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

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

Reply Comments
Of
Ad Hoc Telecommunications Users Committee

Susan M. Gately
Economics and Technology, Inc.
One Washington Mall, 15th Floor
Boston, MA 02108
617-598-220

Economic Consultant

James S. Blaszak
Levine, Blaszak, Block & Boothby, LLP
2001 L Street, NW, Suite 900
Washington, D.C. 20036
202-857-2550

Counsel for Ad Hoc Telecommunications Users Committee

August 11, 2010

Table of Contents

SUMMARY ..... **II**

REPLY COMMENTS **1**

A. Reverse Auctions, Cost Models and Section 254 ..... **1**

1. When and where feasible, the Commission should utilize reverse auctions to limit overall levels of federal support of broadband deployment. 2

2. The Commission should resolve questions over its jurisdiction before relying exclusively on reverse auctions. 3

B. Commenters Correctly Assert that USF and Broadband Should Not Be Subsidized in Areas Served by Unsubsidized Providers. **5**

C. Parties Recognize That Part Of USF Reform Is Fundamental Change To The USF Contribution Assessment Methodology. **7**

D. USF Reform Should Not Be Premised On Achieving Revenue Neutrality. **11**

E. The Commission Should Reject Oppositions To Moving Rate Of Return Regulated Carriers To Incentive Regulation. **12**

F. Conclusion **16**

Summary

Reformation of the Universal Service Fund (USF) and transformation of that fund to support Broadband Internet access service is enormously important. Comments show, however, that legal obstacles and significant industry pressure will make reformation and transformation very difficult.

Ad Hoc has long supported use of market mechanisms such as reverse auctions as a means to control growth of the USF. Large telephone and cable television companies also support use of reverse auctions or similar market mechanisms. The Commission should not, however, believe that such mechanisms alone suffice. Section 254 of the Communications Act and apparent limitations on the Commission's ancillary jurisdiction seem to prevent awarding USF money to providers of Information Services. Unless the Commission reclassifies Broadband as a telecommunications service, reverse auctions may lack competitive bidding with resultant excessive subsidies. Moreover, even if the Commission overcomes these legal obstacles, it should account for the possibility that a duopolistic industry structure may result in non-competitive auctions or applications, again with excessive subsidies being the result. Accordingly, Ad Hoc urges the Commission to proceed with the development of a forward-looking cost model to set "reserve prices" for the auction or application process.

Given the complexities associated with reverse auctions, the Commission should, as suggested by the Mass. DTC, use pilot auctions to gain experience with auctions before using them on a wide scale.

As part of its effort to control the seemingly endless growth in the high-cost component of the USF, the Commission should, after appropriate transitions, terminate

subsidies to telcos that serve areas also served by unsubsidized service providers. To not do so, would be to continue unaffordable waste. Moreover, if a market on its own cannot support competition, the Commission should not use the USF to support uneconomic competition.

Several parties argue that as part of universal service reform the Commission should change the method used to assess USF contributions. Some of these parties, however, seem not to recognize that the Commission may not have the jurisdiction to compel Information service, i.e. Broadband, providers to make USF contributions. Ad Hoc joins other parties in supporting a telephone numbers-based USF assessment methodology. This approach would be far more economically efficient, would provide a stable and growing subsidy source and would leave residential consumers better off than they are under the current revenue-based scheme.

The Commission should reject the explicit and implicit pleas for revenue neutrality as an inherent part of inter-carrier and USF reform. Revenue neutrality is not the same as fair cost recovery or charging only just and reasonable rates.

Finally, the Commission, over the objections of rural local exchange carriers (RLECs), should transition them to incentive regulation. Regulatory authorities, perhaps because of resource constraints, do not oversee the RLECs returns. In any event, rate of return regulation encourages inefficiency and waste.

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

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

Reply Comments

The Ad Hoc Telecommunications Users Committee (hereinafter Ad Hoc) hereby submits its reply to comments filed in response to the Commission's April 21, 2010 Notices in the above the captioned dockets. [1]

A. Reverse Auctions, Cost Models and Section 254

Ad Hoc lends its support to arguments advanced by parties urging the Commission to use market mechanisms such as reverse auctions to award Universal Service Fund (USF) and Connect America Fund (CAF) subsidies.[2] Ad Hoc, however, disagrees with those parties who urge the Commission to rely only on such market mechanisms and to not develop a cost model that could be used to determine the amount of such subsidies. A well specified cost model would serve as an important safety net if legal or actual market dynamics prevent effectively competitive auctions.

