UT – 100562

Policy Statement to Review State Universal Service Policies

Matrix of Interested Parties' Positions on Questions Posed in Commission's Notice Dated May 26, 2010

Issue #1: What is the role of the public switched telephone network operated by Washington's incumbent local exchange carriers?

Issue/Interested Party	Direct Comments	Reply Comments
WITA	The public switched telecommunications network ("PSTN" or "network") is key to the delivery of telecommunications and broadband service to customers in rural Washington. The network is the foundation for communications services, whether wireline, wireless or broadband. In fact, with the help of todays support mechanisms, what we have called the PSTN in the past is rapidly evolving into the broadband network of the future. Wireless traffic is not truly "wireless" in that it does not travel through the air from cell tower to cell tower to ultimately reach the handset of the person on the called end of the communications. Instead, it is most often carried from cell tower to a landline connection and then over the PSTN to reach the cellular provider's switch and then routed out to the called party, again often traveling over the PSTN. In rural Washington, broadband services are dependent on the PSTN. While the general public may believe that the broadband traffic accesses a "cloud" and thereby is transported by some unknown means to various web sites, the truth is that the PSTN provides the means to get a broadband user's Internet connection to the Internet backbone. Without the PSTN, rural Washington would be isolated from the	It was a welcome development that several of the parties that commented recognized that the public switched telephone network (PSTN) is an important component of communications services in Washington. As stated by Integra, "The ILEC network has traditionally delivered Universal Service. In many, if not all cases, this network continues to be essential for the provisioning of Universal Service." Public Counsel observed, "While telecommunications services and technologies continue to evolve, the public switched telecommunications network (PSTN) operated by ILECs in Washington continue [*sic*] to constitute fundamental infrastructure by which universal service is provided in the state of Washington at the present time." AT&T commented along the same line, "... the PSTN, or at least elements of the PSTN, can still serve a valuable role in ensuring universal, affordable service for today's communications to an all-broadband world."

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	communications world. Connection for business, communication and recreational purposes would not be possible. As the PSTN evolves into a broadband network, it will continue to play a fundamental role in bringing these broadband-based communications to rural Washington.	
AT&T	Historically the public switched telecommunications network ("PSTN") has been the infrastructure used to provide the services for universal telecommunications service. Traditionally, implicit subsidies were used to promote universal service: long-distance charges (and later, access charges) were set artificially high, above-cost levels in order to generate implicit subsidies so that local service rates could be held artificially low, below-cost levels. But today consumers have a variety of choices to communicate long distances such as wireline long distance service, email, wireless phones, and social networking websites. Voice over Internet Protocol ("VoIP") providers like Vonage or Skype, and cable telephony, among other options. Many of these communications are now relying more and more on internet protocol ("IP") or packet technologies, instead of traditional "switching". With straightforward reforms that reduce intrastate switched access rates to more rational levels, the PSTN, or at least element of the PSTN, can still serve a valuable role in ensuring universal, affordable service for today's communications transition to an all-broadband world.	
Comcast	The role of the public switched telecommunications network operated by the ILECs is diminishing over time as a consequence of two interrelated developments in communications markets. First, competition for voice service has increased in size and scope throughout most geographic markets, as a result of private investments made by cable companies and wireless companies. Second, the increased importance of broadband service has shifted the government's focus in universal service policy towards increasing the availability and penetration of broadband to all Americans. In many parts of the country, broadband service is being provided or could be provided at much lower cost than by subsidizing the	WITA's initial discussion of telecommunications networks places the incumbents' PSTN at the top of a hierarchy of all other networks. The dependence of all other networks (including wireless and broadband) on the PSTN, appears to be a central reason for WITA's conclusion that the ILECs' network must be subsidized in order to maintain the viability and utility of all communications services. WITA's argument misses the point about competition. In a competitive market, there should be no dominant service provider, upon which all other providers must rely. And there should be no presumed recipient of subsidy funds. To the

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	ILEC. These factors increase the importance of fostering competition in these markets in Washington and diminish any special status or role for the ILECs.	extent that other carriers continue to be dependent on the ILECs, however, this is due to the decades-long monopoly of the incumbent carriers, and the barriers that other carriers have encountered in entering and competing in a number of rural markets. If competition is allowed to unfold in all areas, there is every reason to believe that the incumbents will no longer have a special place as the default recipient of universal service subsidies. It is also important to recognize that the ILECs receive many advantages from their historic monopoly, which likely offset much of the obligations of serving as the carrier of last resort. Much of the incumbents' costs of building their rural networks were incurred during the monopoly era, when the ILECs' return on investment was virtually guaranteed. Further, over the last two decades, a substantial portion of the capital expenditures to build facilities have been depreciated. Nationwide, by the end of 2009, 81% of total plant in service of the mid-sized ILECs was depreciated, i.e. paid for by ratepayers. This should generate enormous savings going forward to ratepayers. Second, since the network has already been built, there is little incremental cost in serving a subscriber that is already passed. Hence, it is in the financial interest of the ILEC to offer service to all customers, rather than a burden to serve any customer already passed by existing facilities.
Frontier		Incumbent local exchange carriers ("ILECs") are unique from other carriers. ILECs have both wholesale requirements and retail carrier of last resort obligations that require investment in and maintenance of network facilities that may not be economically justified without universal service support. Universal service support provides a key role in making certain network infrastructure is available in high-cost areas and is an essential public policy goal for the State of Washington.
Integra	Universal Service is the widespread availability of telecommunications services at reasonable rates. The ILEC network has traditionally delivered Universal Service. In many, if not all cases, this network continues to be essential for the provisioning of Universal Service.	With the merger of the largest ILECs with the largest Interexchange Carriers ("IXCs") (i.e. AT&T and Verizon), the disparate voices on switched access rates have turned into a chorus for "reform" that is primarily an attempt by the largest payers of access to reduce their expenses to the detriment of Washington's local exchange companies ("LECs" – both ILECs and CLECs) and their end-user customers in Washington. The Commission should carefully scrutinize the

Issue/Interested Party	Direct Comments	Reply Comments
		motivations behind the various party recommendations in this docket as the decisions made here can radically alter the industry landscape. For example, Rural ILECs, faced with a continued reduction of access lines and access minutes are glad to replace a falling revenue stream for a more "reliable" source such as a Universal Service Fund ("USF"). IXCs such as AT&T and Verizon are simply attempting to reduce the dollars they pay to utilize the networks of carriers in Washington. The large IXCs propose to reduce what they pay today to carriers serving Washington end-users without any promise of benefit to the Washington end-users. If the proposals of large IXCs are adopted, their cost reductions will come at the expense of Washington end-users.
Public Counsel	While telecommunications services and technologies continue to evolve, the public switched telecommunications network (PSTN) operated by ILECs in Washington continue to constitute the fundamental infrastructure by which universal service is provided in the state of Washington at the present time. Although line losses and "cord cutting" are taking place, landline telecommunications service is still subscribed to by the majority of residential and small business customers in communities statewide. Service options such as wireless service and broadband (DSL) also are significantly reliant on the PSTN. To the extent "intermodal" competition exists in telecommunications, it is dependent in large part on the existence of the PSTN as a delivery infrastructure for a major sector of the industry.	
Qwest		ILECs serve the high cost areas of the state of Washington. ILECs provide access to the public switched telecommunications in areas where there is no other facility-based wireline provider. Competitors have chosen not to deploy facilities in these high cost areas because customers cannot be served in an economic manner. Generally, the customers in the high cost areas are charged the same rates as the ILEC customers in competitive areas. In addition to explicit Federal high cost support (available to some rural ILECs in the state), implicit subsidies, such as rate averaging and intrastate switched access charges are the main sources of support for maintaining the average rates in high cost areas. The implicit subsidies are shrinking due to competition and threatening the ability of ILECs to maintain service in high cost areas.
Sprint	Monopoly universal voice service was achieved long ago, universal	

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	voice competition is essentially here now, and thanks to the forces of competition, the goal of universal broadband gets closer every day. Indeed, in response to competition, most ILECs have leveraged their historical government supported ubiquitous monopoly network position into networks with modern capabilities, including high-speed internet access, feature-filled voice and data bundles, and video entertainment services. The goal must be bolder than universal broadband availability from the incumbent telephone company; the goal should be universal broadband competition. The removal of lingering regulatory impediments involving the incumbent telephone companies and the public switched telephone network can hasten the pace of arrival of universal broadband competition. Reducing historically inflated access rates and other outdated subsidies will free resources for competitive broadband innovation and create incentives for incumbents to aggressively deploy and market broadband services to their end users.	
Verizon	Insofar as universal service policies were conceived in the context of a single ubiquitous wireline network, the underlying assumptions also need to be re-examined in an environment where consumers have access to multiple suppliers using alternative technologies. Thus, the reference in the Notice to a need to preserve and advance "the telecommunications network in the State of Washington" is out of step with today's market reality, to the extent that it assumes "the telecommunications network" is just a single wireline network.	

Issue #2: Is there a need to address intrastate access rates? What statutes or rules would need to be revised?

