MS. WALSH: I don’t know whether doing it on numbers would be better than doing it on line. I think that it’s critical, from our standpoint, that whatever system it is, it also addressed the transport component, and have a methodology for having them pay their pair share; and that whatever methodology you used to address either of those components, it will pick up all providers of service today, and sort of think ahead to the new technology that someone might jump to tomorrow.

So, you know, if you can pick IT telephony, if you can pick up data over cable, and all the other things that you can think of that are happening today, and then make sure that that system will also capture the things that can happen tomorrow, I think that’s the challenge at hand.

MR. NAKAHATA: Another member of our members started with numbers, and they got away from numbers, because they ran into analytical problems. I can’t detail for you what happened, but we will provide it for you separately.

MR. MARTIN: Okay, thank you.

MR. NISHI: In my mind, numbers are the same as connections. You buy a number and you don’t know who the inter-exchange carrier is, so there would never be -- in this instance, and then any special services that the telephone number is associated with. So I’m not sure how we
would capture them.

MR. MARTIN: Okay, thank you.

MR. JUHNKE: I think one misconception that I've hard some of the other panelists express about the connection program today, is that it lets large other exchange carriers off the hook. It lets large business users off the hook.

That's really not true, if you do it on a connection basis, because inter-exchange carriers are the carriers that provide the connections to large corporate users of telecommunications, and the Sprint plan supports the capacity tiers that the Commission outlines, throughout their comment in the February further notice.

So you would have, you know, really quite substantial charges on large business customers, levied by IXEs, as the provider of the connections in those cases.

I think that probably does more to satisfy the sense of equitable treatment of all customer groups, than a pure number-based approach; since lots of times, what the connection that the large corporate user is buying isn't relate just to telephone numbers, but to data transmissions that don't utilize conventional numbering plans.

MR. ALTSCHUL: I find myself agreeing with both Mr. Nishi and Mr. Juhnke. The problem with a number-based assessment mechanism is that long distance inter-exchange
Carriers are not going to be incorporated.

The problem is confounded by multi-line business users, particularly Centrix users, and this Commission has spent a couple of decades coming up with equivalency ratios, which is a form of proxy, and does not necessarily simply the collection mechanism.

Ms. Abernathy: Commissioner Jaber?

Ms. Jaber: Thank you, I have a question with respect to your proposal, as it relates to how you would handle bundled offerings. I understand your concerns with respect to the SBC and Bell South proposal, and concerns with respect to what we have today.

But hypothetically, if there's a CLEC that buys a NAP from an ILEC for the purpose of bundled services, providing bundled services, how would the per-connection assessment be reflected.

Mr. Nakahata: The CLEC has the relationship with the service provider. Oh, I'm sorry, with the customer. Here in our example, then the CLEC pays the universal services. The ILAC does not.

Ms. Jaber: Okay, and then my second question to the entire group is encompassing the definitional issue, and reconciling it with the contribution issue.

For example if the Joint Board and, ultimately, the FCC were to find that the definition of universal
service should not be expanded to include broad band --
that's the first part -- and number two, the ultimate
decision by the FCC hypothetically, to find that cable is
information service, then all you, in fact, preempted by the
proposals, which would have cable and any of the broad band
providers contribute towards the universal service fund.

MR. NAKAHATA: For our proposal, no -- our
proposal is, our members have different and strong views,
but our proposal is functionally agnostic. It can work if
it's expanded, and it can work if it's not expanded.

MS. WALSH: The main concern that we have is that
providers, in this area anyways -- is that providers of
similar services end up being similarly treated.

You know, as it currently stands, given modem has
about a seven percent price advantage because of the
universal service issue, then I don't think if you classify
both as information services, you are preempted from
including both in making a universal service contribution.
Because I do know that the law does have latitude for the
Joint Board to exercise its discretion to treat them
similarly. But I think it is critical that they be treated
similarly.

MR. JUHNKE. Sprint's connection plan -- we're not
proposing at this time that it encompass broad bank
dedicated Internet connections, whether they are provided by
cable companies, telephone companies, wireless companies, or anyone else. That question is the subject of separate comments in the wireline broad band rulemaking proceeding that’s ongoing now.

We think the outcome of that proceeding should dictate the ultimate resolution of that issue, but the Commission shouldn’t wait to reform the contribution mechanism until that other proceeding, which is on a separate procedural track is completed. We think the Commission ought to act on this docket as soon as possible.

MR. ALTSCHUL: Well, CTA, as you know, supports the current revenues-based contribution mechanism. Our reading of Section 254, like others, would certainly permit these additional services to be included in support of universal service.

MR. DAY: We don’t represent CFA or CU in the broad band proceeding, so I would hesitate to really state any position there. But we would say that we think broadly, the revenue based assessment mechanism currently can be, but is not broken, and could be used, in taking those other technologies.

MS. ABERNATHY: Commissioner Thompson?