---

[1] *Connect America Fund, A National Broadband Plan for Our Future, High-Cost Universal Service Support,* WC Docket No. 10-90, Gen Docket No. 09-51, WC Docket No. 05-337, Notice of Inquiry and Notice of Proposed Rulemaking, FCC 10-58 (rel. April 21, 2010) (Notices).

[2] *See,* e.g., comments of National Cable Television Association, at 17and Verizon, at 5-6.

1. When and where feasible, the Commission should utilize reverse auctions to limit overall levels of federal support of broadband deployment.

Ad Hoc has consistently supported the use of reverse auctions as an effective mechanism for awarding USF support. The current approach for awarding high-cost USF subsidies could imperil, rather than advance and preserve, universal service. Ad Hoc recognizes, however, that specification of reverse auctions presents difficult questions, questions that parties have identified.[3] Given these issues, the Massachusetts Department of Telecommunications and Cable (Mass DTC) wisely proposed the use of 'pilot' auctions as a starting point for distributing funds.[4] Ad Hoc concurs in the Mass DTC recommendation.

Rural carrier opposition to the use of reverse auctions was expected.[5] The rural carriers must believe that reverse auctions, assuming they are used successfully, all but guarantee either a lower level of USF funding than they would otherwise receive or the transfer of some or all of USF subsidies from existing RLECs to other carriers (funding of Competitive Eligible Telecommunications Carriers has been accomplished by adding to the size of the rather than sharing the subsidies between carriers). The rural carriers' oppositions to the use of reverse auctions should, however, not dissuade the Commission from utilizing reverse auctions to award high-cost USF subsidies. Finally, the Commission can, and should, consider matters other than the dollar value of the

---

[3] The use of reverse auctions to award funding to carriers that may or may not have the same carrier of last resort obligations or that may not cover the same footprints admittedly present difficult issues.

[4] Mass DTC, Comments at 10.

[5] *See,* e.g., National Exchange Carrier Association, *et al.,* Comments at 21-28.

bids. As noted above, implementation of pilot auctions would be a good first step in addressing these questions and refining the use of reverse auctions.[6]

2. The Commission should resolve questions over its jurisdiction before relying exclusively on reverse auctions.

The Rural Telecommunications Group (RTG) maintains that Section 254 of the Act bars the Commission from using the USF to subsidize Broadband.[7] RTG may be right, absent reclassification of Broadband as telecommunications, or the Commission successfully asserting ancillary jurisdiction to subsidize Broadband. If RTG is right and the Commission fails to find a way legally to subsidize Broadband, reverse auctions or other market mechanisms are unlikely to result in competitive efforts to win Broadband subsidies.

Section 254(c) of the Act seems to state that the Federal Universal Service Fund may only support telecommunications service. Similarly, section 254(e) of the Act states that only eligible telecommunications carriers may receive Federal universal service support. If Broadband continues to be classified as an Information service, RTG appears to be right.

Alternatively, the Commission could hold that it has ancillary jurisdiction and provide subsidies to Broadband as an information service. The legal sustainability of

[6] The Commission could identify those areas most ripe for the testing of the auction process by having potential bidders identify the top 15 un-served areas they would be likely to bid on and determining from those responses the areas most likely to benefit from the auction process.

[7] RTG, Comments at 7-10.

this approach, however, seems questionable given *Comcast v. FCC,* 600 F.3d 642 (DC Cir. 2010).[8]

If non-telco providers of Broadband would not qualify to receive Broadband subsidies, because they do not provide telecom service or if the Commission cannot sustain an assertion of ancillary jurisdiction over Broadband providers sufficient to subsidize Broadband as an Information Service, non-telco Broadband providers would not participate in Broadband reverse auctions. Without their participation, the Commission cannot reasonably expect a reverse auction to be competitive and to control the growth of Universal Service funding.

Even if the Commission finds a legally sustainable way for non-telcos to compete for USF and/or CAF subsidies, it still should be concerned about the possibility of only two entities competing for such subsidies. Perhaps only landline service providers will be able to provide the evolving Broadband services envisioned in the National Broadband Plan.[9] If this possible scenario actualizes, duopolists, i.e., telcos and cable companies, could be the only viable participants in competitive auctions. In

---

[8] *See*, "A Third-way Legal Framework For Addressing The *Comcast* Dilemma," Austin Schlick, General Counsel, FCC, May 6, 2010.

