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September 17, 2010

VIA E-MAIL

Mr. David Danner, Executive Director & Secretary
Washington Utilities and Transportation Commission
1300 South Evergreen Park Drive SW
P.O. Box 47250
Olympia, WA 98504-7250

Re: COMCAST'S RESPONSE TO NOTICE SEEKING COMMENTS ON WASHINGTON INDEPENDENT TELECOMMUNICATIONS ASSOCIATION'S USF CONCEPT PAPER - Docket No. UT-100562

Dear Mr. Danner:

Pursuant to your notice dated September 1, 2010, please file the attached *Response to Notice Seeking Comments on Washington Independent Telecommunications Association's USF Concept Paper* in connection with the above-referenced docket.

Please feel free to contact me with any questions or concerns you may have regarding this filing.

Sincerely,

Rhonda Weaver

Rhonda Weaver
Sr. Director of Government Affairs
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Enclosure

Cc: Brian Thomas, WUTC (E-mail)

BEFORE THE
WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION

Policy Statement to Review State Universal Service Policies	Docket UT-100562

COMCAST'S RESPONSE TO NOTICE SEEKING COMMENTS ON WASHINGTON INDEPENDENT TELECOMMUNICATIONS ASSOCIATION'S USF CONCEPT PAPER

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Dated: September 17, 2010

Comments of Comcast re: Washington Independent Telecommunications Association USF Concept Paper

Docket UT–100562

Comcast Phone of Washington, LLC ("Comcast") is pleased to respond to the USF Concept Paper, filed by the Washington Independent Telecommunications Association (WITA), on September 1, 2010. As explained below, we do not believe that the Concept Paper has advanced the ball very far. WITA has put some minimal flesh on the skeleton contained in its comments and reply comments, but little of what is contained in the Concept Paper reflects any new thinking or recognition of the evolution in telecommunications markets. The hallmark of this Concept Paper is its adherence to the make-whole approach for all but the largest ILECs. The paper also seeks to skew future subsidies for broadband build-out to benefit incumbents, large and small.

Comcast has already provided its perspective on the key policy issues raised by this Concept Paper earlier in this proceeding.[1] Hence, we will limit our comments on the paper to a few of the specific proposals presented in the paper. These comments are organized according to the numbered sections of the paper.

1. Contributions

The Concept Paper proposes that all carriers that "use the network pay to support the public communications network."[2] As Comcast stated in its Comments responding to the original Commission question (number 10), any subsidy should be funded from general tax revenues. WITA's response to Comcast's and Sprint's like proposal was that general tax revenues would not provide a "stable or predictable" funding source.[3] WITA instead supports funding from "those that use the network or derive services from the network for their own retail or wholesale offerings."[4] The Concept Paper reflects this

[1] Comcast's Response to the WUTC's Questions Concerning Appropriate Universal Service Policies in Washington, dated June 16, 2010, and Comcast's Reply Response to the WUTC's Questions Concerning Appropriate Universal Service Policies in Washington, dated July 15, 2010.

[2] WITA Concept Paper, at 1.

[3] WITA Reply Comments, July 15, 2010, at 2.

policy judgment and proposes that "all carriers, defined broadly, who use the network [,] pay to support the public communications network."[5]

Since USF contributions are paid ultimately by users, it is necessary for those that advocate an industry-specific contribution to explain whether the income redistribution effected by the USF is desirable. Does it make sense to "tax" lower-income residents of Seattle in order to subsidize telephone service for all consumers in rural Washington?

WITA's statement that general tax revenues would not provide a stable or predictable funding source for telephone subsidies is an interesting perspective on fiscal policy. Does WITA believe that agencies presently funded by general tax revenues are forced to rely on an unstable or unpredictable source of funding? Should the State Patrol, for example, be lower on the totem pole than WITA members?

2. Access Reform Track

The access reform track is the subsidy mechanism for ILECs with less than 2% of state access lines. Support for these companies is to be based on a one-time calculation of switched access revenue reductions, adjusted for local service rate increases. The proposed mechanism also requires a "simplified earnings review as a threshold" using total company regulated revenues and expenses with Part 64 adjustments explained. The Concept Paper also states that these ILECs "may elect to seek high cost support" measured on a wire center basis under a cost standard set by the Commission. Finally, there is a transition to broadband, which provides little detail, other than to state that it will not be the same as the one used by the larger ILECs.

To the extent we can comprehend what WITA is proposing, it appears to be a simple make-whole plan to offset access charge reductions, and therefore for all of the reasons stated in our prior comments, this proposal should not be adopted. The paper contains no requirement for the ILECs to demonstrate a need for a make-whole fund. The "simplified" earnings review, which excludes the significant new revenues and profits from unregulated services, is inadequate. Furthermore, the plan does not appear to allow other companies to seek access to the new USF fund, or if this is envisioned, there is no explanation of the method that would be used to determine the size of the fund that would be available on a competitively neutral basis. The transition to broadband is not explained, but does not appear to be designed to select the most efficient carrier to

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[4] Id.

