information Administration (NTIA) broadband mapping project is completed in February of next year.

## **II. NOTICE OF PROPOSED RULEMAKING: HOW TO FREE UP USE SUPPORT FOR BROADBAND.**

The universal service program should be repurposed for broadband and the modern communication services consumers demand within a budget that consumers can afford—*i.e.*, a high cost fund that is no larger than the existing fund. *NOI/NPRM* ¶¶ 51-52. But now begins the hard work of actually implementing that conclusion. As discussed above, in transitioning the high cost fund into a broadband program, the Commission must not stray from two anchors: (1) to minimize the burden on consumers, the fund cannot grow; and (2) reductions in legacy support should be spread equally among provider segments.

### **A. The Commission Should Protect Consumers By Capping The High Cost Fund Close To Its Current Level And Managing The Size Of The Fund In The Interim By Capping Incumbent Support By Study Area.**

Fulfilling the NBP's goal of making affordable broadband service available throughout the country requires significant reform of the current universal service regime. Both the NBP and *NOI/NPRM* correctly recognize the need to curtail inefficient funding of voice service and instead refocus universal service funding to support directly the modern communications networks that will provide broadband as well as voice services. NBP at 147-48; *NOI/NPRM* ¶ 50. “[E]nsur[ing] that the size of the fund remains reasonable” is “an essential first step toward repurposing the universal service fund to support broadband as well as voice service,” since continued growth of the fund will ultimately drive end users off the very networks the USF was created to support. *NOI/NPRM* ¶¶ 51-52. As the Federal-State Joint Board on Universal Service

(Joint Board) noted more than two years ago, “unrestrained growth in the universal service fund, regardless of the source, could be, and would likely be catastrophic for universal service,” because it would threaten the affordability of communications services and erode public support for the universal service program.<sup>4</sup> The Commission echoed these same concerns in the NBP. NBP at 149. And for good reason: To finance a \$9 billion annual fund the USF contribution factor is already stuck in double digits and topped 15 percent for the first time earlier this year. One estimate of the subsidy required to extend ultra-high speed, 100 Mbps service to all homes using fiber to the premises (FTTP) is \$321.8 billion, which would result in an enormous—and impractical—increase in the contribution factor that could approach 60 percent, assuming the subsidy were spread over 10 years. *NOI/NPRM*, App. C (“The Broadband Availability Gap: OBI Technical Paper No. 1,” April 2010).<sup>5</sup>

Courts have also weighed in, concluding across the board that the Commission has an affirmative obligation under the Telecommunications Act of 1996 (Act) to keep the fund from growing too large. In upholding a cap on high cost support for CETCs, the D.C. Circuit concluded last year that the Commission must exercise fiscal responsibility with universal service funding by “balance[ing] the risks of excessive subsidization with the principles set forth in § 254(b)” and “consider not only the possibility of pricing some customers out of the market altogether, but the need to limit the burden on customers who continue to maintain telephone

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<sup>4</sup> See *Federal-State Joint Board on Universal Service*, Recommended Decision, 22 FCC Rcd 20477, ¶¶ 24-25 (2007) (“*Recommended Decision*”).

<sup>5</sup> A \$321.8 billion subsidy spread over 10 years would require \$8.045 billion per quarter. Assuming that the contribution base (approximately \$15.3 billion per quarter) and other USF programs’ demand (approximately \$1 billion per quarter) remain unchanged, the contribution factor would be approximately 59 percent.

service.”<sup>6</sup> The court concluded that it was “entirely reasonable” for the Commission to “consider its interest in avoiding excessive funding from consumers.” *Rural Cellular*, 588 F.3d at 1103.

The D.C. Circuit echoed the Fifth Circuit’s earlier findings in its *Alenco* decision.<sup>7</sup>

The key to successful repurposing of universal service funds to support broadband expansion is to cap both the overall size of the high cost fund on a permanent basis, and to cap high cost support to ILECs by study area in the interim. Failure to exercise such much-needed constraint will impede the NBP’s goal of “identify[ing] near-term opportunities to shift funding from existing programs to advance the universalization of broadband.” NBP at 147. For this reason, Verizon supports the NBP’s recommendation that the Commission take steps to manage the USF so that its total size remains close to its current level. *Id.* at 149-50. An overall cap on the high cost fund is consistent with the notion that government programs should operate on a budget, and that the high cost fund should be no different. *Recommended Decision* ¶ 26 (noting that “[m]any areas of government enterprise operate within a budget, and we think that high-cost funding can do likewise ....”).

The Commission must therefore “proceed with measured steps to assure that as it advances the nation’s broadband goals, it does not increase the USF contribution factor, which is

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<sup>6</sup> See *Rural Cellular Association, et al. v. FCC*, 588 F.3d 1095, 1102 (D.C. Cir. 2009) (“*Rural Cellular*”).

<sup>7</sup> See *Rural Cellular*, 588 F.3d at 1102. *Alenco* recognized that the Commission’s “broad discretion to provide sufficient universal service funding includes the decision to impose cost controls to avoid excessive expenditures that will detract from universal service.” See *Alenco Comm’ns, Inc. et al. v. FCC*, 201 F.3d 608, 620-21 (5<sup>th</sup> Cir. 2000) (“*Alenco*”). The *Alenco* court also noted that “excessive funding may itself violate” the Act by “detract[ing] from universal service by causing rates unnecessarily to rise, thereby pricing some consumers out of the market.” *Id.*, 201 F.3d at 620. The Tenth Circuit expressed similar concerns in its *Qwest II* decision, acknowledging that “excessive subsidization arguably may affect the affordability of telecommunications services, thus violating the principle in § 254(b)(1).” See *Qwest Comm’s Int’l Inc. v. FCC*, 398 F.3d 1222, 1234 (10<sup>th</sup> Cir. 2005) (“*Qwest II*”) (citing *Qwest Corp. v. FCC*, 258 F.3d 1191 (10<sup>th</sup> Cir. 2001)).

already at a public historic high.”<sup>8</sup> NBP at 150. In light of the strain on the existing fund, significantly increasing universal service support for legacy voice services while simultaneously converting the high cost fund into a broadband program is not a viable option, as the Commission recognized in the *10<sup>th</sup> Circuit Remand FNPRM*.<sup>9</sup> Capping legacy high cost support at 2010 levels is a necessary element of this much-needed constraint, and will help prevent uncontrolled growth from jeopardizing consumers’ continued ability to pay for existing universal service programs. *Id.*

In addition to an overall cap on the high cost fund, the Commission seeks comment on various approaches to control legacy voice support during the transition to the CAF. *NOI/NPRM* ¶ 52. While it considers other reforms, the Commission should adopt an interim study area cap, capping support for each ILEC study area at 2010 levels. *Id.* To avoid situations where the capped amount would exceed a necessary level of support, the Commission should calculate support levels pursuant to its current rules and then compare the results to the capped amount. If the calculated amount is less than the cap, the LEC would receive the calculated support. If the calculated amount exceeds the cap, however, the LEC would instead receive only the capped amount. This system would help eliminate unnecessary support payments.

ROR ILEC study areas present some additional complexity under such a capped system. For such areas, to accommodate a study area cap, local switching and ICLS should first be calculated using the processes in place today. High cost subsidies in each ROR study area would

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<sup>8</sup> The NBP notes that the USF will have nearly doubled this decade, growing from approximately \$4.5 billion in 2000 to a projected \$8.7 billion in 2010. NBP at 150.

<sup>9</sup> See *High-Cost Universal Service Support, Further Notice of Proposed Rulemaking*, 24 FCC Rcd 14858, ¶¶ 33-34 (2009) (“*10<sup>th</sup> Circuit Remand FNPRM*”) (discussing the Commission’s “responsibility to be a prudent guardian of the public’s resources” and “fairness” to consumers who pay into the fund).

then need to be adjusted to assure that the *total* amount of support for each study area remains at or below the capped amount.<sup>10</sup>

Adopting this approach would have marked benefits in terms of controlling the size of the high cost mechanism and the contributions needed to fund it. If a per-study area high cost fund cap had been in place from 2008-2010, capping study area support at 2007 levels, it would have saved almost \$750 million. Attachment A (summarizing the impact of a hypothetical ILEC study area cap, which would have produced \$746 million in savings). Yet, the individual impact of this recommendation, by study area, will be modest enough that this approach will not affect the viability of universal service.

The caps proposed here (both in the overall size of the high cost fund, as well as in the amount of per-study area support to ILECs) would ensure the continued viability of universal service without subsidizing carriers to such a degree that they have no incentive to innovate and develop offerings that allow them to generate more revenue from their customers. As discussed above, these cap proposals are also consistent with the D.C. Circuit's decision in *Rural Cellular*, as well as with a number of prior federal circuit court decisions. *See Alenco* and *Qwest II*, *supra*. Although *Rural Cellular* focused on the Commission's per-*state* interim cap on USF support to wireless CETCs, a per-*study area* cap on ILEC support is an apt wireline analog, and the D.C. Circuit's reasoning (and that of the Fifth and Tenth Circuits before it) applies with equal force here. The Commission is not only authorized to, but indeed *must*, ensure that USF support to carriers is not so great that it imposes an unreasonable burden on the consumers who fund it, which would ultimately impede the goals of the universal service program.

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<sup>10</sup> See Comments of Verizon and Verizon Wireless, *Federal-State Joint Board on Universal Service; High-Cost Universal Service Support*, CC Docket No. 96-45, WC Docket No. 05-337, App. 1, n.1 (April 17, 2008) ("*April 2008 Comments*").

**B. Continued Growth In Some High Cost Voice Mechanisms And Significant Shifts In Existing USF Support Between Carriers Is Not Sustainable Or Desirable.**

Although incumbent LEC high cost support has not shown the same growth as CETC high cost support, the apparent stability in total ILEC support masks significant changes in the composition of the fund. Attachment B shows that over the past five years, there has been a dramatic shift in ILEC high cost support from price cap ILECs to ROR ILECs. Attachment B. While high cost support for price cap LECs decreased by \$464 million between 2005 and 2010, ROR ILEC high cost support increased by \$278 million. *Id.* On a per-line basis, USF support for ROR ILECs also increased dramatically from 2005 to 2010, from \$21.78 per line per month to \$30.57 per line. Attachment C.