[9] The National Broadband Plan (NBP) sets a national broadband availability target of 4 Mbps of actual download speed and 1 Mbps of actual upload speed. FCC, *Connecting America: The National Broadband Plan,* at 135. The Commission recognizes that over time the broadband eligible of Federal funding will change. *Id.* By 2015, less than five years from now, the NBP hopes that 100 million U.S. homes will have affordable access to actual download speeds of 50 Mbps and actual upload speeds of 20 Mbps. *Id.,* at 9. Whether wireless providers will be able to meet the 2015 aspirational target is an open question.

the *Qwest Phoenix Forbearance* order, the Commission recently questioned the efficacy of competition in duopoly environments.[10]

Whether because of concerns regarding its jurisdiction or the level of competition in reverse auctions, the Commission should adopt a well specified forward looking economic cost model. The model would produce outputs that the Commission could use to award USF and CAF subsidies. The Commission would make a risky bet if it opts to rely entirely on market mechanisms, such as reverse auctions, to award USF and CAF subsidies.

B. Commenters Correctly Assert that USF and Broadband Should Not Be Subsidized in Areas Served by Unsubsidized Providers.

The National Cable Television Association (NCTA) urges the Commission to shift subsidies for voice and Broadband services away from areas being served by unsubsidized providers.[11] Comcast makes the same point.[12] Both suggest that current USF subsidies in those areas could be shifted to support Broadband in un-served areas.

Ad Hoc agrees with NCTA and Comcast. If an area is receiving unsubsidized service, the public is not served by continuing perpetual subsidies to telcos. Cable companies provide solid VoIP service that substitutes for traditional telco provided voice service. Moreover, there would be no basis for asserting that Broadband service provided by cable companies does not substitute for telco provisioned Broadband

---

[10] *Petition of Qwest Corp. for Forbearance Pursuant to 47U.S.C. §160© in the Phoenix Arizona Metropolitan Statistical Area,* FCC 10-113, paras. 29-31, released June 22, 2010.

[11] NCTA Comments at 5.

[12] Comcast Comments at 9.

service. Under these circumstances it is simply wasteful to continue subsidizing telco service indefinitely. Withdrawal of the subsidies should, however, occur over an appropriate transition period to allow telcos to adjust their business plans. As the subsidies are phased out, the money should be redirected to support Broadband in un-served areas.

Contrary to the assertions of some rural providers, competition should not be subsidized.[13] They argue that, "American tax-payers should not be forced to fund a monopoly." [14] Apparently these parties believe that the Commission should subsidize uneconomic competition. They would have the Commission not use scarce subsidy monies that could be used to support Broadband in un-served areas or would have the total cost of subsidization be higher than it otherwise would be with only one provider per service area supported.

These rural providers would bloat the USF or deny Broadband subsidies to un-served areas so that rural areas would realize the benefits of so-called competition. If, however, each provider were to receive only the subsidy that it needs to cover its costs, including a reasonable return, the providers could not long engage in price competition. Moreover, the current system of providing the same level of subsidies to providers, such as wireless carriers, as granted to rural wireline carriers is wasteful. Waste is no longer affordable. Once again, unwise subsidies should be withdrawn over an appropriate transition period.

---

[13] *See*, e.g., the comments of Rural Cellular Association (RCA) at 17-18.
[14] *Id*., at 17

The Mass DTC argues that it would be discriminatory and unfair to continue to subsidize Incumbent Local Exchange Carriers (ILECs) while withdrawing subsidies from Competitive Eligible Telecommunications Carriers (CETCs).[15] The Mass DTC goes on to explain that it favors an approach that would reduce duplicative support by implementing some variation of the one line per household recommendation. This approach implies that subsidies would be awarded on a per line basis. Otherwise, subsidy support would not be reduced as business is lost to competitors. It also implies that CETC support should be based on CETC costs, not on ILEC costs. Alternatively, and preferably, per line subsidies should be granted based on a forward looking economic cost model. The best solution would phase out all existing subsidies over an appropriately short period (perhaps five years) that could cover a span of time that is both pre and post reverse auctions, assuming that the Commission overcomes the legal obstacles that could imperil the competitive efficacy of auctions.