Issue/Interested Party	Direct Comments	Reply Comments
WITA	It is not a mandate that the Commission address intrastate switched access rates to ensure universal service at reasonable rates in Washington. However, it is WITA's position that in the context of creation of a state universal service fund, the Commission should address intercarrier compensation issues that are within its jurisdiction, which in this case means intrastate switched access rates. Failure to address the complete package opens the door to further arbitrage. Arbitrage only benefits the "creative party" to the detriment of the majority of users who pay for the traffic they create. It is WITA's position that new legislation is needed to address universal service issues and should be advanced in the 2011 Legislature. New legislation may well require further rulemaking action by the Commission.	
AT&T	The status quo of high intrastate switched access rates which historically have helped to keep basic local service rates artificially low in Washington cannot be sustained and, if not addressed, could hinder universal service and the widespread availability of communications service in Washington. The erosion of these subsidies and ultimate loss of access revenues for the ILECs threatens universal service and rural investment, which puts rural connectivity at risk. As consumers shift their calling away from traditional wireline telephone networks, the ILEC companies are strained to recover largely fixed costs from a shrinking customer base. There is no material technical difference in functionality between originating and/or terminating an interstate toll call versus originating and/or terminating an intrastate call, yet there is a large difference in rates between the intrastate and interstate switched access rates. Charging radically different prices for materially the same functionality leads to arbitrage, substantial expense, waste, and inefficiency, resulting in	Virtually all commenters in this proceeding agree that intrastate switched access charges should be reduced. Comcast points out that excessive intrastate switched access rates contain a subsidy which "creates distortions in the market by forcing one company's customers to pay for another company's costs." Sprint explains that high intrastate switched access rates, "inflate the price of telecommunications service, impede full and fair competition, create costly non-productive market distortions and endless litigation, and create disincentives for incumbents to deploy and market broadband." In short, high intrastate access charges overcharge consumers all across Washington for wireline long distance service just to subsidize artificially low local service prices. These market distortions and cross subsidy schemes are inconsistent with a fully competitive market and are a bad deal for consumers in the state. Integra attempts to create delay by arguing that Washington should wait to see what happens at the FCC before doing anything further. As demonstrated by other commenters and AT&T, Washington must commence intrastate switched

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	decreased value for consumers. • All Washington LECs should be required to immediately and fully reduce and maintain intrastate switched access rates to mirror that company's corresponding interstate switched access rate level and rate structure. CLECs should be required to cap intrastate rates at the same levels of the ILECs. • A statewide uniform retail rate benchmark for local rates should be established to determine how much of the ILEC access revenue reduction would be recovered from retail rates or the Washington Universal Service Fund ("WUSF"). • A WUSF should be established and the contribution methodology should mirror the federal USF contribution methodology. Only ILECs that have carrier of last resort obligations should be eligible to withdraw from the WUSF. However, in order to use universal service support as a transitional tool to implement intrastate access reform pursuant to the process outlined above, the Washington legislature will need to authorize a WUSF.	access reform without any further delay. The FCC has ruminated about global reforms of intercarrier compensation (ICC) for almost a decade. In 2001 the FCC opened a rulemaking on ICC reform on which it has not yet acted. Even now, there is no assurance that the FCC will act at all, much less anytime soon. Although the recent National Broadband Plan (NBP) recommends that the FCC reduce intrastate switched access rates, the NBP is only a series of recommendations by staff. The FCC's Chairman has announced that the recommendations in the NBP will be considered in 60 separate rulemakings. The notice of proposed rulemaking on ICC reform will not even be issued until at least fourth quarter 2010. As action by the FCC is unlikely to occur anytime soon, Washington should address access reform today. One of the reasons that Integra cites for waiting to see what the FCC does, is that "[t]he FCC has indicated that it plans to take jurisdiction away from states with regard to intrastate access."[1] Again the NBP only contains recommendations and this is a topic that parties will likely comment on at the FCC. This Commission has previously submitted comments at the FCC advocating that the FCC should not take jurisdiction away from state commissions in the area of ICC. Specifically, in response to an Order on Remand and Report and Order and Further Notice of Proposed Rulemaking ("FNPRM") issued by the FCC in November 5, 2008 that addressed ICC issues, the Commission submitted comments expressing its concern about the "potential adverse effect of the FNPRM on Washington's rural business and residential consumers." The Commission further argued that "[d]espite the [FCC's] efforts to effectively 'federalize' all aspects of intercarrier compensation, the fact remains that state commissions are closest to consumers and the specific aspects of the provision of telecommunications service in their markets…" The Commission, therefore, has positioned itself as a leader in the area of intrastate access reform and should move forward on access reform in the state.
Comcast	Yes. The UTC needs to address excessive intrastate switched access rates to ensure that competitive markets function efficiently and incentives for private investment are promoted. Intercarrier compensation rates, such as	

[1] Integra comments in response to WUTC Question 4 (citations omitted).

Issue/Interested Party	Direct Comments	Reply Comments
	intrastate switched access rates, should not be a source of subsidy. This creates distortions in the market by forcing one company's customers to pay for another company's costs -- even though these two companies are in direct competition. Therefore, the UTC should aim to move all intercarrier compensation rates down to long run incremental cost, or even better to adopt a bill and keep policy for all traffic exchange among voice service providers.	
Frontier		The Federal Communications Commission ("FCC") is exploring access reform which may ultimately impact not only interstate access rates but may also affect state oversight of intrastate access rates. In the interim, a practical approach for carriers to stabilize revenues would be to give carriers the option of rebalancing switched access charges and basic service rates. Such actions should not be mandated for all ILECs. Those companies can determine for themselves whether rebalancing would be helpful. The Commission should develop a streamlined process for considering and acting on such proposals – a process not including a time consuming traditional rate case or "earnings review."
Integra	It is not necessary to address intrastate switched access reform in order to achieve the goals of Universal Service. It is understandable why ILECs, which rely on intrastate switched access revenue, might wish to preserve this dwindling revenue stream by moving this revenue stream to a source that is less likely to be eroded, such as a Universal Service Fund. It is also understandable why IXCs, which pay intrastate access charges in order to utilize another carrier's network, would seek to eliminate these costs. However, it is a mistake to automatically link access charge reform to Universal Service reform. The policy goals for Universal Service should first be established; then the most efficient mechanism for achieving these goals can be determined. Whether achieving Universal Service requires access reform can only be ascertained once Universal Service goals are defined and the extent to which these goals need funding is determined.	
Public Counsel	The UTC has addressed intrastate access charge reform over a number of	

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	years and has adopted rules to that end. While there are issues to be addressed in the access charge arena, from the consumer perspective there are several principles that should apply. First, access charge rebalancing should be done on a gradual basis, not in a "flash cut" or extreme fashion, which can result in dramatic increases in local rates. Second, access charge rebalancing needs to include an earnings review for the ILEC if a local rate increase is sought. Many independent ILECs have not had earnings reviews for a number of years. There should be no presumption that access charge reductions result in rate increases on a dollar for dollar basis. Third, access charge reductions should be passed on to consumers by the carriers who benefit from the reductions. There may be jurisdictional limits on the UTC's ability to enforce this requirement.	
Qwest		At this time, intrastate access reform does not need to be addressed in order to ensure universal service. The FCC has stated that it plans to address intercarrier compensation later this year. It would be prudent to wait for the FCC's action in this area in order to holistically address state and federal intercarrier compensation and alternative recovery mechanisms. In general, if intrastate access rates are lowered through a state access reform proceeding, Qwest suggests that all ILECs and CLECs should decrease intrastate access to the largest ILEC's intrastate composite rate, rather than lowering intrastate to interstate rates as proposed by AT&T. ,. Revenue reductions associated with this decrease could be recovered by increases in the basic local rate, up to a Commission determined statewide benchmark, to be done on a revenue neutral basis. If the increase in basic local service is insufficient, a simplified earnings proceeding could take place for rate-of-return ILECs to justify drawing additional offsetting revenues from a Washington access replacement fund. Qwest disagrees with Comcast's position that the UTC should move all intercarrier compensation ("ICC") directly to TSLRIC or to bill and keep. This change would take rates immediately to the levels that the FCC targeted for 2020. Outside of a national ICC plan, this makes no sense and puts a tremendous burden on carriers, customers, and/or on a state fund. In addition, moving intrastate access to bill and keep prior to FCC action would incent arbitrage, as some IXCs will attempt to misjurisdictionalize interstate traffic as

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		intrastate in order to achieve cost savings, and some LECs will attempt to classify more of the calls as interstate in order to maximize switched access revenues. Public Counsel suggests access charge reform on a gradual basis, not flash cut and that access rebalancing should include an earnings review. As noted, Qwest believes that the earnings review is only necessary when a carrier is or will be drawing from an access replacement fund. Because switched access is a subsidy for the local loop, it is appropriate for local rate increases without an earnings review in order to preserve revenue neutrality.
Sprint	Yes. The consumer harms caused by high access rates are widely understood. Washington's high intrastate switched access rates inflate the price of telecommunications services, impede full and fair competition, create costly non-productive market distortions and endless litigation, and create disincentives for incumbents to deploy and market broadband. Regardless of the role high switched access rates were intended to play in the past, they are now decidedly counterproductive to the goals of universal service.	
Verizon	In order to promote universal service goals in the past, regulators often set the access charges of local exchange carriers ("LECs") at artificially high levels to keep basic exchange service rates for residential consumers low. This approach is no longer sustainable in a competitive environment. Permitting LECs to charge unreasonably high access rates provides these carriers with a competitive advantage because they are able to recover disproportionately more of their costs from other carriers (*i.e.*, their competitors) rather than from their own end users through their retail rates. This cost-shifting distorts competition in interexchange and local markets and harms consumers. Unreasonably high access charges deprive carriers of resources they could otherwise use to introduce new services, improve service quality, enhance their networks, or reduce rates. At the same time, because LECs are able to maintain local service rates at artificially low levels, this discourages competitive entry and denies	

Issue/Interested Party	Direct Comments	Reply Comments
	consumers the benefits that such competition would bring.	

Issue #3: Should there be a Washington State Universal Service Fund ("WUSF")?