**ROR ILEC support.** Multiple forms of USF support to ROR ILECs are increasing at unsustainable rates.<sup>11</sup> For example, ICLS to ROR ILECs is increasing, in part due to line loss, and in part due to growth in common line revenue requirements. ROR ILEC ICLS support increased by \$214 million, or 30.6 percent, between 2005 and 2010. Attachment B. High Cost Loop (HCL) support to certain ROR ILECs is also growing, even as the overall HCL fund shrinks due to the negative rural growth factor. *Id.* As per-loop costs grow, more HCL support shifts from the lower cost rural ILECs (generally those that have converted to price cap regulation) to the highest cost rural ILECs (generally the ROR ILECs). Between 2005 and 2010, ROR ILEC HCL support increased by \$100 million, or 14 percent. *Id.* In addition, ROR ILEC “Safety Net Additive” and “Safety Valve” support increased by \$43 million, or more than 400 percent, over the same time period. *Id.*

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<sup>11</sup> Federal high cost support includes five major components: high cost loop support, local switching support, high cost model support, interstate access support, and interstate common line support. *NOI/NPRM* ¶ 3, n.5.

This growth in ROR ILEC legacy high cost support is incompatible with the downward support trend that the NBP and *NOI/NPRM* recognize is needed to promote greater broadband deployment and competition throughout the United States. It is also incompatible with falling prices for communications services overall. According to the U.S. Bureau of Labor Statistics, the Consumer Price Index (CPI) for Internet services *fell by roughly 22 percent* since 2002.<sup>12</sup> Similarly, the CPI for wireless telecommunications services dropped by 7 percent during that time frame.<sup>13</sup> Given such declines, it would be inappropriate and unreasonable for high cost support to continue to grow as it has been.

With respect to broadband, the existing USF mechanisms do provide some support for ROR ILECs—indirectly through funding for network facilities that can (and very often are) jointly used for broadband and voice services. The lack of transparency inherent in this situation can lead to inefficient results. For example, many ROR LECs have deployed FTTP, the most expensive technology.<sup>14</sup> As the Commission notes, the indirect funding of broadband-capable networks through legacy high cost programs “is occurring without transparency or accountability for the use of funds to extend broadband service.” *NOI/NPRM* ¶ 53. This happens because ROR ILEC costs are cycled through the National Exchange Carrier Association (NECA) without review by the Commission or another impartial arbiter.

The lack of transparency with indirect universal service broadband support to ROR

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<sup>12</sup> See U.S. Department of Labor, Bureau of Labor Statistics, *Consumer Price Index Detailed Report, tables 1-29, May 2010*, Table 25. Historical Consumer Price Index for All Urban Consumers (CPI-U): U.S. city average, by commodity and service group and detailed expenditure categories, <http://www.bls.gov/cpi/cpid1005.pdf> (2010). BLS only began tracking landline telephone service in December 2009.

<sup>13</sup> *Id.*

<sup>14</sup> See *NOI/NPRM*, App. C at 94-98.

ILECs is also harming competition. Legacy high cost funding to ROR ILECs supports costs associated with the construction of broadband- and video-capable facilities used to offer services that compete with those provided by non-subsidized competitors such as cable companies and unsupported wireless carriers. This situation impairs the non-subsidized carriers' ability to offer similar products at competitive rates and discourages new, non-subsidized market entrants. The inverse relationship between line loss and ICLS and HCL support, reflected in the attached charts, further insulates ROR ILECs from the economic effects of competitive losses.

Attachment C (demonstrating that while ROR carriers lost more than 17 percent of their lines—nearly 1.2 million lines in total—between 2005 and 2010, ICLS and HCL funding for these carriers actually increased by more than \$300 million). Indeed, the NBP explicitly recognized this flaw in the current USF regime: “[I]n an increasingly competitive marketplace with unsubsidized competitors operating in a portion of incumbents’ territories, permitting carriers to be made whole through USF support lessens their incentives to become more efficient and offer innovative new services to retain and attract consumers.” NBP at 147. The Commission must break this inefficient and unproductive cycle that, ultimately, harms consumers.

***Price cap ILEC support.*** In contrast, price cap ILECs present different issues because their high cost support has been declining, not increasing—by \$464 million over the past five years. Attachment B. Unlike the various support mechanisms available to ROR ILECs, the IAS and High Cost Model (HCM) mechanisms for price cap ILECs do not consider—even indirectly—broadband costs.<sup>15</sup> In addition, ICLS, IAS, and HCM support to price cap ILECs is based on the ILEC’s line counts. Thus, unlike ROR ILECs, price cap ILECs lose high cost

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<sup>15</sup> Thus it is not surprising that most households that lack broadband access today, even at 4 Mbps, are in a non-rural price cap carrier’s service territory. NBP at 141.

support as they lose lines to intermodal competitors and wireline competitive LECs.<sup>16</sup> In addition, HCL support to rural price cap ILECs is also decreasing. Attachment B. This historical decline in USF support to price cap ILECs demonstrates that even under the existing rules, some support will become available each year, which could then be devoted to supporting new broadband deployment. Based on current trends, Verizon estimates that the amount of price cap LEC high cost support that would be freed up for a new broadband fund will increase by \$80 million every year. *Id.* While that is good news in terms of finding space for the CAF, the flow of existing universal service dollars from price cap ILECs to ROR ILECs is not sustainable in the long run.

**C. The Commission Should Phase Out LEC Support From Legacy High Cost Mechanisms On The Same Schedule For Both ROR LECs And Price Cap LECs.**

As discussed above, as an interim step the Commission should cap support for each ILEC study area. The Commission should then begin to phase out support from the legacy high cost mechanisms, starting with ICLS funding to ROR ILECs and IAS funding to price cap carriers. The NBP recommends eliminating IAS funding. NBP at 147. The NBP also recommends freezing ICLS on a per-line basis, which would cause this funding to decrease as ROR ILECs lose lines. *Id.* This approach to ROR ICLS reductions, however, does not go far enough, and there is no legitimate policy reason to treat ROR ILECs differently from price cap carriers during the transition to the CAF and broadband funding.

Both ICLS and IAS are “access charge replacement” mechanisms designed to offset Commission-mandated reductions in interstate access rates. Recognizing the need to resolve various “historically vexing” intercarrier compensation issues, the Commission established IAS

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<sup>16</sup> Price cap ICLS and HCM support is provided on a per-line basis; IAS support consists of a targeted amount that is indexed to account for line loss.

as an explicit interstate universal service support mechanism to replace implicit support previously collected through access charges.<sup>17</sup> This allowed the Commission to “provide more equal footing for competitors in both the local and long-distance markets, while still keeping rates in higher cost areas affordable and reasonably comparable with those in lower cost areas.” *Id.* ¶ 3. In its subsequent *MAG Order*, the Commission created ICLS to replace the implicit form of universal service support then being recovered by ROR carriers through carrier common line (CCL) charges.<sup>18</sup> The Commission found that this funding shift was consistent with the Act’s mandate that universal service support be explicit, and would enable ROR carriers serving rural and high cost areas “to continue providing access to quality telecommunications services at rates that are affordable and reasonably comparable to those in urban areas.” *Id.* In so doing, the Commission noted that “[t]here are a range of reasonable solutions, and we must select one that strikes a balance among the goals and principles of the Act.” *Id.* ¶ 130. But access charge replacement funding—whether IAS, ICLS, or some other support mechanism the Commission may establish in the future—cannot last in a competitive environment, as recognized by the NBP’s recommendation to eliminate per-minute charges completely by 2020. NBP at 148. This funding was not intended to insulate carriers from changes in the market and advances in technology.

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<sup>17</sup> See *Access Charge Reform; Price Cap Performance Review for Local Exchange Carriers; Low-Volume Long Distance Users; Federal-State Joint Board On Universal Service*, Sixth Report and Order in CC Docket Nos. 96-262 and 94-1, Report and Order in CC Docket No. 99-249, Eleventh Report and Order in CC Docket No. 96-45, 15 FCC Rcd 12962, ¶¶ 2, 201 (2000) (“*CALLS Order*”).

<sup>18</sup> See *Multi-Association (MAG) Plan for Regulation of Interstate Services of Non-Price Cap Incumbent Local Exchange Carriers and Interexchange Carriers*, Second Report & Order and Further Notice of Proposed Rulemaking in CC Docket No. 00-256, Fifteenth Report & Order in CC Docket No. 96-45, and Report & Order in CC Docket Nos. 98-77 and 98-166, 16 FCC Rcd 19613, ¶ 128 (2001) (“*MAG Order*”).

*Price cap ILEC considerations.* The NBP states that the Commission “should take immediate steps to eliminate [IAS funding] and re-target its dollars toward broadband.” *Id.* at 147. While eventual elimination of IAS should be one of the Commission’s longer term goals, any immediate elimination of IAS, prior to the creation of the CAF, would be inappropriate and inconsistent with the NBP’s preference for gradual, phased reform<sup>19</sup> and its explicit prohibition against “flash cuts”:

*No flash cuts.* New rules should be phased in over a reasonable time period. Policymakers must give service providers and investors time to adjust to a new regulatory regime.

*Id.* at 143 (italics in original; footnotes omitted). To avoid funding gaps and unnecessary harm to price cap carriers and their customers, IAS support should continue to operate as it does today until the rules for the new CAF are in place and the CAF begins to distribute funds in areas currently supported by IAS funding.

Regardless of when the Commission elects to begin eliminating IAS (ahead of ICLS reductions or not), the Commission should still phase out IAS support over time—for example, freezing IAS funding at the study area level and then reducing it gradually, by 20 percent per year. A phased approach such as this is consistent with the NBP’s preference for “gradual” SLC increases and the NBP’s expressed concern regarding “transitional impacts” associated with shifting existing funds to support broadband. *Id.* at 147-48.

The Commission should also reduce price cap ILECs’ per-line *ICLS* support (currently received by ROR carriers that converted to price cap regulation; *see below*) on the same schedule as IAS funding is phased out. Attachment D lists, by individual study area, all of the former ROR carriers that have converted to price cap regulation over the last few years. Attachment D.