C. Parties Recognize That Part Of USF Reform Is Fundamental Change To The USF Contribution Assessment Methodology.

Parties understandably argue that all providers of Broadband should contribute to the USF.[16] These parties seek expansion of the contribution base because they recognize that the USF, "[f]actor over the long term is approaching an unsustainable level and jeopardizing the goodwill policymakers and the public have toward the [universal service] Fund."[17] Specifically they contend that the USF would be

---

[15] Massachusetts Department of Telecommunications and Cable, Comments, at 5-6
[16] *See*, e.g., National Exchange Carrier Association, *et al,* Joint Comments at 65-68.
[17] *Id.,* at 68

sustainable in the long term if all Broadband providers and services contribute to the USF.[18]

Requiring Broadband providers to contribute to the USF may, however, not be possible. Section 254(d) of the Act requires that every *telecommunications* carrier that provides interstate *telecommunications* shall contribute to the USF. Additionally the section states that the Commission may require any other provider of *telecommunications* to contribute to the USF. Because Broadband service currently is classified as an Information service, the Commission cannot compel providers of Broadband to contribute to the USF pursuant to section 254 of the Act. And as noted above, the Commission's ability to use ancillary jurisdiction to require USF or CAF contributions from Broadband providers is problematic because of the *Comcast* decision.

The Commission, however, has the unquestioned ability and jurisdiction to assess contribution obligations on all who provide services that utilize telephone numbers. Verizon urges the Commission to adopt a telephone numbers-based USF assessment methodology.[19] This methodology would provide a stable, indeed growing, contribution base; would result in business customers shouldering a heavier USF burden than they do under the current methodology and would lighten the USF obligations of average consumers.

The Commission's goal should be to adopt the USF assessment mechanism that provides the most economically efficient, stable and predictable source of funding for

---

[18] *Id.*

[19] Verizon, Comments at 4-5.

the USF and that results in just and reasonable assessments. In addition to Ad Hoc, other parties have long urged the Commission to move to a numbers-based assessment scheme as the way to meet that goal.[20] In May and August of 2006, Ad Hoc presented to the Commission data that show that business users would have funded more than fifty percent (50%) of the 2007 USF if a pure numbers-based contribution assessment methodology had been in place for 2007, despite the fact that residential subscribers account for seventy percent (70%) of all non-broadband connections to the public switched network (PSN). The then current revenue-based assessment scheme resulted in business subscribers funding about 44-46% of the USF requirements. Under a pure numbers-based methodology, business users would shoulder a funding obligation disproportionately higher than their share of PSN connections, because they on average utilize four working telephone numbers for each PSN connection.[21] Accordingly, business users would on average make a $4.00 monthly USF contribution for each PSN connection while residential subscribers, except for low income subscribers who would be exempt from USF payments, would pay about $1.00 per month in interstate USF surcharges.[22] Business service subscribers on average would pay about four times as much as residential subscribers for each PSN connection. Both should pay the same amount for wireless connections.

---

[20] *See, e.g.,* AT&T, comments at 46; High Tech Associations Coalition, comments at 17; USTA, comments at 11; Verizon, comments at 38 in WC Docket Nos 05-337, 03-109, 06-122, 04-36, CC Docket Nos. 96-45, 99-200, 96-98, 01-92, 99-68, November 26, 2008.

[21] Ad Hoc, Comments, at 19, in WC Docket Nos. 05-337, 03-109, 06-122, 04-36, CC Docket Nos. 96-45, 99-200, 96-98, 01-92, 99-68, November 26, 2008.

[22] *Id.*

AT&T and Verizon also have shown that business users will shoulder a larger share and residential subscribers a smaller share of the USF burden under a numbers-based USF assessment regime.[23] Moreover, AT&T and Verizon have shown that the majority of consumers would pay less in USF monthly fees under a numbers-based scheme.[24] Given the favorable impact on consumers from moving to a numbers-based USF assessment methodology, the value of stabilizing the source of USF funding, and the increasing instability of the current funding mechanism, the Commission should move as quickly as practicable to replace the revenue-based USF assessment methodology with telephone numbers-based methodology.

Previously, AT&T and Verizon have suggested that a primarily telephone numbers-based USF assessment methodology should also include assessments based on Broadband capacity tiers for non-switched connections. Capacity-based assessments simply are not needed and could result in economically inefficient outcomes. Capacity-based USF assessments should not fundamentally change the economics of private networks and applications. USF charges that would alter the underlying economics of networks and applications would be anything but economically efficient.[25] Accordingly, AT&T suggested different capacity tiers after AT&T and Verizon

---

[23] AT&T and Verizon, *Ex Parte* submission in WC Docket No. 06-122, CC Docket No. 96-45, Table 2, September 23, 2008.