Issue/Interested Party	Direct Comments	Reply Comments
WITA	There absolutely must be a Washington universal service fund ("WUSF"). There is a need for a fund to facilitate intercarrier compensation reform. There is a need for a fund in light of the National Broadband Plan.[2] To be very clear, there is a need for a WUSF whether the National Broadband Plan exists or not. The National Broadband Plan provides additional impetus for the WUSF. However, the WUSF is needed independently from the National Broadband Plan.	
AT&T	A state universal service fund is an important component of intrastate switched access reform in Washington. To keep the size of the fund as small as possible, support from the WUSF should be limited to ILECs that: 1) have COLR obligations, and 2) are not able to rebalance their reduced access revenues arising from taking their intrastate access rates to interstate levels entirely through retail rate adjustments up to a statewide retail rate benchmark. AT&T does not believe that it is necessary for the Commission to conduct an earnings review of carriers prior to allow those carriers to receive WUSF support.	
Comcast	There is no demonstrated need for a WUSF at this point in time. There have been proposals, however, to create a WUSF to serve as a make-whole fund for the ILECs. Make-whole is an antiquated concept dating to the era of monopoly local telephone companies subject to rate-of-return regulation. The reason to create a WUSF would be if there is a demonstrated need to provide regulated below-cost voice or broadband service to an identified group of citizens in the State. In that case, the subsidy should be competitively-neutral and based on the forward-looking cost of providing service.	The WITA estimates what the initial size of a state universal service fund would be by taking the difference between each ILEC's composite intrastate switched access rate and its composite interstate switched access rates multiplied times the minutes of use for 2008 reported by the ILEC.[3] Using a $16.00 local rate benchmark, this offset was calculated based upon the working loops reported for the third quarter of 2008. The size of the WUSF after completion of a transition period to bring local rates up to the benchmark is $27.5 million. A state USF plan that worked the way that WITA contemplates would be a make-whole plan -- pure and simple. The purpose of the plan, as well as the determination of the size and allocation of funds, would be to offset access

[2] This matter will be addressed in response to Question 4.
[3] WITA Comments, at 22.

Issue/Interested Party	Direct Comments	Reply Comments
	a. A WUSF should not be used as an offset for falling incumbent carrier intrastate access charge revenues. The ILECs have many new sources of revenue to offset the costs of improving their network, most of which are not recognized in the regulatory books of account. b, c, d. If a newly-created WUSF were to be based on forward looking economic cost principles, then it would not be necessary to examine the earnings of the companies seeking funding from the WUSF. On the other hand, if, contrary to good policy principles, a make-whole approach was taken to creating a WUSF, then it would be essential to examine all sources of revenue and the underlying costs reported by the potential recipients, in order to calibrate the level of funding needed.	revenue losses caused by reducing intrastate access rates to interstate levels. Also, as WITA explains, "the establishment of a WUSF could reduce some of the uncertainty created by the loss of access minutes today and the transition from a known federal USF to an unknown CAF [Connect America Fund]."[4] The essence of WITA's position appears to be that revenues from intrastate access are an entitlement, and it is the obligation of ratepayers statewide to replace losses from competition or from a regulatory decision to bring these rates closer to cost. The missing link in WITA's paradigm is a demonstration that a make-whole fund would provide the right level and allocation of funds needed to achieve well-defined social objectives. It is not tied to an assessment of a broadband availability gap, or of shortfall between the total revenues and the going-forward cost of serving particular groups of customers. Under a make-whole plan, the exact size and allocation of the state USF would be determined entirely by the historic levels of intrastate access revenues. But since there are so many factors that are responsible for the level of historic "support" built into intrastate access charges, there is no reason for basing a state USF on these so-called levels of support.
Frontier		Frontier supports the Commission's investigation into establishment of a new state universal service fund ("WUSF"). It recognizes there is a need but also cautions there will be a cost. Intense competition in high-density, low-cost areas has led to loss of revenues in the very markets that have traditionally provided for the ability to offer affordable rates in lower density, higher-cost markets. Likewise, intrastate access revenues have provided a contribution toward recovery of costs of voice communications services. There may well be a need to provide support to high-cost areas to maintain affordable rates. But as noted, above, a WUSF will come at a cost, likely in the form of a surcharge to all communications service customers in the state.
Integra	Whether or not a WUSF is necessary can only be answered by a clear definition of Universal Service goals and a specific investigation into whether these goals are being met (and will be met going forward), and if	

[4] WITA Comments, at 14.

Issue/Interested Party	Direct Comments	Reply Comments
	not, the most efficient mechanism for achieving these goals. Universal Service should not be a mechanism to protect eroding revenue streams of ILECs, but should be a mechanism to protect consumers in Washington. Before a carrier is allowed to receive support from a WUSF the Commission should consider 1) whether the carrier currently has significant pricing flexibility, 2) the level of competition faced by the carrier, and 3) the current lack of (or threat to) Universal Service for consumers in the area served by the carrier. Once it is determined that a WUSF may be necessary, then the Commission should seek ways to minimize the need to draw support from the WUSF, such as rate rebalancing, before a carrier becomes eligible for WUSF funding.	
Public Counsel	Public Counsel has not seen strong evidence that there is currently a need to establish a new state Universal Service Fund (USF) in Washington. If there is consideration of establishing a fund, all of the factors listed should be taken into account. In particular, before imposing surcharges on consumers to support carriers, effective and reliable earnings reviews should occur of potential fund recipients. Revenues from both regulated and unregulated services should be taken into account to avoid providing support where it is not necessary. Any new state universal service fund established would merely add to the financial burden already borne by consumers for the federal program. The "contribution factor" for the federal USF is currently in the range of 13 percent. Public Counsel will review the comments filed by other parties with respect to the need for a state fund, but there should be a compelling showing before state telecommunications customers are asked to fund an additional expensive support program.	
Qwest		If the Commission determines that intrastate access rates be reduced to a level at which revenue reductions cannot be recovered through local rate increases, Qwest supports the creation of a state access replacement fund. The access replacement fund is necessary for revenue reductions not recoverable by raising local rates to a benchmark, subject to a simplified earnings review and showing

Issue/Interested Party	Direct Comments	Reply Comments
		of revenue deficiency. Comcast's position is that there should not be a WUSF. The end result of this position is that Comcast is asking the rate-of-return carriers to move their entire intrastate access revenue per line to the rural end users. WITA's initial comments demonstrate that intrastate access reduction proposals described by Comcast produce rates of over $50 per month for some WITA company customers. Because rural areas often have facility-based competitors in-town, such situations could result in de-averaged local rates where out-of-town customers rates move toward their underlying cost, which would be multiple times the in-town rates. Verizon opposes a WSUF, stating that there is no difference between a hidden subsidy and an explicit subsidy, and that either one is just another means of shifting one company's cost to another company and set of customers. This argument, of course ignores any public good/public purpose of making basic local service in high cost areas affordable, and preserving universal service as it is known today. WITA states there is a need for a fund to facilitate ICC reform and that the State's policy to "preserve affordable universal telecommunications service" is in jeopardy otherwise. Qwest sees that problem as well, but there need for safeguards to keep the fund size in check (earnings showings). WITA agrees that there should be accountability in WUSF and proposes a streamlined earnings review.
Sprint	However, the mere fact that incumbent switched access revenues are declining by itself provides no basis for consideration of any new support mechanism. While a revenue guarantee through a universal service fund would certainly help the incumbent telephone company, the Commission's focus needs to be on Washington consumers and businesses. The best course for consumers and businesses is to continue the exposure of inflated access charges to the rigors of the marketplace. To the extent a carrier wishes to	

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	maintain its historical revenue level, it should do so through services it sells to its own end users and not through imposing an anticompetitive tax on other carriers and their end user customers. All carriers should rely primarily on revenues from their end user customers, whether the end user services are regulated or unregulated, rather than burdening their competitors' customers. To the extent a carrier needs to increase regulated end user rates, it should be permitted to do so and in this way expose this revenue to the rigors of the market. As mentioned above, incumbent LECs have leveraged their ubiquitous, monopoly position to become capable of providing many services beyond the limited basic exchange and exchange access revenue of the past. The availability of these additional revenue opportunities must be considered if the Commission wishes to provide the proper incentives to the incumbents. Eliminating or minimizing the burden on Washington consumers and businesses must take priority over the interests of an incumbent to be protected from competition or made whole through a revenue guarantee mechanism.	
Verizon	Establishing a state universal service fund in Washington, which would require legislative approval under RCW 80.36.600-610, is unnecessary and inappropriate. As the Commission Staff noted in another docket, the Commission completed a required universal service analysis and submitted a recommended program to the Legislature in 1998 that the Legislature chose not to adopt. The Commission should not now attempt, twelve years later, to recommend adoption of such a fund that would impose a new mandated charge on various telecommunications service providers and those entities' retail end user customers. Indeed, creating a new universal service fund right now would be exactly the wrong step for the Commission to take.	There is significant consensus that establishing a state universal service fund in Washington is unnecessary and inappropriate. In addition to the reasons provided by Verizon in its comments, Comcast Cable ("Comcast") states that there is "no demonstrated need for a state USF at this point in time," only unsupported proposals from those who would benefit from the creation of a state USF "as a make-whole fund" for incumbent local exchange carriers ("ILECs"). Similarly, Integra Telecom ("Integra") argues that a state USF "should not be a mechanism to protect eroding revenue streams for ILECs." And Sprint Nextel Corporation ("Sprint") asserts that universal service funds "distort the market and burden consumers and business end-users" and that "[a]ny carrier seeking a replacement of access revenue through a WUSF must bear the burden of proving a need that cannot be addressed in a way that does not involve taxing other carriers' customers."