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<sup>19</sup> For example, the NBP recommends a 10-year “glide path” to phasing out per-minute access charges, accompanied by “gradual increases” in subscriber line charges. *Id.* at 148.

In granting these price cap conversion applications, the Commission allowed the former ROR carriers to continue participating in the ICLS mechanism, but converted the funding to a per-line basis to mirror IAS funding for other price cap carriers.<sup>20</sup> Once IAS funding reductions are initiated, there is no basis for allowing carriers that have converted from ROR to price cap regulation to continue to draw ICLS subsidies based on their former regulatory status. This approach will ensure non-discriminatory treatment across price cap ILECs and free up additional existing funds that the Commission can move to the CAF.

***ROR ILEC considerations.*** Achieving the NBP’s goals requires more fundamental changes in the regulatory approach to ILECs currently operating under ROR regulation—more than mechanical reductions in funding for voice services. To that end, Verizon supports the NBP’s recommendation to transition ROR ILECs to incentive regulation as well. NBP at 147. The ROR regime impedes the innovation and broadband expansion that the Commission seeks to promote. “Rate-of-return regulation was not designed to promote efficiency or innovation,” and “[i]n an increasingly competitive marketplace with unsubsidized competitors operating in a portion of incumbent’s territories, permitting carriers to be made whole through USF support lessens their incentives to become more efficient and offer innovative new services to retain and attract consumers.” *Id.* The NBP’s suggested model for moving ROR ILECs to incentive regulation—converting them to price cap regulation and shifting to a per-line USF support approach (*see id.*)—has worked previously without harming universal service. *NOI/NPRM* ¶ 55 n.123-24. The Commission approved a number of ROR-price cap conversion petitions over the past two years, in each instance finding that granting the request was in the public interest. *Id.* ¶ 55 n.123; Attachment D. Allowing carriers to convert from ROR regulation to price cap

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<sup>20</sup> See, e.g., *Windstream Petition for Conversion to Price Cap Regulation and for Limited Waiver Relief*, Order, 23 FCC Rcd 5294, ¶¶ 20-22 (2008).

regulation has benefitted consumers through fewer demands on the USF, lower costs of regulatory compliance, increased operational efficiencies and enhanced competition, and offers an ideal way to move all ROR carriers to incentive regulation.

This regulatory modification will limit the support to ILECs currently under ROR regulation, freeing up funds that can be used to support broadband deployment. “As USF migrates from supporting voice telephone service to supporting broadband platforms that can support voice as well as other applications . . . how USF compensates carriers needs to change as well.” NBP at 147. No carrier should be insulated from the effects of competition or relieved of the need to pursue innovation in order remain competitive in the modern communications marketplace. ROR regulation is a relic of a bygone regulatory era, one in which competition was virtually non-existent in comparison to the vibrant intermodal competition of today’s world, and more heavy-handed regulation was arguably necessary to protect ratepayers.<sup>21</sup> While the USF subsidies that ROR ILECs receive are lucrative and attractive to those carriers, the ROR regulatory model is simply no longer sustainable. Perpetuating ROR regulation will only impede innovation, competition, universal service and consumer benefits. The public interest supports moving ROR ILECs to price cap regulation or some other form of incentive regulation.

**D. The Commission Should Phase Out Existing Support To All Wireless CETCs On The Same Schedule, Not Single Out Verizon Wireless And Sprint.**

The *NOI/NPRM* indicates that “the Commission will consider shortly an order clarifying how to implement Verizon Wireless’s and Sprint’s voluntary [merger] commitments.”

*NOI/NPRM* ¶ 59. The *NOI/NPRM* also proposes to phase out remaining CETC funding to other wireless carriers under the existing funding mechanisms over a five-year period, targeting the

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<sup>21</sup> See, e.g., *id.* at 147 (“Rate-of-return regulation was implemented in the 1960s, when there was a single provider of voice services in a given geographic area that had a legal obligation to serve all customers in the area and when the network only provided voice service.”).

savings toward the deployment of broadband-capable networks and other reforms in the NBP.

*Id.* ¶ 60. The Commission’s plan to phase out all CETC support over five years should supersede the Verizon Wireless and Sprint merger conditions. In the alternative, the Commission should defer implementation of the merger conditions and instead commence these phase-outs at the same time it draws down support for all CETCs.

The Commission should not discriminate against Verizon Wireless and Sprint because of two-year-old merger conditions from transactions that closed long ago. Doing so would violate the express terms of those merger commitments that were adopted by the Commission—and would unfairly advantage other wireless competitors in a robustly competitive market. Verizon Wireless’ commitment to a five-year phase-down of CETC high cost support explicitly provided that “[i]n the event that the Commission adopts a different transition mechanism or successor mechanism to the currently capped equal support rule in a rulemaking of general applicability ... then that rule of general applicability would apply instead.”<sup>22</sup> Sprint’s commitment letter contained identical language.<sup>23</sup> The *NOI/NPRM* proposes a rule of general applicability that

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<sup>22</sup> See Letter from John Scott, Verizon Wireless, to Marlene Dortch, FCC, *Applications of Atlantis Holdings LLC and Cellco Partnership d/b/a Verizon Wireless for Transfer of Control*, WT Docket No. 08-95 (Nov. 3, 2008). The Commission adopted these commitments in its order approving the Verizon/Alltel merger. *Applications of Cellco Partnership d/b/a Verizon Wireless and Atlantis Holdings LLC For Consent to Transfer Control of Licenses, Authorizations, and Spectrum Manager and De Facto Transfer Leasing Arrangements and Petition for Declaratory Ruling that the Transaction is Consistent with Section 310(b)(4) of the Communications Act*, Memorandum Opinion and Order and Declaratory Ruling, 23 FCC Rcd 17444, ¶ 197 (2008) (“*Verizon Merger Order*”).

<sup>23</sup> See Letter from Lawrence Krevor, Sprint, to Marlene Dortch, FCC, *Sprint Nextel Corporation and Clearwire Corporation Seek FCC Consent to Transfer Control of Licenses and Authorizations*, WT Docket No. 08-94 (Nov. 3, 2008). The Commission adopted these commitments in its order approving the Sprint/Nextel merger. See *Sprint Nextel Corporation and Clearwire Corporation Applications for Consent to Transfer of Control of Licenses, Leases, and Authorizations*, Memorandum Opinion and Order, 23 FCC Rcd 17570, ¶ 108 (2008) (“*Sprint Merger Order*”).

constitutes a “different transition mechanism” and a “successor mechanism to the currently capped equal support rule.” By the very terms of the merger commitments adopted by the Commission, that rule must apply to Verizon Wireless and Sprint in place of the earlier, carrier-specific phase-out schedules included in their merger commitment letters. *Verizon Merger Order*, ¶ 197; *Sprint Merger Order*, ¶ 108.

The Commission followed this approach—allowing industry-wide reform to supersede carrier-specific merger conditions—in earlier transactions involving AT&T and Alltel. In those proceedings, the carriers agreed to caps on their CETC support.<sup>24</sup> However, when the Commission later moved forward with an industry-wide cap on CETC funding, the Commission, as required, honored the carriers’ commitments and allowed the 2008 CETC cap to supersede the AT&T- and Alltel-specific caps. *Id.* A different approach would have violated the terms of the commitments. Here, too, the Commission must make clear that the phase-down of funding proposed in the NBP and the *NOI/NPRM* supersedes the Verizon Wireless and Sprint merger conditions.

At the very least, the Commission should defer implementation of the merger conditions until it draws down support for all CETCs. As envisioned by the NBP, all wireless CETCs will have equal access to 3G funding through a new Mobility Fund that will target areas that do not have 3G wireless coverage today.<sup>25</sup> Wireless carriers will also be able to compete for CAF broadband support. This is a reasonable approach going forward, but only if all wireless carriers

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<sup>24</sup> See *High Cost Universal Service Support, et al.*, Order, 23 FCC Rcd 8834, ¶ 5 n.21 (2008) (providing that the new interim cap on competitive ETC support replaces similar merger condition caps on high cost support to AT&T and Alltel).

<sup>25</sup> The Mobility Fund would provide one-time support for the deployment of 3G networks, “to bring all states to a minimum level of 3G (or better) mobile service availability.” NBP at 146.

are treated equally in all phases of the NBP. For their part, Verizon Wireless and Sprint agreed to funding reductions based on the reasonable assumption that comprehensive reform would, within a short time, restore parity to the robustly competitive wireless industry.<sup>26</sup> The two years of delay that followed these transactions was beyond these carriers' control. To now "fast track" Verizon Wireless and Sprint funding reductions ahead of the rest of the industry would violate the Commission's decisions regarding competitively neutral universal service policies as well as the requirements of Sections 254(b)(4) of the Act, which among other things provides that all providers shall contribute to the preservation and advancement of universal service on an "equitable and nondiscriminatory" basis. *Federal-State Joint Board on Universal Service, Report and Order, 12 FCC Rcd 8776, ¶¶ 46-52 (1997)* ("Universal service support mechanisms and rules should be competitively neutral. In this context, competitive neutrality means that universal service support mechanisms and rules *neither unfairly advantage nor disadvantage one provider over another. . .*") (emphasis added); *see also* 47 U.S.C. § 254(b)(4). In contrast, a CETC-wide phase-down would be competitively neutral and would ensure that all CETCs are treated equitably and non-discriminatorily.