[24] *Id*. Table 4

[25] *Cf.,* Hausman, Jerry and Shelanski, Howard, *Economic Welfare and Telecommunications Regulation: The E-Rate Policy for Universal-Service Subsidies,* 16 Yale J. on Reg. 19, Winter 1999. The key lesson of the well known Hausman / Shelanski article is that economic welfare would be better served by funding USF through charges on less demand elastic services than by assessing more highly demand elastic services.

proposed the hybrid approach.[26] If the Commission concludes that the USF contribution assessment methodology must include a connections component, even for carriers that would contribute to the USF based on "assessable numbers", the Commission should specify capacity tiers that would not change the relative economics of business and government networks. In no instance, however, should the same connection be subject to numbers-based and connections-based USF assessments.

D. USF Reform Should Not Be Premised On Achieving Revenue Neutrality.

Several commenters maintain that USF reform should be linked to reform of inter-carrier compensation mechanisms.[27] Some assert or imply that an important feature of both reforms should be revenue neutrality, i.e., that telecom carriers should *not* have their revenues reduced as a result of either USF or inter-carrier compensation reform.

Ad Hoc fully supports USF reform and inter-carrier compensation reform, and understands the complexity of such reform. Commission mandated USF and inter-carrier compensation reform should not, however, be designed to achieve revenue neutrality.

Over five years ago, in its March 2005 *Intercarrier Compensation Regime Further Notice of Proposed Rulemaking* in CC Docket No. 01-92, the Commission asked whether it is, "[l]egally obligated to make any transition to a new compensation regime

---

[26] AT&T, WC Docket Nos 05-337, 03-109, 06-122, 04-36, CC Docket Nos. 96-45, 99-200, 96-98, 01-92, 99-68, November 26, 2008.

[27] *See*, e.g., AT&T, Comments at 13; CenturyLink, Comments at 8; USTA, Comments at 9-10; Verizon, Comments at 17.

revenue neutral for the affected carriers."[28] As Ad Hoc explained then, and now reiterates, the Commission does not have a legal obligation to ensure revenue neutrality, but it does has a legal obligation to ensure that rates are just and reasonable. As this Commission approaches inter-carrier compensation reform, the Commission should be mindful that cost recovery and revenue neutrality are different concepts.

To date Ad Hoc is unaware of evidence establishing that some or all local exchange carriers would be unable to earn reasonable rates of return if the Commission (i) adopts an intercarrier compensation model that significantly reduces switched access charges or (ii) reforms universal service funding. Neither price cap ILECs nor rate of return RLECs have provided the data needed to support a Commission finding that additional cost recovery would be needed because of the implementation of a new intercarrier compensation model. Although carriers may experience reduced revenues, a showing of reduced revenues is far from a showing that rural carriers will not be able to offer services that are reasonably comparable to the services offered in urban areas at rates reasonably comparable to the rates charged in urban areas or that carriers will earn inadequate returns. Accordingly, the Commission should not start USF and inter-carrier compensation reform with a preconceived notion that LECs have justified crafting those reforms to achieve revenue neutrality.

E. The Commission Should Reject Oppositions To Moving Rate Of Return Regulated Carriers To Incentive Regulation.

In the Notices the Commission questions whether it should replace the rate of return regulatory regime used for small rural carriers with an incentive-based plan as

[28] *Developing a Unified Intercarrier Compensation Regime*, Further Notice of Proposed Rulemaking, 20 FCC Rcd 4685, 4733-34, (2005).

was recommended in the *National Broadband Plan*. [29] Ad Hoc has long criticized determining universal service funding requirements on the basis of the embedded costs of rate of return regulated rural local exchange carriers (RLECs).[30] Rate of return regulation, particularly the "rubber stamp" kind of regulation that involves little to no oversight by the Commission, provides no incentives for efficiency or cost cutting.[31] More than a decade ago the Commission announced an intention to move small carriers to incentive-based regulation. The RLECs consistently have opposed this change. This time the Commission should actually move forward on this front and issue an NPRM not to question whether to implement an incentive based regulatory regime for the RLECs, but how to do so. Work on overall RLEC regulatory reform can and should move forward concurrently with the replacement of the existing Universal Service high cost fund components.

---

[29] *Notices,* at para. 55.