Issue/Interested Party	Direct Comments	Reply Comments
		Finally, Public Counsel states that it "has not seen strong evidence that there is currently a need to establish a WUSF," and that: (i) "competition has emerged in varying degrees to different sectors"; (ii) "rates have remained stable"; (iii) universal service penetration rates have increased in Washington since 1999; and (iv) "substantial broadband deployment has occurred in many rural carrier service territories even in absence of a [WUSF]." Public Counsel correctly concludes that any new state USF "would merely add to the financial burden already borne by consumers for the federal program." There is no basis for WITA's proposal except for self-interest. WITA proposes perpetual subsidization of its members, without regard for whether any such subsidization is necessary to preserve universal service — and based on an outdated notion of universal service as a wireline phone for everyone, whether they want it or not. WITA's proposal would also undermine federal efforts to phase out anachronistic support by simply *increasing* the USF burden for Washington consumers.

Issue #4: What effect does the National Broadband Plan have on the perceived need for a WUSF?

Issue/Interested Party	Direct Comments	Reply Comments
WITA	For several reasons, the National Broadband Plan ("NBP") intensifies the need for a WUSF. First, under the NBP, changes are contemplated to the federal universal service fund which place even more urgency on developing a WUSF. The NBP proposes that Interstate Common Line Support ("ICLS") be frozen on a per line basis and that all federal funding that exists today be ultimately transitioned away. The FCC proposes that existing federal support would be replaced by a Connect America Fund ("CAF"). How the CAF will work or who will receive money from that fund is unclear. This uncertainty creates a huge disincentive to continued investment in the network.	
AT&T	States like Washington have a particularly important role to facilitate the transition to an all-broadband world. There is no need for Washington to await action by the FCC on the NBP's ICC recommendation. Washington can facilitate universally available broadband services throughout the state by moving expeditiously to reform the existing unsustainable access charge regime. The national reform proposed in the NBP intensifies the need for Washington to act on ICC reform. The FCC has proposed to cap the federal support mechanisms such that the federal funding available to address access reform is likely to be limited as it will be competing with many other federal funding priorities, including direct support for broadband through the proposed Connect America Fund and Mobility Fund. (Consequently the more aggressively states address access reform, the more federal support will be available for broadband.)	
Comcast	The NBP contains recommendations for the Commission to consider on a variety of issues relating to broadband adoption and deployment, including the use of USF funds for broadband. The Commission has initiated a proceeding to begin to consider retargeting Federal USF funding to support deployment of broadband service to all households in the U.S. If there is any need for additional funding by the State of Washington, this will become more apparent after the FCC's determines	According to WITA, companies that serve predominantly rural areas have a significant burden, and a concomitant need for a subsidy, because of the "donut and hole" problem. WITA uses this term to describe the situation in relatively sparsely populated areas, where the population is concentrated in a small central location, such as a town – the donut "hole." The remaining population is then widely dispersed across the entire donut. This has two effects on the cost of serving the rural area. First, the cost of serving the donut is much higher than

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	how it will implement its goals. As a consequence of the FCC's initiatives and the continued development of competition in the communications and information market, the need for regulation and subsidies will recede. Regardless of the evolution of these broadband initiatives, the WUTC should move expeditiously to reduce intrastate access charges to cost for the reasons explained above.	would be indicated by the average density of the entire area. Second, competition, which is posited to be limited to the "hole," skims the cream – the profits from serving the town's business and residential customers. This undermines any cross-subsidy between the hole and the donut. The WITA comments present several examples of this "donut and hole" problem; there are two examples from CenturyLink's exchanges in Forks and Ritzville. In Forks, the claimed investment per line outside of what WITA refers to as the Central Office Customer Serving Area ("COCSA") is 5 times greater than within the relatively dense COCSA. In Ritzville, the investment per line is 6 times greater than in the COCSA. These very high investment cost estimates appear to be driven by the very long average loop length (which average 6.1 miles outside the COCSA in Forks and 16.4 miles outside the COCSA in Ritzville.) The lesson from the FCC's Broadband analysis is very different. It shows that the cost of serving these highly dispersed customers is much lower with wireless technology than wireline technology. According to the FCC's broadband cost model, the broadband gap in Adams County (where Ritzville is located) is $12 million. This represents the twenty-year lifetime gap between the incremental revenues from the broadband services and the investment and lifetime operating costs. According to the FCC, this subsidy is needed to extend service to the 468 homes, which represent only 8% of the homes in the county that are unserved by broadband facilities. The per-home subsidy is an amazing $26,576. Thus far, the data seem to confirm the WITA story that there are very costly homes to serve, which require substantial subsidy. But the second-half of the story is that the cost of serving many of these homes would be much lower if 4G wireless technology were used. In Adams County, if a 4G fixed wireless

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		network were to be used instead of the ILEC's wireline network, the broadband gap would be cut at least in half by $6 million.[5] On a nationwide basis, the broadband gap also is nearly cut in half from $23.5 billion to only $12.9 billion if fixed-wireless 4G networks are used everywhere the population is not yet served.[6] This means that the subsidy policy would be much different if the goal is to provide universal service efficiently rather than to make the ILEC whole. Moreover, if the FCC were to provide much of the subsidy of extending broadband to the unserved areas, there is no reason to expect that any additional subsidy would be needed from a state fund.
Frontier		
Integra	Regarding intrastate access reform, here too the Commission should monitor and participate in the FCC's rulemaking proceedings scheduled to start in the fourth quarter of this year. The FCC has indicated that it plans to take jurisdiction away from the states with regard to intrastate access. As stated previously, Integra believes that it is not an efficient use of resources to dispute the future of intrastate access at both the federal and state level simultaneously. In addition, it should be kept in mind that access reform is but one aspect of the National Broadband Plan – a plan that includes multiple pro-competitive goals. Implementing one part of the plan, such as access reform, ahead of or without regard for other parts of the plan, such as special access pricing reform, may unduly harm one class of carrier over another.	
Public Counsel	The Plan is a policy statement, however, with many details undetermined. The specific shape and direction of universal service reform to be undertaken by the FCC will take a while to unfold. It would be premature	

[5] It is not possible to compute the exact size of the gap using wireless service from the data made available by the FCC. The difference in investment cost for the DSL versus the wireless scenarios, however, is about $9 million compared to less than $3 million.
[6] The Broadband Availability Gap, OBI Technical Paper No. 1, at 77.

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	to design a state universal service fund based on the National Broadband Plan. Decisions made in the FCC universal service proceedings are likely to have a have a major impact in dictating what actions are most needed at the state level.	
Qwest		The National Broadband Plan ("NBP") set out objectives for the FCC in expanding broadband, USF reform, and ICC reform. The FCC has not yet described how its plans affect intrastate access reform except to set an initial target rate at the interstate rates. The FCC has not delineated its jurisdiction over the intrastate access rates, so immediate state action may not be complementary to the reform plans the FCC proposes and may even be counterproductive when combined with the FCC reforms.
Sprint	The NBP does not require any state to establish a state USF. The proposed reduction in access charges will benefit Washington consumers. A state USF, particularly one that favors incumbent company interests over all others, will burden consumers and distort the market. The need for intrastate access rate reductions was long overdue well before the NBP was published.	
Verizon		Moreover, it is premature to establish a state USF without knowing whether and how the FCC will implement its NBP proposals. As Public Counsel points out, it is premature to design a state USF based upon the NBP, noting that decisions made by the FCC are likely to have a major impact in dictating what actions are most needed. Similarly, Comcast observes that if there is any need for additional state funding, it will become apparent only after the FCC determines how it will implement the NBP. Integra proposes that this Commission closely monitor the FCC's NBP proceedings to evaluate whether it is appropriate to move ahead of, or inconsistent with, the FCC. Sprint points out that the NBP does not require any state to establish a state USF. Indeed, if anything, the message in the NBP is that funding should be phased out, not increased, and that carriers should look primarily to their own end users for cost recovery.

Issue #5: To what extent is there a need for a WUSF to replace intrastate access charge revenues of ILECs in order to preserve and advance the telecommunications network in the State of Washington?

Issue/Interested Party	Direct Comments	Reply Comments
WITA	As set out on Table 5, intercarrier compensation reform, without a WUSF, would result in local rates rising in a range from an increase of just over five dollars per month per line to over forty-five dollars more per month per line. For ten of WITA's members, the increase in the local rate would exceed fifteen dollars per month per line. It is important to keep in mind that these potential customer rate effects do not include the possible loss of federal universal service support. As Table 4 demonstrates, considering just from the loss of ICLS, the pressure on local revenues could be as much as an additional $70 per month per customer. WUSF support is absolutely needed if rural Washington is to remain a player in tomorrow's economy. This requires statutory change and that statutory change must take place in 2011.	
AT&T		
Comcast	There is no need for a revenue replacement fund to offset reductions in intrastate access charge revenues. The ILECs are no longer subject to rate cases where their revenue requirements are determined and rates for <u>all</u> services are set to yield that revenue requirement. If the WUTC determines that certain customers would be unable to afford local exchange service at market-based rates following these access reductions, then it could begin the process of identifying a mechanism to subsidize these customers' rates.	
Frontier		
Integra	There should not be a default replacement of ILEC intrastate access revenues with support from a WUSF. First, before a declining revenue stream is locked into a WUSF contribution formula it should be determined whether that revenue stream is necessary and whether support from a WUSF is the most effective replacement mechanism for that revenue stream. For example, does the ILEC have pricing flexibility? If the ILECs rates are regulated, how do those rates compare to rates of other	

Issue/Interested Party	Direct Comments	Reply Comments
	carriers in Washington (i.e. can they be increased).	
Public Counsel		
Qwest		Intrastate access revenues are a major revenue source for companies, which contributes to their free cash flows that allows the internal funding of capital that supports broadband expansion and upgrades, as well as the basic capital to maintain and improve the voice network. Reducing intrastate access without allowing compensating increases in rates or other support will greatly hinder the ability of companies to maintain their current network investment levels and kill their ability to increase investment levels. Comcast believes that there is no need for a replacement fund to offset intrastate access reductions. While Qwest does not want a large access replacement fund, it recognizes that there will be companies for which an increase in local rates will be insufficient to allow them to earn their authorized return.
Sprint	Any carrier seeking a replacement of access revenue through a WUSF must bear the burden of proving a need that cannot be addressed in a way that does not involve taxing other carriers' customers.	
Verizon	In no event should the Commission consider burdening new services and technologies, such as wireless and VoIP, and the customers that use them, with the obligation to finance the LECs' legacy business operations. These service and technology innovations are spurring competition in the communications market and providing an impetus for reduced rates in the traditional wireline sector. There is no sound basis for compelling these new service providers to contribute to a new fund, even if there were no question about the Commission's jurisdiction to do so —and there is. A mere desire to "spread the pain" is not a sufficient reason to impose significant new financial burdens on other service providers and their customers.	