**E. The Commission Must Use Savings From Funding Reductions to Decrease the Contribution Factor Until It Creates And Better Defines The CAF And Mobility Fund.**

As a process matter, any reductions in wireline or wireless high cost funding must result in a corresponding reduction in the quarterly USF contribution factor until the Commission

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<sup>26</sup> Verizon Wireless and Sprint submitted their merger commitments on November 3, 2008, when Commission action on the comprehensive fund reforms recommended by the Joint Board was due at any moment. Two days later, however, a divided Commission issued an order declining to act on the Joint Board's recommendations for the time being, which was followed by now nearly two years of further delay. *High-Cost Universal Service Support, et al., Order on Remand and Report and Order and Further Notice of Proposed Rulemaking, 24 FCC Rcd 6475, ¶ 37 (2008).*

creates and better defines the CAF and Mobility Fund. In other words, the Commission cannot “stockpile” universal service funding for a purpose and use that the Commission will define at a later time. Such an approach would violate multiple Section 254 provisions, including:

- 47 U.S.C. § 254(b)(4) (requiring that universal service policies ensure “*equitable and nondiscriminatory contribution[s] to the preservation and advancement of universal service*”) (emphasis added).
- 47 U.S.C. § 254(b)(5) (requiring that universal service policies ensure that there are “*specific, predictable and sufficient Federal and State mechanisms to preserve and advance universal service*”) (emphasis added).
- 47 U.S.C. § 254(d) (requiring that contributions to universal service be structured in such a way that carriers contribute “on an *equitable and nondiscriminatory basis, to the specific, predictable, and sufficient mechanisms established by the Commission to preserve and advance universal service*”) (emphasis added).
- 47 U.S.C. § 254(e) (requiring that universal service support be “*sufficient to achieve the purposes of this section*”) (emphasis added).

Stockpiling universal service funding to be distributed down the road from a mechanism that the Commission anticipates creating, but has not yet established or defined with reasonable particularity, would be inconsistent with all of these statutory constraints.

First, to have any meaning at all, the Section 254 terms “specific” and “predictable” at the very least must operate to prohibit the Commission from collecting contributions from providers for USF mechanisms that do not exist or exist in name only without Commission judgment as to their size and specific purpose. 47 U.S.C. § 254(b)(5) and (d). Second, the Commission recently defined the term “sufficient” as “an affordable and sustainable amount of support that is adequate, but no greater than necessary, to achieve the goals of the universal service program.” 47 U.S.C. § 254(b)(5), (d) and (e).<sup>27</sup> USF funding that is collected without a

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<sup>27</sup> *High-Cost Universal Service Support, Federal-State Joint Board on Universal Service, 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-*

well-defined purpose for a mechanism that may not even exist cannot be considered “necessary ... to achieve the goals of the universal service program.” *Id.* Third, Section 254(d) also expressly provides that a necessary prerequisite to collecting universal contributions is that USF “mechanisms [be] *established* by the Commission.” *Id.* (emphasis added). Finally, collecting funds from carriers in the name of universal service without a plan for how these funds will be distributed, for what purpose, to which providers, and in what areas is not an “equitable” approach to USF contributions. 47 U.S.C. § 254(b)(4) and (d). Without making these judgments before funds are collected, there is no way to evaluate the “equity” of universal service assessments on providers and whether the Commission is operating within appropriate Section 254 boundaries.

In short, the Commission does not have to have all of the answers immediately (and the Commission has proposed to address some of the details relating to the CAF and Mobility Fund in the fourth quarter of this year), but there are statutory requirements that are not met in simply “banking” universal service dollars in the interim.

**F. Fixing The Broken USF Contribution System Must Be A Priority And Should Be Addressed Before or At The Same Time The Commission Establishes The CAF And Mobility Fund.**

The Commission has announced its intention to issue an NPRM in the fourth quarter of this year to address reforming the current, flawed USF contribution system.<sup>28</sup> Yet, the anticipated timing of that NPRM does not recognize the critical relationship between the USF contribution base and USF disbursements. Without a solid and stable ongoing contribution base,

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(Continued . . .)

*Rural Incumbent Local Exchange Carrier*, Order on Remand and Memorandum Opinion and Order, 25 FCC Rcd 4072, ¶ 3 (2010) (“*Qwest II Remand Order*”).

<sup>28</sup> See calendar of anticipated Commission actions, <http://www.broadband.gov/plan/broadband-action-agenda-items.html>.

there will be ever more limited funds available to achieve the NBP's important goals. Indeed, the USF contribution base is—at best—unstable, having at one point declined to its lowest level on record earlier this year before rebounding. And as noted above, the USF contribution factor continues to trend upward, at one point reaching a record high of more than 15 percent. Such trends are simply unsustainable, and must be rectified before establishing new USF funding priorities, whether broadband-related or otherwise.

The best solution to these pressing problems is to take swift and decisive action to fix the broken universal service framework by adopting a new USF contribution methodology based on working phone numbers and/or numbers and network connections. The existing system, which relies on interstate revenues associated with telecommunications services, is failing. In this new era of converged, any-distance services provided over an array of networks using many different technologies—with services defying simple categorization as interstate or intrastate, or as telecommunications or information services—many competing providers do not presently contribute to the USF. It is simply no longer possible to rely on arbitrary and outdated distinctions in determining contribution obligations that are vital to the broadband future.

In 2008, Verizon and AT&T submitted a joint proposal for a new numbers-based USF contribution system.<sup>29</sup> The proposal is broadly supported across the industry. Under the joint proposal, USF contributions would be funded by a small, set charge on each working phone

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<sup>29</sup> See Letter from Mary L. Henze, AT&T and Kathleen Grillo, Verizon to Marlene Dortch, FCC, *Universal Service Contribution Methodology; Federal-State Joint Board on Universal Service*, WC Docket No. 06-122, CC Docket No. 96-45 (Sept. 11, 2008) (submitting joint “Direct USF Contribution Methodology” proposal for new numbers-based universal service contribution approach). Verizon and AT&T subsequently offered an alternative hybrid plan that would assess both numbers and network connections. See Letter from Mary L. Henze, AT&T and Kathleen Grillo, Verizon to Marlene Dortch, FCC, *Universal Service Contribution Methodology; Federal-State Joint Board on Universal Service*, WC Docket No. 06-122, CC Docket No. 96-45 (Oct. 20, 2008).

number with narrow exceptions. *Id.* This approach would avoid the problems associated with revenue-based systems (namely, their reliance on unworkable distinctions regarding the jurisdiction and nature of the services at issue) by assessing contributions on an objective basis that is readily measurable and unaffected by shifts in demand for communications technologies. The joint proposal would benefit consumers, because many would see their monthly USF charge decrease, and a flat, per-number charge is easier to understand and review. It would also benefit policymakers, because such a system would be easier and cheaper to administer and audit without distinctions between interstate and intrastate and telecommunications and information services. Finally, a numbers-based contribution mechanism would be an improvement for providers, because it would spread the USF contribution burden fairly among them and simplify their contribution remittance process.

### **III. NOTICE OF INQUIRY: HOW BEST TO DISTRIBUTE BROADBAND FUNDING.**

#### **A. The NBP Model Is A Useful Tool, But The Commission Should Rely Principally On Market-Based Mechanisms To Distribute Broadband Funding, Not Cost Or Revenue Models.**

The *NOI/NPRM* seeks comment “on use of a model as a competitively neutral and efficient tool for helping [the Commission] to quantify the minimum amount of universal service support necessary to support networks that provide broadband and voice service ....”

*NOI/NPRM* ¶ 13. The *NOI/NPRM* proposes a number of options, and the NBP Model, in particular, can serve as a useful analytical tool. For example, it demonstrates the high cost of deploying fiber in areas with low population density, and it demonstrates the important role that fixed wireless technology could play in meeting the NBP’s goal of more ubiquitous deployment of affordable broadband service. However, market-based mechanisms such as competitive bidding or reverse auctions—not cost or revenue models—remain the best way to distribute CAF

and Mobility Fund support once those mechanisms are up and running. The NBP expressed a clear preference for using market-based mechanisms, “wherever possible,” to “drive funding to efficient levels.” NBP at 137, 145. The *NOI/NPRM* echoes this goal, recognizing that with a properly-designed market-based approach, “the market should help identify the provider that will serve the area at the lowest cost.” *NOI/NPRM* ¶¶ 10, 18-20.

Rather than relying on a complicated and controversial modeling approach, the Commission should focus its efforts on designing the best market-based mechanism to ensure that the distributed support as efficient as possible, as recommended by the NBP. NBP at 137. Verizon has long supported a competitive bidding approach for such purposes.<sup>30</sup> The benefits of a well-designed reverse auction include: (1) allowing “direct market signals” to determine support, rather than “cost estimates made from either historical cost accounting data or forward-looking cost models ...”; (2) having the winning bid approximate “the minimum level of subsidy required to achieve the desired universal service goals”; (3) creating “incentives for ETCs to provide supported services at the minimum possible cost”; and (4) providing “a fair and efficient means of eliminating the subsidization of multiple ETCs in a given region.”<sup>31</sup> Reverse auctions are the best way to determine the amount of subsidy necessary for a provider to deploy broadband infrastructure into an unserved area. With their competitive bids, providers will determine what amount of support would be sufficient to take on the obligation to deploy infrastructure. In this way, the amount paid to the auction winner will be as efficient as possible without undermining program objectives.

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<sup>30</sup> See *April 2008 Comments* at 8-22 and App. 1.

<sup>31</sup> See *High Cost Universal Service Support; Federal-State Joint Board on Universal Service*, Notice of Proposed Rulemaking, 23 FCC Rcd 1495, ¶ 11 (2008) (“*Reverse Auctions NPRM*”).

Verizon previously proposed a detailed USF reverse auction process that could be adapted for the CAF. *See April 2008 Comments* at 8-22 and App. 1. Pursuing this market-based auction approach—modified to be technology-neutral—would help ensure that subsidies are limited to no more than is required to secure deployment of broadband facilities in unserved areas by the most efficient provider. Adopting a market-based mechanism would also moot the need to develop (and litigate disputes regarding) a full-blown cost or revenue model, which, in contrast, would be controversial, costly, and involve years of delay. Disagreements surrounding the model and its use would dominate this proceeding for the foreseeable future because the model would ultimately determine the total amount of universal service support that a provider could receive (and, potentially, the long-term viability of many carriers). In light of the high stakes, the Commission could expect that every aspect of that process—every input, assumption, and result—would be disputed, if not litigated. Compared to current high cost support amounts for voice services, a cost model would result in winners and losers, and developing the model may be so contentious that the process could derail the overall universal service reform effort. Avoiding such unnecessary complications is paramount to effective universal service reform and implementation of the NBP’s important goals.

