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VIA ELECTRONIC MAIL AND FEDERAL EXPRESS

Mr. David Danner
Secretary and Executive Director
Washington Utilities and Transportation Commission
1300 S. Evergreen Park Dr. SW
Olympia, WA 98504-7250

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

Dear Mr. Danner:

Verizon appreciates the opportunity to comment on the Commission's review of state universal service policies. In light of the scheduled closing of the Frontier transaction (as approved by the Commission in Docket UT-090842) on July 1, 2010, Verizon offers at this time a general statement regarding universal service and access charge policies in Washington on behalf of certain Verizon entities that will remain active in Washington post-close.¹ Those Verizon entities and Verizon Northwest Inc. (to be re-named Frontier Northwest Inc.) may offer specific and independent responses to the questions posed in the Notice of Workshop ("Notice") dated May 26, 2010, as appropriate, at some future point.

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.² 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

¹ The Verizon entities submitting these comments are MCIMetro Access Transmission Services LLC d/b/a Verizon Access Transmission Services and MCI Communications Services, Inc., d/b/a Verizon Business Services (collectively "Verizon").

² Staff's Public Interest Analysis Regarding the Settlement Agreement in Docket UT-081393 (August 26, 2009) at 13.

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.

The Commission's historical policy goal of ensuring the widespread availability of telecommunications services at reasonable rates must be examined in light of numerous developments over the past decade – including the rise of competition, technological innovation, and the proliferation of intermodal service providers – that have dramatically altered the communications landscape. The widespread and growing availability of wireless, VoIP and broadband services have resulted in greater choice and lower rates for consumers. This robust intermodal competition has evolved without any overt state retail end user funded “universal service” support. Because consumers increasingly have access to quality services provided by a number of competing carriers and alternative technologies at affordable rates, the notion of “universal service” as exclusive access to a traditional landline phone is anachronistic. 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”³ is out of step with today's market reality, to the extent that it assumes “the telecommunications network” is just a single wireline network. In addition, because end users now have multiple alternatives available at competitive prices, the traditional assumption that subsidies generated from other services are needed to keep residential rates artificially low may no longer be valid and should be carefully scrutinized. For all these reasons, the Commission should view very skeptically any claims that new funding sources are needed to support “universal service.” Any contemporary evaluation of the Commission's universal service policy must take into consideration the stunning changes that have occurred in the industry and be based on empirical evidence of actual market conditions.

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 consumers the benefits that such competition would bring.

³ Attachment A to the Notice, Question 5.

Thus, the Commission's goal should be to move carriers towards a more efficient and rational pricing structure. Local exchange carriers should adjust their rates so that they recover more of their costs from their own retail customers, and not from other carriers and their customers. Creating a new universal service fund in order to replace access charge revenues⁴ would be bad public policy. A subsidy is a subsidy, regardless of whether it takes the form of an excessive intrastate switched access rate or a mandatory contribution to a fund designed to recover foregone access revenues. Shifting the revenue burden from one carrier-funded source (access rates) to another (a new state USF) would do nothing to solve the fundamental problem that some LECs are collecting too great a portion of their costs from other carriers, rather than their own end users. Establishing a "universal service" fund as an insurance policy against reduced access revenues and lower LEC profits would insulate one set of providers from the risks and rigors of competition, and is thus incompatible with a healthy, competitive market for communication services.

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.⁵ 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,⁶ 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.

Finally, intrastate access charge reform in Washington should not be linked to creation of a state universal service fund. The Commission's clear precedent is to consider intrastate access charge levels through carrier-specific complaints without regard to a state universal service fund. For example, the intrastate access charges of Verizon Northwest Inc. were reduced significantly through Commission resolution of a complaint filed by another carrier, and no intrastate universal service fund was used to offset the reductions.⁷ And in November 2009, the Commission approved a settlement of a complaint brought by Verizon entities against Embarq regarding its intrastate access charges that reduces Embarq's intrastate access charges over a phased-in schedule without any offsetting "universal service" fund.⁸

⁴ This issue is raised in Question 5, Attachment A to the Notice.

⁵ This issue is raised in Question 10, Attachment A to the Notice.

⁶ This issue is raised in Question 10, Attachment A to the Notice.

⁷ Order Sustaining Complaint, Directing Filing of Revised Access Charge Rates, Eleventh Supplemental Order (August 12, 2003), Docket UT-020406.

⁸ Final Order Approving and Adopting Settlement Agreement, Order 05 (November 13, 2009), Docket UT-081393. Also, the intrastate access charges of Qwest were reduced in a rate case analyzing Qwest's costs and rates without

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A number of carriers attempt to divert attention from their inflated intrastate access charges (in some cases, among the highest in the nation) by advocating incorrectly that a state universal service fund is necessary to offset any access charge reductions to keep retail rates constant. Yet most of these carriers in Washington charge retail rates that were established long ago and may no longer be appropriate. Rather than resurrect a failed effort from more than a dozen years ago to impose a new fee on telecommunications service providers and their retail customers to sustain such outdated retail rates, the Commission should continue to devote its attention to examining the rates charged by individual carriers: consider carrier-specific complaints on inflated access charge rates and, if necessary and requested by the carrier, examine retail rates. The basis for such proceedings, of course, will be relevant carrier-specific costs or appropriate rate benchmarks, not some general notion that a newly mandated state fee should be imposed on other service providers and their retail end user customers, without any proof of need for such a fee.

Verizon may expand on its positions after the Frontier transaction is closed.

Sincerely,



Thomas F. Dixon

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