Issue #6: What benefits accrue to Washington consumers if intrastate access charges are reduced?

Issue/Interested Party	Direct Comments	Reply Comments
WITA	A WUSF will allow the PSTN to continue to support wireline, wireless and broadband connectivity in rural Washington. This has very substantial social and economic ramifications. If families cannot communicate between rural and urban portions of the state on an efficient and affordable basis, social ties become severed or there is an increase in migration of the population from rural to urban areas. If rural communications cannot be provided on a robust and affordable level, economic development in rural Washington will cease. Rural communities will become more isolated than they are today.	
AT&T	First, as discussed above, by reforming the existing unsustainable access charge regime (which is a holdover from the monopoly era) such reform will provide more revenue stability to rural LECs and is the first step in facilitating the transition to an all-broadband network for consumers in Washington. Second, as discussed in more detail below, intrastate access rates will (all else equal) result in lower long distance prices for the benefit of Washington consumers. Third, access reform benefits business customers by decreasing their long distance communications costs. Fourth, access reform decreases the disparity in the competitive playing field as wireless, VoIP, and other technologies do not pay intrastate access charges at all. Fifth, access reform promotes investment in different technologies on the basis of economic merit rather than regulatory advantages or disadvantages. Last, access reform would reduce the incentives for socially wasteful arbitrage activities such as call-pumping (e.g. sham businesses paying kickbacks to people to call into chat rooms set up to drive access charges against long distance providers) and traffic shifting (misrepresenting the jurisdictional nature of traffic so that it appears to fall into a more favorable regulatory jurisdiction). Intrastate access fees are the single most important component of the overall cost of providing in-state long distance service, representing as much as 75 percent of the retail price that consumers pay for in-state long distance service. Empirical evidence demonstrates that when access fees	Public Counsel's claim that consumers saved between $370 million and $1.48 billion because a universal service fund was not established 10 years ago is incorrect and demonstrates a lack of understanding of the benefits of access reform. As AT&T explained in its comments, switched access charges are a principal component of the cost of providing wireline long-distance service. High access charges keep the price for in-state wireline long-distance calls higher than they should be. As a result, consumers who place traditional long-distance calls from their home or office phone are paying much more than they should for long distance service.

Issue/Interested Party	Direct Comments	Reply Comments
	are reduced long distance prices decrease, even when there is no requirement to "flow-through" the reductions to consumers.	
Comcast	In competitive markets, consumers will always benefit when the underlying costs borne by the firms serving a market fall. It may be difficult to track directly how the flow-through occurs, but nonetheless the market should be trusted as the best "enforcer" that this will happen.	
Frontier		
Integra	The direct benefits to Washington consumers as a result of reductions in intrastate access rates cannot be clearly determined. IXCs are typically unwilling to promise or demonstrate that reductions in access charges actually flow through to consumers. IXC pricing plans generally have very little variability from state to state, thus the direct relationship between Washington intrastate access rates and long distance rates in Washington is unclear.	
Public Counsel	Public Counsel is not aware of any immediate or direct benefits that consumers would experience from access charge reform. As noted above, on the other hand, consumers face a risk of increased local rates from rate rebalancing. Unless reductions are passed through to customers or absorbed by companies, customers may see net increases in telecommunications prices. Universal service reform could potentially create customer benefit by rationalizing and targeting revenue support flows more effectively. In the long run, for example by eliminating duplicative support, this could reduce the cost of universal support paid by consumers. To the extent universal service support is transitioned to broadband service over a period of time, consumers should see benefits in the availability of broadband in unserved or underserved areas.	
Qwest		If intrastate access reform is implemented, the major benefit to consumers is that the unsustainable access regime is replaced with a more stable revenue source. Because long distance services are priced based on the national market conditions, and are not individually regulated by the states, the state cannot ensure or mandate a flow through of access charge reductions.
Sprint	Because the carriers have a monopoly position in the provision of switched access, there is no market force that will cause an incumbent to voluntarily lower its switched access rate. However, because there are	

Issue/Interested Party	Direct Comments	Reply Comments
	multiple competing carriers whose costs are all directly inflated by the imposition of high switched access rates, reducing the high switched access rates will reduce the costs imposed on competing carriers, and the competitive market will require those carriers to turn their reduced costs to end users through lower prices and competitive investment.	
Verizon		It is inappropriate to create a state USF in conjunction with implementing intrastate switched access charge reform, as proposed by WITA. Using 2008 data, WITA estimates that to make its members whole after reducing their intrastate switched access rates to their interstate level would require a $35 million state USF in the first year and, after completion of a transition described in its Comments, $27.5 million annually thereafter. Ultimately, Washington consumers would pay these amounts, in the form of a USF assessment on their bill — one applied on top of the federal USF assessment that recently reached a high of more than 15%. The far better solution is to grant all carriers, including WITA's members, sufficient retail pricing flexibility for their regulated services to allow them a reasonable opportunity to recover their network costs, as well as relaxing any legacy regulatory constraints that may apply to them and not their competitors. Carriers should recoup any foregone access revenues that they choose not to absorb through their rates for retail services. In addition, WITA's own data shows that the local exchange rates of several of its members are priced at levels that are artificially low as the result of longstanding, but no longer sustainable subsidies. Thus, moving ILEC local rates closer to their underlying costs would have the salutary effect of sending appropriate pricing signals to the market and creating incentives for ILECs to operate more efficiently.

Issue #7: Should intrastate access charge reductions apply to all telecommunications carriers?

Issue/Interested Party	Direct Comments	Reply Comments
WITA	WITA takes no position on whether CLEC access rates need to change.	
AT&T	Yes. For incumbent LECs, the monopoly-era policy of implicit subsidies is obsolete and unsustainable in today's competitive market. Recognizing the harm that CLEC access rates produce, the FCC has adopted reforms on the interstate side, requiring CLECs to "cap" their interstate switched access rates at the level of the predominant ILEC rates. Likewise, in Washington the Commission should take the simple, common-sense first step of capping CLEC intrastate switched access rates at the level of the corresponding ILEC with whom the CLEC competes.	
Comcast	Yes. All providers of intrastate switched access service should be required to reduce prices to cost. In the case of the CLECs, the most efficacious way to implement this rule is to require them to set switched access rates at (or below at their option) the level of the ILEC operating in the same geographic area.	
Frontier		
Integra	There is no reason to mandate intrastate access changes to all carriers in the state simultaneously. Certain ILECs in the state may rely upon intrastate access to provide Universal Service support. These carriers may desire changes to protect a falling revenue stream, but this alone does not dictate that changes be mandated to all LECs in the state. As stated previously, Integra does believe it is not an efficient use of resources to undertake access reform simultaneously at both the federal and state level, especially given that the FCC has indicated it plans to take jurisdiction over intrastate access away from the states.	CLECs, such as Integra, simply request that the Commission refrain from radical change that would force CLECs to alter business plans that they have been implementing over the past ten plus years. CLECs operate in a competitive market that has already been excessively turbulent due to regulatory change, crisis of financial markets continuous litigation, and consolidation of CLEC's largest competitors. However, CLECs, unlike ILECs, have no prospect of a safe harbor in USF funding.
Public Counsel		
Qwest		Intrastate switched access reform should apply to all LECs. As stated in response to question 2, many CLECs charge intrastate access rates in excess of their competing ILEC, even though these CLECs serve no high cost territory. Therefore, Qwest believes CLECs intrastate access rates should mirror the intrastate access rates of the largest ILEC in the state. This position is also held

Issue/Interested Party	Direct Comments	Reply Comments
		by Verizon. Qwest believes that its position requiring lowering intrastate access to the largest incumbent's composite intrastate rate potentially fights traffic pumping to a greater extent than having LECs reduce their intrastate switched access rates to their interstate switched access rate levels. This is because Qwest's proposal would force a rural CLEC's rates down to Qwest's level, as rural CLECs would be allowed, under the AT&T proposal, to charge higher interstate access rates than Qwest's current level. Traffic pumping, and other types of LEC arbitrage are directly related to the higher interstate and intrastate access rates which rural CLECs are allowed to charge today.
Sprint	Yes. Switched access rates of all LECs should be reduced to the level of switched access charges that wireless carriers collect.	
Verizon		

Issue #8: Is there a need for a state WUSF during the period in which federal universal service support transitions to support for broadband under the NBP?