[5] Concept Paper, at 1.

provide these services. As Comcast pointed out in its reply comments, there is powerful evidence from the FCC's Broadband Cost Model that wireless or satellite will be the lowest-cost technology to bring broadband to many rural areas. If so, then how will the WITA proposal ensure that broadband subsidies will be paid to the most efficient provider? Finally, the Concept Paper does not provide any guidance on how the WUSF would be coordinated with the Federal broadband subsidies. This may reflect a fundamental problem created if a State were to jump the gun and act before the FCC has fully fleshed out its plans for new broadband subsidies

3. High Cost Track

The high cost track is applicable to areas served by ILECs with 2% or more of the state's access lines. The Paper presents a two-phased approach for USF support. The first is for "existing multi-use networks" and the second is for the "state broadband plan."

Phase I Funding

WITA proposes that Phase I funding would be based on a forward looking cost model of "sub-wire center level granularity." Each carrier's support would be capped at the level of support flowing from access revenues. Also, the Concept Paper proposes that "low-cost areas with alternative providers with functionally equivalent services will be automatically qualified as competitive." (There is no explanation of how this competitive classification would impact the high-cost funding.)

The conceptual framework of this Phase is somewhat more constructive than the make whole proposals made by ILECs in the past. Forward-looking cost models should be used to estimate the potential shortfall between end user revenues and costs, because this avoids the self-fulfilling prophecy of make-whole or embedded cost approaches. There is no reason to anticipate whether there is a need for a USF program in Washington, however, if one is needed it should be based on forward-looking costs.

The Concept Paper does not explain, however, how a forward-looking model should be structured so as to enable non-incumbent providers to be eligible for subsidies. For example, WITA proposes that the model must enable "sub-wire center level granularity." What does this mean in terms of delineating the geographic boundaries for assigning the COLR obligation? Will these boundaries be based on wire center serving areas, or on sub-wire center areas? What methods will be used to disaggregate wire center areas for costing purposes, so that competing carriers will not be disadvantaged?

The Concept Paper also lacks any discussion of how the revenues, costs, and profits from unregulated services will be treated. Forward-looking local communications networks are certainly capable of providing many different services, including voice, data, and video. Does WITA support calculating the size of any subsidy by comparing the total revenue to the total cost of providing all services on a forward-looking network? If not, how would they "allocate" costs among the different services that use the same network?

In sum, although the shift away from make whole is to be applauded, there are too few details provided to give us any confidence that WITA would approach this "track" in a reasonable manner. Also, it is important to keep in mind that a forward-looking cost model would require significant resources and should only be undertaken if there is strong likelihood that a WUSF is actually needed.

Phase II Funding

The Concept Paper proposes a State broadband plan "when 'universal service' is redefined to include both voice and broadband services or if broadband speeds [are] mandated." A state plan would be developed that set deployment targets and awarded subsidies to a single COLR designated in each high cost area. All applicants would provide forward-looking "cost data" consistent with a Commission-approved forward-looking cost model.

This plan seems to be unduly complex and potentially very burdensome. It does not explain the purpose of the cost-model in the context of a multiple bidder framework. If there are multiple bidders, then there is no need for a cost model (except perhaps to set a reserve price for a negative auction). Moreover, even if the competing applications are judged on multiple criteria rather than by a reverse auction, there is no reason to require the applicants to submit cost estimates based on a model. Rather, the size of the bid would constitute the applicant's estimate of its own costs (or reservation price), and competition among bidders would serve to keep the bidders honest.

Finally, as was the case with the small-ILEC broadband proposal, there is no explanation of how the State plan would be coordinated with Federal broadband subsidies, let alone recognition that State plan may not be needed at all once the FCC implements its subsidy program.

4. Access Reform

WITA proposes that intrastate switched access rates be reduced at least to each company's interstate switched access rate over a maximum of four years. CLEC rates would be capped at the ILEC rate for the same serving area. Finally, a single local service benchmark rate (that includes EAS) would apply to all ILECs drawing from the proposed WUSF.

Comcast agrees that intrastate switched access rates should be reduced at least to each company's interstate access rates. There is no rationale or explanation provided, however, for the possible four-year transition period. If a WUSF were created, there is no reason to have such a lengthy transition period. ILEC local rates that are well-below a reasonable benchmark should not be maintained except for a very limited transition period.

Comcast agrees that CLEC access rates should be capped at the ILEC rate for the same serving area. This is necessary to prevent an abuse of market power that any carrier holds over terminating carriers that are obligated to interconnect – regardless of the price -- with a called-party's service provider. The FCC and many states have capped CLEC access rates, and in many cases at the access rate of the ILEC in the same serving area.

To the extent that subsidies are needed in order to keep local rates at below-cost levels, it is important that the benchmark not be set too low. This would lead to an unnecessary and inequitable subsidy from customers in one geographic area to another. Ideally, any subsidies should be targeted to lower-income customers in rural areas and should be paid directly to the end-user rather than to a carrier.