The Commission’s experience with cost-based support mechanisms, including models, teaches that developing a CAF model would indeed be an onerous and contentious process. The Commission need look no further than the existing Hybrid Proxy Cost Model (HCPM) for non-rural high cost voice support to understand how arduous it would be to develop a new broadband cost/revenue model. *See, e.g., NOI/NPRM ¶ 7* and App. C at VIII-XI. Consider this: It has been 14 years since the Act was passed and the Commission was tasked by Congress to implement the new, explicit universal service objectives in Section 254—and as of earlier this year, the

Commission was still litigating the HCPM. The Tenth Circuit has twice remanded Commission orders establishing and defending the HCPM. The Commission's *Qwest II Remand Order* was issued in April in response to a potential writ of mandamus following years of HCPM debate but no action.

There is no reason to believe that a new broadband support model would fare any better. In fact, there is significant reason to believe that matters would be worse this time around. Unlike the HCPM, the Commission proposes here that a new CAF cost/revenue model would apply to *all providers*, not just a handful of the largest legacy telecommunications carriers that draw voice subsidies from the HCPM under the existing system. That reality alone significantly expands the potential for disputes, delay, and litigation. Moreover, a model that examines not only costs, but revenues as well (as the NBP Model does), requires many additional assumptions and inputs for a period covering multiple years. Establishing these assumptions and inputs—for example, predictions of average revenue per user (ARPU), broadband penetration rates, and so on—is a process that has never been undertaken for broadband networks. At the time the Commission established the HCPM (still in dispute to this day), the Commission had decades of experience with cost-based implicit support for voice services. In addition, concerns about the accuracy of inputs and assumptions used in the model are likely to be heightened if the model output is intended to induce broadband construction in granular, unserved areas.<sup>32</sup> The smaller the area being modeled, the less appropriate it is to rely on general assumptions regarding expenses, revenues, and other key inputs, and the more difficult it is to identify appropriate assumptions. Finally, given the complexity in producing a cost model, there is a real risk that it would be out of date by the time the model comes on-line; and models are as resource-draining

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<sup>32</sup> In contrast, the HCPM is used primarily to compare statewide costs.

to update as they are produce. The HCPM is also a good example of this: Most of the HCPM inputs are many years out of date.

To the extent that cost models are to have a role in this process going forward, the Commission should proceed cautiously, using them as an aid in fine-tuning a market-based solution, instead of replacing it. Competitive bidding is a viable and vastly preferable alternative to a cost/revenue model, and the Commission should focus attention on such a market-based mechanism as this proceeding continues. However, if the Commission remains committed to using a cost model in some fashion, there are potential ways in which a model (such as the NBP Model) could assist with the Commission’s implementation of an auction-based approach. A model could aid in analyzing tradeoffs—*e.g.*, between transmission speed and cost—thereby helping the Commission to specify the supported services to be auctioned. For instance, the NBP Model allowed the Commission to estimate that 4 Mbps download/1 Mbps upload speeds were achievable within a reasonable budget. NBP at 135. A model could also be used to identify “the most costly areas to serve”—those which might ultimately be served most efficiently via satellite, rather than terrestrial facilities. *NOI/NPRM* ¶ 22. The Commission likely would not need to develop a full-blown cost model for this purpose; a simpler analysis of density and terrain might well suffice. The Commission could also use a cost model to assist in setting reserves for unserved areas. *Id.* ¶ 21.

**B. Efforts To Fast Track Broadband Support To Certain Unserved Areas Must Still Be Narrowly Tailored To Areas In Which There Is No Private Sector Business Case For Broadband Deployment.**

The Commission seeks comment on “the best way to create an accelerated process to distribute funding to support new deployment of broadband-capable networks in unserved areas” during the period in which it considers final rules to implement the new CAF funding

mechanism. *NOI/NPRM* ¶ 43. While the objective of accelerating broadband deployment is appropriate in principle, the Commission must design any fast track proposal carefully to ensure that an expedited process remains consistent with the need to limit CAF support to only those areas in which there is no private sector business case for the market to deploy broadband. An area that is unserved today may well have broadband soon—particularly mobile broadband within the next few years—and the Commission must take care to avoid subsidizing an area where the private sector can and will invest without government support.

The broadband mapping project undertaken in conjunction with the Broadband Data Improvement Act will not be completed until February 2011, meaning that the Commission will not have a clear snapshot of unserved areas until after that date. *Id.* Until that mapping project is complete, it will be difficult for the Commission to predict with sufficient certainty those areas in which there is an insufficient private sector business case for broadband deployment. Indeed, many areas that are currently considered unserved likely will become served in the near term, thanks to private sector investment. For example, the NBP anticipates that if the build-out of 4G services occurs as announced, approximately five million of the seven million currently unserved housing units will have 4G coverage. NBP at 137. Verizon Wireless has announced that it plans to launch 4G service with 5-12 Mbps average download speeds in up to 30 markets (covering 100 million people) by the end of 2010, and to extend this 4G coverage throughout its current 3G footprint in 2013.<sup>33</sup> Verizon Wireless also plans to work with rural carriers in order to collaboratively build and operate a 4G network that will bring the benefits of 4G service to even

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<sup>33</sup> See, e.g., Light Reading, “Verizon Says LTE Will Match 3G Footprint in 2013” [http://www.lightreading.com/document.asp?doc\\_id=193226](http://www.lightreading.com/document.asp?doc_id=193226) (June 15, 2010) (last visited July 6, 2010)

more rural areas.<sup>34</sup> Sprint is currently offering 4G services in 36 markets and has announced plans to expand to additional cities this summer.<sup>35</sup> Earlier this year, AT&T announced that it had selected suppliers for its planned deployment of 4G LTE, with field trials scheduled later this year and commercial deployment to begin in 2011.<sup>36</sup>

Moreover, additional broadband deployment is expected soon due to other subsidy programs designed to increase broadband penetration, including the American Recovery and Reinvestment Act (ARRA), other RUS and NTIA programs, as well as state programs, tax incentives and public-private partnerships such as Connected Nation.<sup>37</sup> Such partnerships have a unique ability to examine all of the relevant factors that affect broadband demand and deployment at the local level, and can bring together interested state and local governments and motivated broadband providers to maximize access to the benefits of broadband service. They are particularly effective in determining need and demand because they have an intimate understanding of what demographic and geographic factors affect broadband adoption (such as

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<sup>34</sup> See Verizon Wireless News Release, “LTE in Rural America” <http://aboutus.vzw.com/rural/Overview.html> (last visited July 6, 2010).

<sup>35</sup> See Sprint News Release, “Sprint Turns on 4G Service in Richmond, Salt Lake City and St. Louis” [http://newsreleases.sprint.com/phoenix.zhtml?c=127149&p=irol-newsArticle\\_newsroom&ID=1441980](http://newsreleases.sprint.com/phoenix.zhtml?c=127149&p=irol-newsArticle_newsroom&ID=1441980) (June 28, 2010) (last visited July 6, 2010).

<sup>36</sup> See AT&T News Release, “AT&T Selects LTE Equipment Suppliers” <http://www.att.com/gen/press-room?pid=4800&cdvn=news&newsarticleid=30493> (February 10, 2010) (last visited July 6, 2010).

<sup>37</sup> See, e.g., “Connecting Rural America,” U.S. Dept. of Agriculture Broadband Initiatives Program Round One Awards Report, [http://www.usda.gov/documents/RBB\\_report\\_v16.pdf](http://www.usda.gov/documents/RBB_report_v16.pdf) (June 7, 2010) [noting that Round One Broadband Initiatives Program (BIP) awards funded by RUS will bring broadband service to 529,249 households, 92,754 businesses and 3,332 anchor institutions across more than 172,000 square miles]; see also list of NTIA Broadband Technology Opportunities Program (BTOP) grants awarded to date, <http://www2.ntia.doc.gov/GrantsAwarded> (last visited July 6, 2010) (82 grants totaling \$1.2 billion).

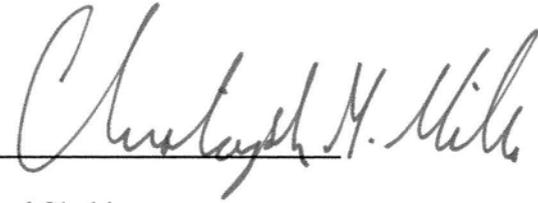
access to computers). Moreover, they have the ability to adopt workable, particularized solutions given the facts in a certain area, rather than a cookie cutter approach that may not be effective in certain locations.

One option contemplated in the *NOI/NPRM* is the proposal from a group of economists for a competitive “procurement auction” process (originally offered to allocate ARRA funding) that could be undertaken to fast track the selection of winning bidders to receive CAF funds and begin broadband deployment on a more expedited basis. *NOI/NPRM* ¶¶ 44-45 and App. B. The Commission could consider implementing some sort of similar grant-based pilot program in response to very specific provider proposals to build broadband infrastructure in certain unserved areas relatively quickly. Such an approach may be informative and provide valuable experience on which the Commission could draw in establishing the larger CAF. If the Commission decides to proceed with such a fast-track approach, it could consider designing the pilot program as a first-round process for the permanent CAF support, with one-time construction grant payouts linked to and dependent upon the construction of infrastructure.

**IV. CONCLUSION.**

Consistent with the NBP and Verizon's comments herein, the Commission should move forward with universal service reforms that do not overburden consumers that must pay for the USF and that apply fairly across provider and customer segments.