Issue/Interested Party	Direct Comments	Reply Comments
WITA	There is an absolute need for a state WUSF. The NBP provides additional impetus for the WUSF, but it is not the only reason. A WUSF is needed even if the NBP did not exist. In addition, the establishment of a WUSF could reduce some of the uncertainty created by the loss of access minutes today and the transition from a known federal USF to an unknown CAF. This reduction in uncertainty would allow those companies building and maintaining the network required to bring broadband to the State of Washington to continue their important work.	
AT&T	Yes.	
Comcast	It is too soon to tell whether the NBP will meet all subsidy needs, but it would be premature to establish any supplemental state fund at this time.	
Frontier		
Integra	Integra does not have an opinion at this time.	
Public Counsel		
Qwest		The FCC plan may include mechanisms where intrastate access reductions are offset by some federal charge or fund. In this case there may be a need for a complimentary state fund or no need for a state fund at all.
Sprint	No transitional funding is necessary unless a provider seeking to burden other carriers' customers through a WUSF can actually demonstrate a need that cannot be met any other way.	
Verizon		

Issue #9: If a WUSF is established, what should be the criteria for eligibility to draw from the fund? How should the size of the fund be determined? What should be the basis of the amount of support to be received?

Issue/Interested Party	Direct Comments	Reply Comments
WITA	In order to draw from the WUSF, a carrier will need to assume the carrier of last resort (COLR) obligations. The existence of a COLR means that there is a carrier who will commit to provide service when no one else will provide service. A COLR obligation is a key to a successful universal service policy. It is the means by which the policy goals of RCW 80.36.300 are met. For a carrier to draw from the fund, the carrier will need to commit to bring its composite intrastate switched access rate level to be equivalent to that carrier's composite interstate switched access rate. If the WUSF will support more than one carrier in a geographic area, the carrier that is not the ILEC must agree to be subject to the Commission's regulation to the same extent that the ILEC is subject to that regulation, and would not be eligible for support in any area in which an ILEC does not receive support. That carrier will be subject to the same simplified earnings review as an ILEC would be subject to and subject to the same benchmark imputation rules (see Question 12, below). That carrier must agree to perform the role of COLR.	
AT&T	To be eligible to withdraw from a WUSF a carrier must: 1) serve as a COLR; and, 2) the per line access shift, as described below, when added to basic local rates must be higher than the state-wide local exchange service rate benchmark ("Benchmark"). - *Discussion of four step process for calculating individual carrier support –* As these steps demonstrate, the size of the WUSF will depend, in large part, on the level at which the statewide uniform retail benchmark is established (e.g. $16, $18, $20 and so forth).	
Comcast	Since it is too soon to tell if a WUSF is needed, it is not possible to	

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	discuss the criteria for the fund or to size the fund. As a general principle it is critical that the fund be competitively neutral, which is a goal that can be advanced by using procurement auctions (where there will be multiple bidders for the funds) or alternatively some funding can be implemented by giving funds directly to the consumers that are being supported.	
Frontier		Frontier believes a rational WUSF should be based on the following principles: 1. Access reform should not be mandated but should be a condition to be eligible for receipt of state universal service support. 2. Carrier of last resort responsibilities should be a condition to be eligible for receipt of state universal service support. 3. If a WUSF is established for voice service, the level of state universal service support for an area should be calculated as the difference between the forward-looking costs of providing voice service within a market area (perhaps a census block area) and a benchmark cost level. The benchmark cost level should reflect a balance between maintaining affordable rates in high-cost areas and the statewide customer impact of recovering the costs of a WUSF through a customer surcharge. 4. Support should be paid to underlying network providers. 5. The surcharge should be broadly applied to all voice services; including wireless, Voice over Internet-Protocol ("VoIP") and CATV voice; to establish a reasonable surcharge level and maintain competitive neutrality among all forms of voice communications service providers.
Integra	Integra does not have an opinion at this time.	
Public Counsel	The basic criterion for drawing from a universal service funding mechanism should be that the recipient carrier provides all the services included in the concept of universal service. At the present time, the supported services are defined as basic telephone and related services. Part of establishing a new USF in Washington would need to be a determination of whether the definition of basic or supported services should be changed. Any universal service fund must be designed to be no larger than necessary to provide the level of support that has been decided for the	

Issue/Interested Party	Direct Comments	Reply Comments
	services selected. As noted above, a significant issue with the federal USF is the expanding size of the fund and the increasing burden it places on customers. A central motivation of federal universal service reform is the goal of removing unneeded and excessive subsidies from the system. Any state fund which is pursued should meet these same goals.	
Qwest		A WUSF can be established to serve two functions: 1) the support of high cost non-competitive areas and 2) as an intrastate access replacement mechanism. The criteria for eligibility for the latter has been discussed above. The eligibility for the former would be to define non-competitive high cost geographic areas by wire center with costs that exceed a local rate benchmark defined by the Commission. The WUSF would support the intrastate costs above the benchmark. The WUSF support would be provided on a revenue neutral basis. The size of the fund depends on whether the Commission implements a high cost support fund and/or access replacement fund. Further, the level of the local rate benchmark selected by the Commission impacts the size of both an access replacement fund as well as a high cost fund. The fund size for an access replacement fund is also impacted by the number of carriers who can make a revenue neutral transition to the local rate benchmark. Another variable in the fund size is the earnings showings by rate-of-return ILECs in an access replacement fund.
Sprint	Any fund must not favor a given provider or technology, so any support must be made equally available to any service provider. Because consumers ultimately bear the burden, any fund should be strictly limited by limiting a) the amount of time the fund is in effect, b) limiting it to only those lines which are incapable of producing more than basic local voice revenue, and c) limiting the scope -- in any area in which there is one service provider providing service without imposing WUSF burdens on other carriers and their customers and without imposing switched access charge burdens on other carriers and their customers, no WUSF should be available to any provider in that area and switched access charges should be replaced with a reciprocal compensation mechanism under which rates are no higher than economic cost. Frankly, the best way to ensure that a fund promotes competition and	

Issue/Interested Party	Direct Comments	Reply Comments
	helps consumers, is to provide support directly to consumers. In this way consumers can select the service provider and technology that best meets their needs. So, for example, if the commission decides to create $5 per month support in a given area, it should provide a $5 voucher directly to the consumers in those areas to be used toward the purchase of service from the provider of their own choosing.	
Verizon		

Issue #10: What, if any, is an appropriate contribution basis for a WUSF? To what extent should other telecommunications providers, including wireless and VoIP service providers (nomadic and fixed) contribute to a WUSF? If so, on what basis should they contribute?

Issue/Interested Party	Direct Comments	Reply Comments
WITA	WITA supports moving to a contribution mechanism based on working telephone numbers, or successor protocol. A connection based contribution system is also worth considering. All of the entities that supply working telephone numbers to end users should contribute to the WUSF. By assigning working telephone numbers (or successor protocol), carriers are acknowledging that the PSTN will be used as a critical component of service. It may be appropriate that if the WUSF is transitioned to a broadband fund, consideration should be given of moving to a capacity-based or connection-based system of contribution at some future date.	This requirement for predictable and stable support is one of the elements for universal service set out in 47 U.S.C. § 254(b). 47 U.S.C. § 254(b)(5) states: "There should be specific, predictable and sufficient Federal and State mechanisms to preserve and advance universal service." This requirement applies to state programs as well. 47 U.S.C. § 254(f) addresses state USF programs, and provides: "A State may adopt regulations not inconsistent with the Commission's [FCC's] rules to present and advance universal service." Further, the statute goes on to address funding for state programs: "A State may adopt regulations to provide for additional definitions and standards to preserve and advance universal service within the State <u>only to the extent</u> that such regulations adopt additional <u>specific, predictable, and sufficient mechanisms</u> to support [the state program]." (Emphasis added.) Thus, funding of the WUSF must come from a stable and predictable source. Using general tax revenues would mean the WUSF is subject to year-by-year (or at least biennial) changes in the appropriation process. Such a funding mechanism is not stable or predictable.
AT&T	AT&T believes that in order to ensure national uniformity and lessen the burden of establishing a universal service fund, states should mirror the contribution methodology that is in place at the time for the FUSF. If in the future, the FCC changes the federal USF contribution methodology, changes should be made to the Washington contribution methodology as well.	While a number of commenters state that they oppose a state universal service fund, these same commenters provide interesting alternatives for funding a state universal service fund, making it appear that these commenters realize that a state universal service fund is a necessity. Sprint and Comcast both suggest that a state universal service fund should be funded from general tax revenues. WITA suggests that a state universal service fund should be funded based on working telephone numbers or possibly a connection based system. While AT&T recommends that Washington establish a state universal service fund with the contribution methodology mirroring that of the federal universal service fund, AT&T is not opposed to investigating the funding methodologies suggested by other commenters or other alternatives such as a state subscriber line charge.
Comcast	Ideally, the subsidy should be funded from general tax revenues to draw	

Issue/Interested Party	Direct Comments	Reply Comments
	from a broad base. Any industry-specific fund would impose a unique burden on the industry. If, however, a specific industry is going to be taxed, it is important that the assessment on voice providers be as competitively-neutral as possible.	
Frontier		
Integra	To the extent that the Commission makes changes to the WUSF, the contribution methodology should be as broadly based, and technologically and competitively neutral, as possible. All carriers providing telecommunications services in the state should contribute to a WUSF, including IXCs, wireless, and VoIP service providers.	
Public Counsel	As a general policy matter, the contribution basis for any USF should be broad, based on a "service pays" principle. Any service that uses the network to be supported by the USF should contribute to the support mechanism.	
Qwest		In order to lessen the administrative burden on carriers, the state should use the same methodology as used by the FCC. While Qwest also agrees that nomadic VoIP should contribute to the fund, as a practical matter the courts have precluded the Kansas and Nebraska commissions from assessing these carriers. Therefore, this issue should be left to be resolved at the federal level.
Sprint	Any WUSF should be funded through general Washington state tax revenues. If a WUSF is justified, then the elected officials of the state should willingly incorporate that program with the other government programs funded by general taxes. Taxing one group of telecommunications providers in order to subsidize another will distort the marketplace and lead to inefficient outcomes.	
Verizon		There is no reason to create any state USF here, but WITA's notion of including wireless and VoIP providers in the base of contributors to the fund deserves no consideration at all.[7] WITA's proposal would penalize those consumers who, in the competitive market, have availed themselves of service alternatives to the WITA member companies' services. The end user customers of other carriers should not be burdened with supporting the ILECs' operations when the ILECs

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Issue/Interested Party	Direct Comments	Reply Comments
		are not charging their retail customers rates commensurate with either the costs of their local services or the rates charged to other Washington consumers for comparable services. Imposing what would effectively be a tax on wireless and VoIP customers to support the rural LECs would chill innovation and drive investment from Washington.

