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

In the Matter of	)	
	)	
A National Broadband Plan for Our Future	)	WC Docket No. 09-51
	)	
Universal Service Contribution Methodology	)	WC Docket No. 06-122

REPLY COMMENTS OF FREE PRESS

I. Introduction

We have previously urged the Commission the "to focus on all the goals and objectives of Section 254 when considering contributions reform."[1] Thus it was encouraging to see in the recent *Notice of Proposed Rulemaking* in this docket the Commission discussing the general tradeoffs in shifting from the current contribution methodology to other alternatives. However, the Commission did not discuss the specific costs and benefits of each alternative, leaving that important work to third party commenters. And unfortunately the comments that followed were largely as expected: industry commenters simply offered self-serving proposals that will ensure that their (but not necessarily their customers') contribution burdens are as low as possible.

With these reply comments we refrain from endorsing any specific alternative contribution methodology (though we've seen no reason why the Commission should move towards the more regressive alternatives that involve numbers-capacity

[1] *See* Letter from S. Derek Turner, Research Director, Free Press to Marlene H. Dortch, Secretary, Federal Communications Commission, WC Docket No. 06-122, August 10, 2010.

assessments). We instead are strongly encouraging the Commission to conduct actual cost-benefit analysis prior to adopting rule changes that could have massive unintended consequences for consumers. We urge the Commission to proceed with caution, as it is highly likely that any new assessment on residential broadband services could lead to an overall lower level of broadband adoption among the very groups that are already on the wrong side of the digital divide.

II. The Commission Must Conduct Cost-Benefit Analysis and Determine the Distributional Consequences of Changing the USF Contribution Rules

The initial comments in this proceeding are long on rhetoric but short on data. Businesses that stand to gain from a switch away from the current revenues-based assessment argue vigorously for a number-based contribution assessment, while others that would see their contribution burden increase under such a system argue for a modified revenues assessment. Many commenters urged the Commission to impose fees on consumer broadband connections, despite strong evidence that doing so could undermine the Commission's efforts to increase broadband adoption.[2] But missing from the recent comments are formal cost-benefit analysis of the proposed alternatives. However, just because industry failed to offer such analysis does not mean the Commission should press ahead and cobble together a new contribution system that solves a political problem but ignores the universal service problem.

We strongly urge the Commission to conduct a formal cost-benefit analysis of the most widely discussed contribution reform options. The Commission should specifically focus on the *distributional* consequences of moving away from the current system. This

[2] *Id.,* discussing Figure 1.

work is not novel. In March of 2005 the Congressional Budget Office released a report that evaluated contribution alternatives for USF.[3] The CBO used a FCC model along with data up to 2001 to predict the various distributional consequences of alternative contribution policies. The CBO's results showed that under a number-only or capacity-only approach that the average household USF contribution would change little from the status quo. The analysis also showed that the distributional burden between residential and business customers would change little under either plan compared to the status quo. CBO reported that under a numbers-only system, the contribution burden would shift towards ILEC's and away from long-distance carriers. However, the industry consolidation during the time since CBO published its analysis has completely erased the distinction between ILEC's, long distance carriers, and wireless providers. The two largest ILEC's, AT&T and Verizon, are themselves the two largest long distance and wireless providers.

Much has changed since CBO released their analysis based on data from 2001. Indeed, those changes are the reasons most often cited for the need to modify the current contribution system. Thus, it is completely appropriate for the Commission update this analysis. In particular, the Commission must closely examine how the proposed changes to the contribution system will impact consumer adoption and use of communications services. If a primary FCC policy goal is universal adoption of broadband services, the Commission must take into account the *net* impact of a USF contributions assessment on residential broadband services. A modest $1 monthly USF fee on cellular service may cause very few consumers to reduce, drop or forego that service, but the same fee applied

[3] *See* "Financing Universal Telephone Service," Congressional Budget Office, March 1, 2005.

to home broadband may lead to a non-insignificant number of consumers to drop or forego adopting broadband. This is because the own-price demand elasticity for these services remains relatively high, especially for marginal consumers that have yet to adopt. In other words, as the Commission reforms the overall USF system in the name of greater broadband adoption, particularly among rural, poor and elderly consumers, assessing broadband for USF contributions could lead to an overall lower level of broadband adoption, despite the availability of new broadband subsidies.

This is an empirical question, one that the Commission has the resources to answer. Therefore we urge the Commission to conduct such a formal cost-benefit analysis, and solicit public comment on the results *prior* to modifying the USF contribution rules.

Whatever the Commission ultimately does, we strongly urge the Commission to recognize the particular burdens that new fees will have on low-income consumers. Thus, as it did when it introduced a new access recovery fee, the Commission should exempt Lifeline program participants from any new fees that might be assessed on broadband services (though we again caution the Commission that because of the low participation in Lifeline, it is likely that a new broadband fee would fall on millions of low income families that would otherwise be exempt from such assessments).

Finally, we urge the Commission to share the results of the above cost-benefit study with Congress. Specifically, the Commission should contrast the economic impacts (i.e. deadweight loss and distributional impacts) of supporting USF via assessments on telecommunications providers (passed through to consumers) versus funding this important program using general tax revenues.[4]

Respectfully submitted,

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[4] USTelecom suggests that Commission should ask Congress to fund the Lifeline program through general tax revenues. The very reasons why they cite that doing this would be a good idea are the reasons that the *entire USF system* should be funded through general revenue assessments.