Respectfully submitted,

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July 12, 2010

Attorneys for Verizon  
and Verizon Wireless

**Attachment A: 2008-2010 Impact of Capping ILEC Study Area Support at 2007 Level**

	2008			2009			2010		
	Actual 2008 Study Area Support	2008 Support if Study Area Support Had Been Capped at 2007 Level	Impact of Cap on 2008 Support	Actual 2009 Study Area Support	2009 Support if Study Area Support Had Been Capped at 2007 Level	Impact of Cap on 2009 Support	Actual 2010 Study Area Support	2010 Support if Study Area Support Had Been Capped at 2007 Level	Impact of Cap on 2010 Support
<b>Total</b>	\$3,120,917,875	\$2,973,448,411	(\$147,469,464)	\$3,099,730,369	\$2,839,147,933	(\$260,582,436)	\$3,057,514,783	\$2,719,453,066	(\$338,061,717)

**Total impact of hypothetical cap  
(sum of 2008, 2009, & 2010 impacts):** (\$746,113,617)

Support amount source:  
USAC 3rd quarter filings, 2005-2010, Appendix HC01 (annualized), available at <http://www.usac.org/about/governance/fcc-filings/>

## Attachment B: Change in Incumbent LEC USF Support, 2005-2010

As shown below, the apparent stability in total ILEC support masks significant changes in the composition of the high cost fund. Over the past five years, there has been a dramatic shift in ILEC high cost support from price cap ILECs to ROR ILECs. While high cost support for price cap ILECs decreased by \$464 million between 2005 and 2010, ROR ILEC high cost support increased by \$278 million.

### Total Incumbent LEC

Program	Support (Annualized)						Change 2005-2010	% Change 2005 2010
	2005	2006	2007	2008	2009	2010		
HCM	\$220,978,090	\$207,350,416	\$195,489,727	\$184,324,315	\$168,320,509	\$155,407,408	(\$65,570,683)	-29.7%
HCL	\$1,056,286,909	\$1,047,013,104	\$1,050,613,128	\$1,033,664,244	\$1,007,744,520	\$961,512,060	(\$94,774,849)	-9.0%
SNA	\$12,719,604	\$16,200,108	\$25,807,884	\$31,467,924	\$37,558,848	\$58,089,804	\$45,370,200	356.7%
SV	\$2,285,136	\$1,424,820	\$665,400	\$285,156	\$2,933,196	\$4,356,624	\$2,071,488	90.7%
IAS	\$602,463,912	\$556,425,672	\$515,922,156	\$490,224,240	\$453,063,312	\$459,690,468	(\$142,773,444)	-23.7%
LSS	\$390,111,709	\$384,639,660	\$374,395,236	\$341,262,120	\$319,716,576	\$283,031,580	(\$107,080,129)	-27.4%
ICLS	\$959,359,392	\$951,742,512	\$1,014,947,904	\$1,039,689,876	\$1,110,393,408	\$1,135,426,839	\$176,067,447	18.4%
<b>Total</b>	<b>\$3,244,204,752</b>	<b>\$3,164,796,292</b>	<b>\$3,177,841,435</b>	<b>\$3,120,917,875</b>	<b>\$3,099,730,369</b>	<b>\$3,057,514,783</b>	<b>(\$186,689,969)</b>	<b>-5.8%</b>

### Rate of Return Incumbent LEC (see Note 1)

Program	Support (Annualized)						Change 2005-2010	% Change 2005 2010
	2005	2006	2007	2008	2009	2010		
HCM	\$0	\$0	\$0	\$0	\$0	\$0	\$0	0.0%
HCL	\$723,240,083	\$745,991,652	\$781,651,704	\$804,021,108	\$809,607,924	\$823,272,336	\$100,032,253	13.8%
SNA	\$9,844,368	\$13,286,328	\$23,610,780	\$24,345,348	\$29,264,832	\$48,283,056	\$38,438,688	390.5%
SV	\$178,440	\$225,192	\$362,568	\$285,156	\$2,716,572	\$4,356,624	\$4,178,184	2341.5%
IAS	\$0	\$0	\$0	\$0	\$0	\$0	\$0	0.0%
LSS	\$325,109,410	\$322,815,576	\$319,034,040	\$292,154,268	\$276,748,632	\$246,273,816	(\$78,835,594)	-24.2%
ICLS	\$699,539,388	\$697,826,328	\$744,392,916	\$790,043,220	\$863,555,772	\$913,746,372	\$214,206,984	30.6%
<b>Total</b>	<b>\$1,758,796,891</b>	<b>\$1,780,954,908</b>	<b>\$1,869,770,580</b>	<b>\$1,911,380,904</b>	<b>\$1,982,401,308</b>	<b>\$2,036,443,272</b>	<b>\$277,646,381</b>	<b>15.8%</b>

### Price Cap Incumbent LEC (see Note 1)

Program	Support (Annualized)						Change 2005-2010	% Change 2005 2010
	2005	2006	2007	2008	2009	2010		
HCM	\$220,978,090	\$207,350,416	\$195,489,727	\$184,324,315	\$168,320,509	\$155,407,408	(\$65,570,683)	-29.7%
HCL	\$333,046,825	\$301,021,452	\$268,961,424	\$229,643,136	\$198,136,596	\$138,239,724	(\$194,807,101)	-58.5%
SNA	\$2,875,236	\$2,913,780	\$2,197,104	\$7,122,576	\$8,294,016	\$9,806,748	\$6,931,512	241.1%
SV	\$2,106,696	\$1,199,628	\$302,832	\$0	\$216,624	\$0	(\$2,106,696)	-100.0%
IAS	\$602,463,912	\$556,425,672	\$515,922,156	\$490,224,240	\$453,063,312	\$459,690,468	(\$142,773,444)	-23.7%
LSS	\$65,002,299	\$61,824,084	\$55,361,196	\$49,107,852	\$42,967,944	\$36,757,764	(\$28,244,535)	-43.5%
ICLS	\$259,820,004	\$253,916,184	\$270,554,988	\$249,646,656	\$246,837,636	\$221,680,467	(\$38,139,537)	-14.7%
<b>Total</b>	<b>\$1,485,407,861</b>	<b>\$1,383,841,384</b>	<b>\$1,308,070,855</b>	<b>\$1,209,536,971</b>	<b>\$1,117,329,061</b>	<b>\$1,021,071,511</b>	<b>(\$464,336,350)</b>	<b>-31.3%</b>

### Breakdown of Price Cap ILEC Support (see Note 2):

#### CALLS Plan ILECs

Program	Support (Annualized)						Change 2005-2010	% Change 2005 2010
	2005	2006	2007	2008	2009	2010		
HCM	\$220,978,090	\$207,350,416	\$195,489,727	\$184,324,315	\$168,320,509	\$155,407,408	(\$65,570,683)	-29.7%
HCL	\$90,248,710	\$88,314,924	\$58,800,288	\$43,183,524	\$28,756,152	\$13,871,952	(\$76,376,758)	-84.6%
SNA	\$2,183,604	\$2,185,032	\$1,160,028	\$5,068,668	\$5,205,480	\$6,101,520	\$3,917,916	179.4%
SV	\$0	\$0	\$0	\$0	\$0	\$0	\$0	0.0%
IAS	\$602,463,912	\$556,425,672	\$515,922,156	\$490,224,240	\$453,063,312	\$459,690,468	(\$142,773,444)	-23.7%
LSS	\$35,179,786	\$33,870,816	\$30,782,820	\$27,066,108	\$23,372,124	\$19,958,304	(\$15,221,482)	-43.3%
ICLS	\$0	\$0	\$0	\$0	\$0	\$0	\$0	0.0%
<b>Total</b>	<b>\$951,054,103</b>	<b>\$888,146,860</b>	<b>\$802,155,019</b>	<b>\$749,866,855</b>	<b>\$678,717,577</b>	<b>\$655,029,652</b>	<b>(\$296,024,451)</b>	<b>-31.1%</b>

### ILECs Converted to Price Cap 2008-2010 (see Note 2)

Program	Support (Annualized)						Change 2005-2010	% Change 2005 2010
	2005	2006	2007	2008	2009	2010		
HCM	\$0	\$0	\$0	\$0	\$0	\$0	\$0	0.0%
HCL	\$242,798,115	\$212,706,528	\$210,161,136	\$186,459,612	\$169,380,444	\$124,367,772	(\$118,430,343)	-48.8%
SNA	\$691,632	\$728,748	\$1,037,076	\$2,053,908	\$3,088,536	\$3,705,228	\$3,013,596	435.7%
SV	\$2,106,696	\$1,199,628	\$302,832	\$0	\$216,624	\$0	(\$2,106,696)	-100.0%
IAS	\$0	\$0	\$0	\$0	\$0	\$0	\$0	0.0%
LSS	\$29,822,513	\$27,953,268	\$24,578,376	\$22,041,744	\$19,595,820	\$16,799,460	(\$13,023,053)	-43.7%
ICLS	\$259,820,004	\$253,916,184	\$270,554,988	\$249,646,656	\$246,837,636	\$221,680,467	(\$38,139,537)	-14.7%
<b>Total</b>	<b>\$535,238,960</b>	<b>\$496,504,356</b>	<b>\$506,634,408</b>	<b>\$460,201,920</b>	<b>\$439,119,060</b>	<b>\$366,552,927</b>	<b>(\$168,686,033)</b>	<b>-31.5%</b>

Support amount source:

USAC 3rd quarter filings, 2005-2010, Appendix HC01 (annualized), available at <http://www.usac.org/about/governance/fcc-filings/>

Note 1: Price cap ILECs are listed on Attachment D; all other ILECs are rate of return ILECs

Note 2: CALLS plan / converted status is shown on Attachment D

## Attachment C: Change in Rate of Return ILEC Per-Line USF, 2005-2010

### Rate of Return ILEC Support (from Attachment B)

Program	Support (Annualized)						Change 2005-2010	% Change
	2005	2006	2007	2008	2009	2010		
HCM	\$0	\$0	\$0	\$0	\$0	\$0	\$0	0.0%
HCL	\$723,240,083	\$745,991,652	\$781,651,704	\$804,021,108	\$809,607,924	\$823,272,336	\$100,032,253	13.8%
SNA	\$9,844,368	\$13,286,328	\$23,610,780	\$24,345,348	\$29,264,832	\$48,283,056	\$38,438,688	390.5%
SV	\$178,440	\$225,192	\$362,568	\$285,156	\$2,716,572	\$4,356,624	\$4,178,184	2341.5%
IAS	\$0	\$0	\$0	\$0	\$0	\$0	\$0	0.0%
LSS	\$325,109,410	\$322,815,576	\$319,034,040	\$292,154,268	\$276,748,632	\$246,273,816	(\$78,835,594)	-24.2%
ICLS	\$699,539,388	\$697,826,328	\$744,392,916	\$790,043,220	\$863,555,772	\$913,746,372	\$214,206,984	30.6%
<b>Total</b>	<b>\$1,758,796,891</b>	<b>\$1,780,954,908</b>	<b>\$1,869,770,580</b>	<b>\$1,911,380,904</b>	<b>\$1,982,401,308</b>	<b>\$2,036,443,272</b>	<b>\$277,646,381</b>	<b>15.8%</b>