Issue #11: What is the role of carrier of last resort in a state universal service fund? Should any carrier that receives support from the universal service fund be required to assume the obligations of carrier of last resort with respect to traditional voice services, with respect to broadband service, or both? Should the fund support more than one provider per geographic area? How should "area" be defined?

Issue/Interested Party	Direct Comments	Reply Comments
WITA	As pointed out earlier, the carrier of last resort or COLR obligation has an important role in a state universal service fund. It is key to accomplishing the policy objectives of affordable rates and the availability of communications services throughout the State. A carrier that receives support from the WUSF should be required to assume the COLR obligation with respect to traditional voice services. As use of the network is transitioned to a broadband basis, the COLR obligation should exist for broadband service as well. WITA has proposed that the WUSF fund support for no more than one wireline and one wireless provider per geographic area. If the WUSF size is projected to be too large as a result, then WITA would support funding only one provider per geographic area. This question also seeks comment on how the term "area" should be defined. The definition of "area" should be the service area of the incumbent local exchange carrier on an exchange or wire center basis. This is consistent with the approach the Commission has used in the past for disaggregation and federal universal service matters. In addition, this is the only way that the network in the rural areas can be supported. It is the only real way to define the COLR obligation. If the service area for determining where one would serve as COLR is the incumbent service area, that does not mean that support necessarily has to be calculated on that same basis. If the Commission wishes to further	In several places in its Comments, Integra talks about the presence of competition as a factor in measuring whether there is a need for universal service funding. This is the concept that if there is a second wireline carrier in an area that is competing without support, that fact demonstrates that support may not be needed for the incumbent carrier. However, the concept does not take into account carrier of last resort (COLR) responsibilities. The ILEC must serve all customers who reasonably request service. A cable competitor does not have the same obligation. In addition, the mere presence of a competitor is not a sufficient indicator of the lack of need for universal service support. As the diagrams that were included in WITA's Opening Comments for Asotin, Lewis River and McDaniel demonstrate, the mere presence of a cable competitor does not tell the whole story. Under the "hole in the donut" concept, it is obvious that the cable footprint covers only the easier to serve, lower-cost, relatively more dense areas. The presence of a competitor in the donut hole does not say anything about the true cost of providing service to the harder to reach customers. AT&T argues that only the carrier with COLR obligations should be funded.[8] Public Counsel supports the continuation of the COLR concept.[9] WITA agrees that the COLR obligation should be a key element in universal service funding. In addition, as discussed in WITA's Comments, the COLR obligation should evolve as communications evolve to a broadband basis.

[8] AT&T Comments at p. 8 and 15.
[9] Initial Comments of Public Counsel at p. 8.

Issue/Interested Party	Direct Comments	Reply Comments
	disaggregate support, it could be done on a census block or census block group basis.	The concepts of COLR and universal service are inextricably intertwined. Fulfillment of the COLR obligations is what makes universal service work.
AT&T	In order to keep the WUSF size as small as possible and what consumers are ultimately asked to bear for WUSF charge, AT&T believes that only a single carrier per geographic area that has COLR obligations should be eligible to receive support from the WUSF. If the WUSF is at some point transitioned to a broadband fund, the Commission at that time will need to establish the eligibility requirements for communications providers to receive support.	
Comcast	Recipients of state funds will have to assume obligations, which might include a requirement to serve all customers in a specific geographic area. It is not possible to define these obligations in a vacuum, but rather they must be determined in conjunction with the goals of the fund and the method used to distribute the fund (e.g. procurement auctions).	
Frontier		
Integra	If multiple providers are competing for customers in an area that is supported by Universal Service, then the Commission should undertake a review of the funding levels going to support that particular area. The presence of competition may indicate that support levels are too high and could be reduced.	
Public Counsel	As a general policy matter, it is preferable that a carrier which receives state universal service support should assume or continue COLR obligations. This better furthers the ultimate policy goals of universal service by requiring the recipient carrier to provide supported service throughout its territory to all requesting customers.	
Qwest		In order to receive funds from a Washington USF a carrier should be, serving high cost areas with its own facilities. If a Washington USF is created, it should only support a single carrier in each defined high cost area. Supporting more than one carrier in an area where it is uneconomic for a single carrier to operate creates subsidized competition which is highly inefficient and creates too large a funding burden for consumers in the state. The carrier’s responsibilities are currently related to the provision of voice service. Broadband services are currently not regulated and no obligations to serve are appropriate under the

Issue/Interested Party	Direct Comments	Reply Comments
		current regulatory system. A support "area" should be defined as areas that do not contain an unsubsidized service provider. WITA would like the COLR responsibilities to be placed on any fund recipient and extended to broadband service. However, the UTC does not have regulatory authority over broadband services, and it is unlikely that the UTC can designate a COLR for a service it does not regulate.
Sprint	The vast majority of Washington citizens enjoy the ability to select a "carrier of first preference". The goal should be to take measures necessary to ensure that no Washington citizen is stuck with a "carrier of last resort". In any geographic area where there is more than one carrier, there is no need for universal service support.	
Verizon		

Issue #12: Should a state universal service fund include a local rate benchmark? If so, for what purpose and how should it be determined?

Issue/Interested Party	Direct Comments	Reply Comments
WITA	WITA supports using a local rate benchmark for universal service funding purposes on a limited basis. A benchmark can be used in conjunction with calculating the amount of WUSF support for a company which has reduced its composite intrastate switched access rates to a level equivalent to the composite interstate switched access rates. The benchmark should be used on an imputation basis. That is, if a company is below the benchmark, a certain amount of revenue will be imputed to the company if it does not commit to raising local rates to the benchmark. This imputed amount would be subtracted from the amount the company would otherwise receive under the WUSF.	As set out in the revised Table 6, above, rate rebalancing alone will not accomplish access reform. The resulting rates are simply too high. However, WITA recognizes that there is a great reluctance to use a WUSF to maintain rates for some companies at current levels. That is why WITA's Comments proposed establishing a local rate benchmark and allowing a transition up to that benchmark or imputing revenue for USF purposes if a company decided to not raise rates to the benchmark. That should satisfy those carriers who recognize the need for a USF, but argue that rate rebalancing should occur first. For example, that is the position taken by Integra Telecom.[10] Public Counsel also supports the creation of a universal service fund if it is demonstrated to be needed and opposes a flash cut on access reform.[11] WITA advocates the use of a benchmark at the $16.00 local rate level. That coupled with the existing SLC produces a rate that the customer pays of $22.50 per month. This is a reasonable benchmark for this purpose. It is a rate level that is consistent with state policies in RCW 80.36.300. The result would also be in line with the goals of federal law in 47 U.S.C. § 254(b).
AT&T	Yes. A statewide uniform retail rate benchmark should be established as described in response to questions number 2 and 9.	In order to minimize the size of the WUSF, ILECs should be allowed to "rebalance" their local rates up to a reasonable benchmark and only recover the remaining access revenue reductions from the WUSF. This will reduce the size of a WUSF as all of the access reductions will not come from the WUSF, but instead will also come from increases to residential retail rates which have remained artificially low in Washington. At the same time, the ILEC would not be required to raise its rates to the benchmark. Instead, as proposed by WITA and AT&T, if the company wants to keep its local retail rate below the benchmark, the difference will be imputed to the company and would be subtracted from the amount the company would otherwise receive under the WUSF."

[10] Integra Telecom's Response to the WUTC's Questions Concerning Appropriate Universal Service Policies in Washington (Integra Comments).
[11] Initial Comments of Public Counsel at p. 3-4 (need for USF) and p. 2 (access reform).

Issue/Interested Party	Direct Comments	Reply Comments
		Rebalancing of local rates as a way to make up for the lost subsidies from decreases in access revenues has also been recognized as an important component of the NBP. The NBP "encourage[s] states to complete rebalancing of local rates to offset the impact of lost access revenues…[as] [d]oing so would encourage carriers and states to 'rebalance' rates to move away from artificially low $8 to $12 residential rates that represent old implicit subsidies to levels that are more consistent with costs." In its comments, WITA proposed a $16 benchmark to provide an estimate of the size of the WUSF, $27.5 million. If a slightly higher benchmark was instituted, such as $19, AT&T believes that the WUSF size would decrease by almost 1/3; a benchmark of $20 would cut the size of the fund in half. A benchmark of $19 or $20 would not be unreasonable, as the current rate cap for New York is $23, while Pennsylvania has an $18 cap which it may increase at the conclusion of an ongoing investigation. The fact that there are a number of companies in Washington with retail rates over $16 demonstrates that consumers are willing to pay over $16 a month for local phone service. As such, AT&T believes that in order to keep the fund size as small as possible it would be advantageous to set a benchmark that is higher than $16.
Comcast	This depends on the nature of the fund. If the fund is being used to support broadband build-out, then the recipients must commit to provide some level of retail services at a reasonable price. This is likely to take a different form than the traditional benchmarking of local service rates.	
Frontier		
Integra	Carriers that wish to collect from the WUSF should set their local rates at a minimal level. There is no reason to use the WUSF to support extraordinarily low local rates.	
Public Counsel		
Qwest		Yes. Qwest believes it is appropriate to include the use of a local rate benchmark if a fund is created. AT&T agrees with Qwest on this point. WITA states that a benchmark should be used as an imputation for calculating support. In Qwest's view, as long as the imputation is also used in the earnings analysis to qualify for a draw from the fund, this approach is acceptable.