[30] *See*, e.g., Ad Hoc, Comments and Reply Comments, Elimination of Rate of Return Regulation for Incumbent Local Exchange Carriers, RM-10822, CC Docket No. 96-45, January 16, 2004 and Feb. 13, 2004.

[31] This comment is not meant as a criticism, but as a statement of reality. The Commission does not, and has not for many years, made any pretense of reviewing RLEC costs and operations for the 1,400 or so RLECs that fall under its jurisdiction. The kinds of inefficiencies and abuses that have resulted from the present regime were highlighted in at least three different report submitted to the Commission by Western Wireless in 2003 and 2004 in support of its Petition for Elimination of Rate of Return Regulation. See, e.g., Attachment A: *Rate of Return Regulation: Problems That Can No Longer Be Ignored* and Attachment B : *Rate of Return Regulation: A Failed Model for Economic Regulation* filed in conjunction with Western Wireless Corporation's Petition For Rulemaking To Eliminate Rate-Of-Return Regulation Of Incumbent Local Exchange Carriers, RM-10822, CC Docket No. 96-45, October 30, 2003; *LOST IN TRANSLATION: How Rate of Return Regulation Transformed the Universal Service Fund for Consumers into Corporate Welfare for the RLEC,* Economics and Technology, Inc. February 2004 prepared for and filed by Western Wireless also in support of its Petition.

Those supporting (see. e.g., NCTA Comments at 14) and opposing (see, e.g., NECA Comments at 45 – 46) incentive based regulation for the RLECs have couched the discussions in large part on the existence or absence of competition. Incentive-based regulation, however, is appropriate regardless of the level of competition faced by RLECs. The overall purpose of economic regulation of any kind is to emulate the conditions a provider would encounter if it operated in a well-functioning competitive environment. Incentive-based regulatory plans (like the FCC's price caps plan) attempt to improve upon the historic rate of return regulatory regimes by including "incentives" to improved efficiencies that are perceived to be lacking from rate of return regulation. Retention of the existing rate of return regulatory regime denies the benefits of improved efficiencies to both rural customers and to the rest of the US population that is subsidizing RLEC operations through the existing universal service high cost mechanisms.

NECA argues that the existing rate of return regulatory regime has worked well and has resulted in substantial broadband deployment to rural America.[32] Ad Hoc certainly does not dispute that the RLECs have used the existing rate of return and universal service high cost fund structure to deploy broadband facilities throughout much of their territory. There is no evidence however, that those deployments have been done efficiently or that incentive regulation would have slowed the broadband deployment.

Implementation of an incentive-based regime, like the FCC price caps scheme, will not be an easy or quick process. The Commission should take the time to get the

[32] NECA, Comments at 47-49.

details correct. It is possible that different productivity factors (or “x” factors) may be necessary for carriers of different sizes. Determination of an “x” factor is not an exact science, but other elements of a plan, particular the sharing and low-end adjustment mechanisms that were part of the FCC’s original plan are also critically important and protect both ratepayers and carriers from mis-specifications in the “x”. Finally, Ad Hoc urges the Commission to include “incentives” for consolidation, to the extent consolidation would bring more efficient operations, into the design of an incentive-based regulatory scheme for the RLECs.

F. Conclusion

In view of the foregoing, Ad Hoc urges the Commission (i) to first use several pilot reverse auctions to test the operation of reverse auctions as the method for awarding USF and CAF high-cost subsidies; (ii) assess whether jurisdictional and industry structure issues could prevent sufficiently competitive reverse auctions; (iii) adopt a forward looking economic cost model to establish reverse auction "reserve prices"; (iv) after an appropriate transition period, eliminate subsidies in those areas receiving service from unsubsidized providers; (v) replace the current revenue-based USF contribution assessment methodology with a telephone-numbers based scheme; (vi) reject "revenue neutrality" as an idea that should be imbedded in inter-carrier compensation reform; and (vii) move rate of return regulated local exchange carriers to incentive-based regulation.

Respectfully submitted,

THE AD HOC TELECOMMUNICATIONS
USERS COMMITTEE

By:

Susan M. Gately
Economics and Technology, Inc.
One Washington Mall, 15th Floor
Boston, MA 02108
617-598-220

Economic Consultant

James S. Blaszak
Levine, Blaszak, Block & Boothby, LLP
2001 L Street, NW, Suite 900
Washington, D.C. 20036
202-857-2550

Counsel for Ad Hoc Telecommunications
Users Committee

August 11, 2010