### Rate of Return ILEC Lines

Rate of Return ILEC Lines						Change 2005-2010	% Change
2005	2006	2007	2008	2009	2010		
6,728,525	6,568,243	6,405,835	6,184,116	5,889,118	5,550,645	(1,177,880)	-17.5%

### Rate of Return ILEC Support per Line

Program	Support (per line per month)						Change 2005-2010	% Change
	2005	2006	2007	2008	2009	2010		
HCM	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	0.0%
HCL	\$8.96	\$9.46	\$10.17	\$10.83	\$11.46	\$12.36	\$3.40	38.0%
SNA	\$0.12	\$0.17	\$0.31	\$0.33	\$0.41	\$0.72	\$0.60	494.5%
SV	\$0.00	\$0.00	\$0.00	\$0.00	\$0.04	\$0.07	\$0.06	2859.6%
IAS	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	0.0%
LSS	\$4.03	\$4.10	\$4.15	\$3.94	\$3.92	\$3.70	(\$0.33)	-8.2%
ICLS	\$8.66	\$8.85	\$9.68	\$10.65	\$12.22	\$13.72	\$5.05	58.3%
<b>Total</b>	<b>\$21.78</b>	<b>\$22.60</b>	<b>\$24.32</b>	<b>\$25.76</b>	<b>\$28.05</b>	<b>\$30.57</b>	<b>\$8.79</b>	<b>40.4%</b>

Line count source: USAC 3rd quarter filings, 2005-2010, Appendix HC09, total for ILECs not shown on Attachment D

## Attachment D: Price Cap Incumbent LECs

Study Area Code	STUDY AREA	CALLS / converted 2008-2010
100004	CHINA TEL CO.	converted 2008-10
100025	STANDISH TEL CO	converted 2008-10
103313	NORTHLAND TEL CO-ME	converted 2008-10
105111	NORTHERN NEW ENGLAND TELEPHONE OPERATIONS LLC	CALLS plan
115112	VERIZON MASS.	CALLS plan
125113	NORTHERN NEW ENGLAND TELEPHONE OPERATIONS LLC	CALLS plan
135200	SOUTHERN NEW ENGLAND	CALLS plan
143331	NORTHLAND TEL. CO-VT	converted 2008-10
145115	TELEPHONE OPERATION COMPANY OF VERMONT LLC	CALLS plan
150072	FRONTIER-AUSABLE VAL	CALLS plan
150100	FRONTIER COMM OF NY	CALLS plan
150106	WINDSTREAM NY-FULTON	converted 2008-10
150109	WINDSTREAM-JAMESTOWN	converted 2008-10
150110	OGDEN TEL DBA FRNTER	CALLS plan
150113	WINDSTREAM RED JACKT	converted 2008-10
150121	FRONTIER TELEPHONE OF ROCHESTER, INC.	CALLS plan
150122	FRONTIER-SENECA GORH	CALLS plan
150128	FRONTIER-SYLVAN LAKE	CALLS plan
154532	CITIZENS-FRONTIER-NY	CALLS plan
154533	CITIZENS-FRONTIER-NY	CALLS plan
154534	CITIZENS-FRONTIER-NY	CALLS plan
155130	VERIZON NEW YORK	CALLS plan
160138	UNITED TEL - NJ, INC	CALLS plan
165120	VERIZON NEW JERSEY	CALLS plan
170149	FRONTIER-BREEZEWOOD	CALLS plan
170152	FRONTIER-CANTON	CALLS plan
170168	FRONTIER-PA	CALLS plan
170169	VERIZON NORTH-PA	CALLS plan
170170	VERIZON N-PA(CONTEL)	CALLS plan
170176	WINDSTREAM PA	converted 2008-10
170178	FRONTIER-LAKEWOOD	CALLS plan
170194	FRONTIER-OSWAYO RIVR	CALLS plan
170201	VERIZON N-PA(QUAKER)	CALLS plan
170209	UTC OF PENNSYLVANIA	CALLS plan
175000	VERIZON PENNSYLVANIA	CALLS plan
185030	VERIZON MARYLAND INC	CALLS plan
190233	VERIZON S-VA(CONTEL)	CALLS plan
190254	CENDEL OF VIRGINIA	CALLS plan
190479	VERIZON SOUTH-VA	CALLS plan
190567	UNITED INTER-MT-VA	CALLS plan
195040	VERIZON VIRGINIA INC	CALLS plan
200271	CITIZENS-FRONTIER-WV	CALLS plan
204338	CITIZENS-FRONTIER-WV	CALLS plan
204339	CITIZENS-FRONTIER-WV	CALLS plan
205050	VERIZON W VA INC.	CALLS plan

210318	FRONTIER COMM-SOUTH	CALLS plan
210328	VERIZON FLORIDA	CALLS plan
210336	WINDSTREAM FL	converted 2008-10
210341	EMBARQ FLORIDA INC. FKA SPRINT	CALLS plan
215191	SOUTHERN BELL-FL	CALLS plan
220356	COASTAL UTILITIES	converted 2008-10
220357	WINDSTREAM GA	converted 2008-10
220362	FRONTIER-FAIRMOUNT	CALLS plan
220386	WINDSTREAM STANDARD	converted 2008-10
223036	GEORGIA WINDSTREAM	converted 2008-10
223037	WINDSTREAM GA COMM	converted 2008-10
225192	SOUTHERN BELL-GA	CALLS plan
230470	CAROLINA TEL & TEL	CALLS plan
230471	CENDEL OF NC	CALLS plan
230474	CONCORD TEL CO	converted 2008-10
230476	WINDSTREAM NC	converted 2008-10
230479	VERIZON SOUTH-NC	CALLS plan
230483	LEXCOM TELEPHONE CO.	converted 2008-10
230485	MEBTEL, INC.	converted 2008-10
230509	VERIZON S-NC(CONTEL)	CALLS plan
235193	SOUTHERN BELL-NC	CALLS plan
240479	VERIZON SOUTH-SC	CALLS plan
240506	UTC OF THE CAROLINAS	CALLS plan
240517	WINDSTREAM SC	converted 2008-10
240526	VERIZON S-SC(CONTEL)	CALLS plan
245194	SOUTHERN BELL-SC	CALLS plan
250298	GULF TEL CO - AL	converted 2008-10
250302	WINDSTREAM AL	converted 2008-10
250306	FRONTIER COMM.-AL	CALLS plan
250318	FRONTIER COMM-SOUTH	CALLS plan
255181	SO CENTRAL BELL-AL	CALLS plan
259788	CENTURYTEL-AL-SOUTH	CALLS plan
259789	CENTURYTEL-AL-NORTH	CALLS plan
260402	WINDSTREAM KY WEST	converted 2008-10
265061	CINCINNATI BELL-KY	CALLS plan
265182	SO CENTRAL BELL-KY	CALLS plan
269690	WINDSTREAM LEXINGTON	CALLS plan
269691	WINDSTREAM LONDON	CALLS plan
270423	CENTURYTEL-CENTR LA	converted 2008-10
270424	CENTURYTEL-SE LA	converted 2008-10
270427	CENTURYTEL-CHATHAM	converted 2008-10
270431	CENTURYTEL-NW LA	converted 2008-10
270434	CENTURYTEL-EVANGELIN	converted 2008-10
270436	CENTURY NORTH LA	converted 2008-10
270439	CENTURYTEL-RINGGOLD	converted 2008-10
270440	CENTURYTEL - EAST LA	converted 2008-10
270442	CENTURYTEL-SW LA	converted 2008-10
275183	SO CENTRAL BELL-LA	CALLS plan
280453	WINDSTREAM MS	converted 2008-10

280458	CENTURYTEL - N. MISS	converted 2008-10
285184	SO CENTRAL BELL-MS	CALLS plan
290552	CENTURYTEL-ADAMSVILL	converted 2008-10
290557	CENTURY-CLAIBORNE	converted 2008-10
290567	UNITED INTER-MT-TN	CALLS plan
290574	CENTURYTEL-OOLTEWAH	converted 2008-10
290580	CTZENS-FRNTR-VOL ST	CALLS plan
294336	CITIZENS-FRONTIER-TN	CALLS plan
295185	SO. CENTRAL BELL -TN	CALLS plan
300615	VERIZON NORTH-OH	CALLS plan
300630	CENTURYTEL OF OHIO	converted 2008-10
300661	UTC OF OHIO	CALLS plan
300665	WINDSTREAM OH	converted 2008-10
300666	WINDSTREAM W-RESERVE	converted 2008-10
300682	FRONTIER-MI-OH	CALLS plan
305062	CINCINNATI BELL-OH	CALLS plan
305150	OHIO BELL TEL CO	CALLS plan
310671	CENTURYTEL MW-MI	converted 2008-10
310682	FRONTIER-MICHIGAN	CALLS plan
310689	CENTURYTEL-UPPER MI	converted 2008-10
310695	VERIZON NORTH-MI	CALLS plan
310702	CENTURYTEL MICHIGAN	converted 2008-10
310705	CENTURY-NORTHN MICH.	converted 2008-10
313033	VERIZON N-MI(ALLTEL)	CALLS plan
315090	MICHIGAN BELL TEL CO	CALLS plan
320747	CENTURYTEL-CENTR IN	converted 2008-10
320772	VERIZON N-IN	CALLS plan
320779	VERIZON N-IN(CONTEL)	CALLS plan
320801	CENTURYTEL OF ODON	converted 2008-10
320828	FRONTIER-THORNTOWN	CALLS plan
320832	UTC OF INDIANA	CALLS plan
323034	VERIZON N-IN(ALLTEL)	CALLS plan
325080	INDIANA BELL TEL CO	CALLS plan
330841	CENTURYTEL-MW-WI(CENCOM)	converted 2008-10
330857	CENTURYTEL-MW-WI(CASCO)	converted 2008-10
330870	RHINELNDER-FRONTIER	CALLS plan
330877	CENTURYTEL-FAIRWATER	converted 2008-10
330884	CENTURYTEL-FORESTVIL	converted 2008-10
330886	VERIZON NORTH-WI	CALLS plan
330891	RHINELNDER-FRONTIER	CALLS plan
330895	CENTURYTEL OF WISCONSIN, LLC	converted 2008-10
330898	CENTURYTEL LARSEN	converted 2008-10
330912	FRONTIER-MONDOVI	CALLS plan
330913	CENTURYTEL MONROE	converted 2008-10
330922	CENTURYTEL-MW-WI/NW	converted 2008-10
330924	CENTURYTEL-MW-KENDAL	converted 2008-10
330931	CENTURYTEL-SO WI	converted 2008-10
330934	CENTURYTEL-MW-WI(PLATTEVILLE)	converted 2008-10
330940	RHINELANDER-FRONTIER	CALLS plan