Issue/Interested Party	Direct Comments	Reply Comments
Sprint	Because consumers ultimately bear the burden of a fund, a “benchmark” is often considered as a tool to limit the amount by which contributing carriers and their customers are required to enrich receiving carriers. In order to provide an incentive for recipients to turn to increase adoption of broadband services, any benchmark should recognize the revenue available from selling broadband and other services. A “local-only” benchmark weakens the incentive of recipients to increase broadband adoption.	
Verizon		

Issue #13: Should there be a transition period from the current state universal service mechanism to a new WUSF? If so, how long should the transition period be?

Issue/Interested Party	Direct Comments	Reply Comments
WITA	Yes, a transition period should be incorporated. Under the NBP, the proposal is to use a two to four year transition to bring intrastate switched access rates to the interstate level. WITA proposes using a goal of a three year transition period. The amount of transition would be calculated using a base year, perhaps 2009, and then the transition would occur in three equal steps of a minimum of $2.00 per line per month in each step.[12] The access reductions would occur in Year 1 as the first step, along with a $2.00 step (if the carrier chose to make that step), towards the benchmark. If a carrier chose not to raise local rates towards the benchmark, then the revenue that would have been created by that step would be imputed to the carrier as a reduction in the carrier's draw from the WUSF. Steps 2 and 3 would follow the same procedure on the benchmark side of the equation, reducing the draw from the WUSF.	
AT&T	The ITAC, Traditional USF and the Common Carrier Line charge are subsidies assessed on a per minute basis on originating and/or terminating intrastate long distance calls. As these are not rate elements included in the ILECs interstate switched access rates, AT&T believes that these elements should be eliminated immediately.	
Comcast	There should be no delay or a minimum of delay prior to implementing reductions in intrastate access charges.	
Frontier		
Integra	To the extent a new WUSF is established, the transition period should be sufficiently long to minimize rate shock to end user customers and the carriers providing them service. The length of the transition period should be dependent upon the extent of the changes and their potential impacts.	Once the set of carriers to which reductions access rates will apply is established and a target rate is selected, the Commission must determine the *transition* process from current access rates to the target rates. AT&T proposes the maximum disruption to Washington end-users and the LECs serving them by proposing immediate changes, a flash-cut, of intrastate access rates to interstate levels.[13] In contrast, Public Counsel recommends that from a consumer

[12] This means that for some companies the transition may be more than three years. However, the effect of a longer transition for some companies on the size of the WUSF should be de minimis.

[13] AT&T Comments, pp. 6-7.

Issue/Interested Party	Direct Comments	Reply Comments
		perspective, "access charge rebalancing should be done on a gradual basis, not in a 'flash cut' or extreme fashion, which can result in dramatic increases in local rates."[14] To the extent reductions in access charges are mandated, Integra supports a gradual and predictable approach that extends over a number of years. An extended transition period is necessary to minimize impacts on both carriers and their end-user customers and allow carriers the time to alter business plans. The task of altering business plans would be more difficult for CLECs than many rural ILECs. CLECs, by definition, operate in retail markets that are competitive. As a result, CLECs have limited ability to individually increase rates to their end users – in other words they are essentially price-takers in the market. Even if the market was forgiving enough to permit rate changes, CLECs typically have term agreements with their end-user customers that limit the CLECs' ability to modify rates. A gradual transition will help to provide carriers the ability to fully adjust business plans and mitigate rate shock to end user customers.
Public Counsel		
Qwest		Yes there should be a transition. The length of the transition depends on the purpose of the fund and the ultimate rate targets the Commission chooses if the fund use includes the rebalancing of rates.
Sprint	There should be as little delay as possible in eliminating the harms caused by the high access rates and WUSF.	
Verizon		

[14] Public Counsel Comments, p. 2.

Issue #14: Should WECA continue to administer any USF (traditional or otherwise)? Should the WECA Board be expanded to include the interests of contributors?

Issue/Interested Party	Direct Comments	Reply Comments
WITA	Since the movement of the composite intrastate switched access rate level to the composite interstate switched access rate level would result in the elimination of the ITAC for each company, WITA does not see a need for WECA to administer the individual company ITACs. WECA should continue to administer the state universal service fund as it does now, related to the administration of access charges as that pool is transitioned. There will be a continuing need to manage intrastate switched access rates so long as the pool exists. WECA has had a track record (operating since 1987) of administrating the existing mechanisms fairly. It would not appear necessary to expand the WECA Board to include interests from contributors if all that WECA is going to do is manage the WUSF as proposed by WITA. If WECA is going to manage a USF mechanism that is dynamic and changes from year to year, then it would be appropriate to expand the WECA Board to include the interests of contributors and recipients.	
AT&T	WECA should not administer the new WUSF. WECA is only authorized to administer its access charge pools consistent with its administration plan on file with the Commission. That plan is attached to the Ninth Supplemental Order ("Plan") in UT-971140. The Plan itself allows for its adjustment, and potentially its elimination, as such time as the "legislature adopts legislation authorizing a new universal service program that applies to WECA's members and such new universal service plan has been implemented.	
Comcast		
Frontier		
Integra	Integra does not have an opinion at this time.	

Issue/Interested Party	Direct Comments	Reply Comments
Public Counsel		
Qwest		The administration of an access replacement mechanism should be performed by an independent third party, not a fund recipient or contributor. The Commission should issue an RFP for fund administration. WITA states that WECA should continue to administer the fund. Qwest's position is that since WECA is not an independent third party, it should not be the fund administrator.
Sprint	If any WUSF is limited and made competitively and technology neutral as described in responses above, then fund administration is a fairly insignificant issue. If however, the fund is large and designed to make substantial distributions primarily to incumbent LECs instead of consumers, then administration by a neutral entity, instead of by an ILEC affiliate as is now the case would be more appropriate.	
Verizon		

Issue #15: In designating entities to be eligible for WUSF funding, should there be an eligible telecom carrier (ETC) designation process that is distinct from the existing federal ETC designation process, or should they be combined?

Issue/Interested Party	Direct Comments	Reply Comments
WITA	Yes, there should be a separate process. The WUSF will serve interests that are, at least in part, different from the existing federal mechanism.	
AT&T	As the existing ETC designation process has different requirements that process should be separate from the process utilized to determine WUSF support.	
Comcast	As a general principle, there should be no difference on how carriers are treated for universal service funding. The goal of a USF should be clearly spelled out and the fund should be available to service providers that can help achieve that goal.	
Frontier		
Integra	Integra does not have an opinion at this time.	
Public Counsel		
Qwest		Whether the WUSF support is based on serving a non-competitive high cost area or as an intrastate switched access replacement mechanism, only the single provider that serves the non-competitive high cost area should receive support. Comcast says as a general principle, there should be no difference in how carriers are treated for universal service funding. Qwest disagrees – different carriers have different obligations with regard to offering service in high cost areas, and treatment of those carriers for purposes of universal service funding should reflect those differences.
Sprint	No carrier, including the incumbent, should be assumed automatically eligible, and the criteria for eligibility should be the same for all. Use of the federal ETC designation criteria should suffice.	
Verizon		

Issue #16: What other kind of oversight, if any, should the UTC have over administration of the WUSF?

Issue/Interested Party	Direct Comments	Reply Comments
WITA	The Commission should have continuing oversight over administration of the WUSF. The Commission will need to establish many of the initial details for the WUSF and its operation. The Commission will need to implement the simplified earnings review. The Commission will need continuing enforcement authority to be sure the WUSF is fairly administered and that contributors pay their fair share into the fund.	
AT&T	The Commission should utilize a competitive process to select a neutral, third party administrator to administer the fund. The Commission should also establish standards so that it or a third party can review compliance with the WUSF.	
Comcast	The key role of the UTC should be to determine whether the need for funding is justified and whether the level of funding is proven by costing analysis, financial analysis, or a competitive auction mechanism. This cannot be done after-the-fact but should be an essential part of creating a fund.	
Frontier		
Integra	Integra does not have an opinion at this time.	
Public Counsel	If a state universal service fund is created, the UTC should be the administrator of the fund with full oversight authority. The UTC has experience and expertise with telecommunications generally and with universal service programs specifically. The UTC also has an established statutory role of regulating in the public interest. The UTC's authority to administer the fund could be clarified or augmented if necessary by legislation. An alternative approach would be to place the function in another state agency, or to create a state parallel to the federal USAC. One area of concern is the uncertainty of state jurisdiction over some sectors of the telecommunications industry. Any administrator of the fund will need to have clear authority over all	

Issue/Interested Party	Direct Comments	Reply Comments
	industry participants who contribute to and receive payments from the fund.	
Qwest		The Commission should include detailed audit and reporting standards in the RFP for the neutral third party administrator to follow and employ in the administration of the fund.
Sprint	For any incumbent that receives support – which will come only after demonstrating an actual need which could not be met any other way than burdening other carriers and their customers - the UTC should require an annual renewal demonstration of proof that the incumbent has a continuing actual need for support that cannot be met in any other way than by burdening other carriers and their customers.	
Verizon		