330941	RHINELANDER-FRONTIER	CALLS plan
330950	CENTURYTEL-NW WI	converted 2008-10
330956	CENTURYTEL-NORTH WI	converted 2008-10
330959	CENTURYTEL-MW-WI(THORP)	converted 2008-10
330964	FRONTIER-WISCONSIN	CALLS plan
331155	TELEPHONE USA OF WI	converted 2008-10
331159	CENTURYTEL-CENTRL WI	converted 2008-10
335220	WISCONSIN BELL	CALLS plan
341011	FRONTIER OF LAKESIDE	CALLS plan
341015	VERIZON NORTH-IL	CALLS plan
341036	VERIZON N-IL(CONTEL)	CALLS plan
341037	IL CONSOLIDATED TEL	converted 2008-10
341038	FRONTIER OF ILLINOIS	CALLS plan
341055	FRONTIER-MIDLAND	CALLS plan
341057	GALLATIN RIVER COMM.	converted 2008-10
341061	FRONTIER-MT. PULASKI	CALLS plan
341067	FRONTIER-ORION	CALLS plan
341073	FRONTIER-PRAIRIE	CALLS plan
341079	FRONTIER-SCHUYLER	CALLS plan
341183	CITIZENS-FRONTIER-IL	CALLS plan
343035	VERIZON S-IL(ALLTEL)	CALLS plan
345070	ILLINOIS BELL TEL CO	CALLS plan
351127	FRONTIER COMMUNICATIONS OF IOWA, INC.	CALLS plan
351167	ITS-IOWA TELECOM-NO	CALLS plan
351170	ITS-IOWA TELECOM-SYS	CALLS plan
351178	ITS - IOWA TELECOM	CALLS plan
355141	QWEST CORP-IA	CALLS plan
361123	CITIZENS-FRONTIER-MN	CALLS plan
361367	FRONTIER-MINNESOTA	CALLS plan
361445	CENTURYTEL-MINNESOTA	converted 2008-10
361456	EMBARQ MINNESOTA	CALLS plan
365142	QWEST CORP-MN	CALLS plan
367123	CITIZENS-FRONTIER-MN	CALLS plan
371128	CITIZENS-FRONTIER-NE	CALLS plan
371568	WINDSTREAM NE	CALLS plan
371595	UTC OF THE WEST-NE	CALLS plan
375143	QWEST CORP-NE	CALLS plan
385144	QWEST CORP-ND	CALLS plan
395145	QWEST CORP-SD	CALLS plan
401142	CENTURYTEL NW-AR-RUS	converted 2008-10
401143	CENTURYTEL NW-AR-SIL	converted 2008-10
401144	CENTURYTEL-CENTRAL A	converted 2008-10
401691	WINDSTREAM AR	converted 2008-10
401705	CENTURYTEL- ARKANSAS	converted 2008-10
401711	CENTURYTEL-MTN HOME	converted 2008-10
401720	CENTURYTEL-REDFIELD	converted 2008-10
401727	CENTURYTEL-SOUTH AR	converted 2008-10
405211	SOUTHWESTERN BELL-AR	CALLS plan
411317	UNITED OF EASTERN KS	CALLS plan

411842	UTC OF KANSAS	CALLS plan
411957	EMBARQ MO-KS	CALLS plan
415214	SOUTHWESTERN BELL-KS	CALLS plan
421151	SPECTRA COMM. GROUP	converted 2008-10
421885	WINDSTREAM MO	converted 2008-10
421957	EMBARQ MISSOURI	CALLS plan
425213	SOUTHWESTERN BELL-MO	CALLS plan
429784	CENTURYTEL-MO CEN	CALLS plan
429785	CENTURYTEL-MO BELLE	CALLS plan
429786	CENTURYTEL-MO SOUTH	CALLS plan
429787	CENTURYTEL-MO SW	CALLS plan
431165	WINDSTREAM SW-OK	CALLS plan
431965	WINDSTREAM OK	converted 2008-10
432011	OKLAHOMA WINDSTREAM	converted 2008-10
435215	SOUTHWESTERN BELL-OK	CALLS plan
441163	WINDSTREAM SW-TX#1	CALLS plan
442072	CONSOLIDATED FT BEND	converted 2008-10
442080	GTE SW VERIZON-TX	CALLS plan
442084	UTC OF TEXAS INC	CALLS plan
442097	WINDSTREAM KERRVILLE	converted 2008-10
442101	CENTURYTEL-LK DALLAS	converted 2008-10
442109	CONSOLIDATED COMM-TX	converted 2008-10
442114	CENDEL OF TEXAS	CALLS plan
442117	CENTURYTEL-PORT ARAN	converted 2008-10
442140	CENTURYTEL-SAN MARCO	converted 2008-10
442147	WINDSTREAM SUGARLAND	converted 2008-10
442153	TEXAS WINDSTREAM	converted 2008-10
442154	GTE-SW VERIZON-TX	CALLS plan
445216	SOUTHWESTERN BELL-TX	CALLS plan
452172	CITIZENS-FRNTR-RURAL	CALLS plan
452302	VERIZON CALIF-AZ	CALLS plan
454426	CITIZENS-FRNTER-WH MT	CALLS plan
454449	NAVAJO-AZ-FRONTIER	CALLS plan
455101	QWEST CORP-AZ	CALLS plan
462185	CENTURYTEL OF EAGLE	converted 2008-10
462187	THE EL PASO CNTY TEL	CALLS plan
462208	CENTURYTEL-COLORADO	converted 2008-10
465102	QWEST CORP-CO	CALLS plan
472223	CENTURY-GEM STATE-ID	converted 2008-10
472225	CENTURYTEL OF IDAHO	converted 2008-10
472416	VERIZON N'WEST-ID	CALLS plan
474427	CITIZENS-FRONTIER-ID	CALLS plan
475103	QWEST CORP-ID	CALLS plan
475162	QWEST CORP-IDAHO	CALLS plan
482249	CENTURYTEL-MONTANA	converted 2008-10
484322	CITIZENS-FRONTIER-MT	CALLS plan
485104	QWEST CORP-MT	CALLS plan
491164	WINDSTREAM SW-NM#1	CALLS plan
491193	WINDSTREAM SW-NM#2	CALLS plan

492274	CENTURYTEL SW-NM	converted 2008-10
494449	NAVAJO-NM-FRONTIER	CALLS plan
495105	QWEST CORP-NM	CALLS plan
504429	CITIZENS-FRONTIER-UT	CALLS plan
504449	NAVAJO-UT-FRONTIER	CALLS plan
505107	QWEST CORP-UT	CALLS plan
511595	UTC OF THE WEST-WY	CALLS plan
512299	CENTURYTEL OF WY.	converted 2008-10
515108	QWEST CORP-WY	CALLS plan
522400	UTC OF THE NW-WA	CALLS plan
522408	CENTURYTEL-WASHINGTO	converted 2008-10
522410	CENTURYTEL-COWICHE	converted 2008-10
522416	VERIZON N'WEST-WA	CALLS plan
522449	VERIZON N'WEST-WA	CALLS plan
525161	QWEST CORP-WA	CALLS plan
532361	CENTURYTEL-OREGON	converted 2008-10
532400	UTC OF THE NW - OR	CALLS plan
532416	VERIZON N'WEST-OR	CALLS plan
532456	MALHEUR HOME TEL CO	CALLS plan
533401	CITIZENS-FRONTIER-OR	CALLS plan
535163	QWEST CORP-OR	CALLS plan
542302	VERIZON CA(CONTEL)	CALLS plan
542308	CITIZENS-FRONTIER CA	CALLS plan
542315	GLOBAL VALLEY NETWKS	converted 2008-10
542319	VERIZON-CA (GTE)	CALLS plan
542344	VERIZON W-COAST-CA	CALLS plan
543402	CITIZENS-FRNTIER-GST	CALLS plan
544342	CITZENS-FRNTR-TUOLUM	CALLS plan
545170	PACIFIC BELL	CALLS plan
552223	CENTURYTEL-GEM ST-NV	converted 2008-10
552302	VERIZON CALIF-NV	CALLS plan
552348	CENDEL OF NV	CALLS plan
554431	CITIZENS-FRONTIER-NV	CALLS plan
554432	CITIZENS-FRONTIER-NV	CALLS plan
555173	NEVADA BELL	CALLS plan
565010	VERIZON DELAWARE INC	CALLS plan
575020	VERIZON WA, DC INC.	CALLS plan
585114	VERIZON RHODE ISLAND	CALLS plan
613000	ACS OF ANCHORAGE	converted 2008-10
613008	ACS-FAIRBANKS, INC.	converted 2008-10
613010	ACS-N GLACIER STATE	converted 2008-10
613012	ACS-AK JUNEAU	converted 2008-10
613020	ACS-N SITKA	converted 2008-10
613022	ACS-AK GREATLAND	converted 2008-10
623100	HAWAIIAN TELCOM, INC	CALLS plan
633200	P R T C - CENTRAL	converted 2008-10
633201	PUERTO RICO TEL CO	converted 2008-10
643300	VITELCO-INNOVATIVE	converted 2008-10
653700	MICRONESIAN TELECOMM	CALLS plan