MR. THOMPSON: This is a question for Mr. Nishi, but I’m interested in other’s comments, as well. Your comments suggested that we should collect from all broad
band providers, as well, and also suggested bifurcation between the high cost program and the other programs.

Do you think, as one other commenter, and I think, if memory serves me right it was Verizon, suggested that we should have a different contribution base, or a different contribution mechanism, for the different programs that are funded through the universal service program? I think in their comments, it was schools and libraries that they separated out.

Do you think it makes sense to collect from broad band providers, just when they're receiving universal service support from libraries, or from all broad band providers; or do you think that that's making things unnecessarily complicated, to split out and have different contribution bases for different programs?

MR. NISHI: To start out, I do believe that as you start separating and seeing certain revenues or connections to be specified for a specific type of service, that does add confusion and administrative burdens to the overall universal service funding mechanism plans.

Regarding my comments on the separation of the schools and libraries and mental health care versus the funding for high cost world-tough communication carriers, I do have some concerns from the standpoint that there are all lumped together. Customers don't see what they're paying
And if either of the funding gets scrutinized in any form or fashion, which is the role of most carriers by schools and libraries, were just scrutinized in a report through the FCC, that it could halt the whole program. So I do have concerns there.

Now I do believe, and this is probably me personally, I do rule the rural health care in schools and libraries as something that isn’t related to the telecommunications high cost portion directly.

I see that as more of a general tax type issue.

I’m going down other roads there. So with that, I’ll finish.

MR. THOMPSON: The other issue that is a recurrent theme is administrative complexity. I am concerned and want to understand the differences. I’m sure you’ll probably all tell me that your proposals are the easiest to administer.

But what I’m interested in is how administratively complex it will be for your companies to implement your proposals, relative to the way they are doing things now. Have you figured out how much more it is going to cost you - - more to less, I suppose -- to run the program as you propose, as opposed to what you’re doing now?

MS. WALSH. I don’t know that we’ve made those calculations. But I think that the issue of administrative complexity...
complexity has certainly been raised by the SBC Bell South plan.

You know, the discussion about trying to get information from one carrier to another and that sort of thing is talked about. But in truth, and in looking at the transport piece of this, every assessment is based upon a retail relationship with the customer. So if you have a retail relationship with the customer, you know you have access.

And if you are selling that customer a transport service, an interstate transport service, you know what the volume and capacity and speed of that service is, and you know the two pieces of information you need, if you are providing a retail service to that customer, in order to calculate what your contribution would be, what the units are.

So if the provider of transport has enough information to bill his customer, he has enough information to calculate the universal service claim. And all of these carriers have, in the past, managed to calculate their share of universal service funding, and being able to admit. So the idea of all this information having to go back and forth, I think, wouldn't have to happen.

I think the other thing about this plan that's worth noting is that the lag issue goes away, because

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carriers would calculate their needs, based upon who they're
serving, in terms of access and transport, month by month,
to figure out how much they owe and remit.

So I think that the issue of simplicity and
complexity has to be measured against equity and fairness,
and you have to hit a balance there. I would submit that
what we're talking about here, in keeping a transport piece
in the system, really doesn't add the kind of complexity it
would cause it to be non-workable.

MR. NAKAHATA: I completely disagree; not
surprisingly. Let's just take an ISP. I subscribe to AOL.
AOL has no idea how many telephone lines I have in my house.
How is AOL supposed to know how many qualifying service
connections it pays for me? I could have one line. I could
have two lines. I could be using both of them to access
AOL.

It's the same with long distance companies. Long
distance companies don't know how many lines a customer
necessarily uses to reach the IRAC switch or the IRAX
network. This is especially true when you get into business
services, and you've got to know, is it ISDN; is it D-1; is
it D-S-3?

That type of information is not available to you
ordinarily, in the ordinary course of your relationship with
your customer. But what you must know is, I know I get a
certain amount of volume, when it gets to me in my network;
but I have no idea what the connection is, back at the point
where it's originating, crossing the boundary from the
customer to the ILAC.

So you need to have that type of information,
which is solely in the purview of the ILAC. This makes it
exactly like trying to do it PIXYs all over again. The
PIXYs were a disaster for exactly this reason. They were
more expensive than they needed to be, for exactly this
reason. We have to learn from that mistake.

MR. JUHNKE. I'd like to make just two points in
addition to the points that Mr. Nakahata just made. One is
that the Bell South SBC plan really isn't a connection-based
plan. It's sort of a amalgam of connection relationships,
pre-subscriber relationships, and occasional relationships.
The pre-subscribed carriers, the carriers
providing the connection, would make assessments on a flat
charge basis, but dial-around carriers, prepaid card
providers, et cetera, would be assessed on a revenue basis.

How the Commission determines what the assessment
rate should be on those two different bases is comparing
apples to oranges in fashion that escapes my ability; but
could, again, que competition in the long distance industry,
as between pre-subscriber relationships and dial around or
pre-paid card relationships.
The second administrative problem, and it's really can lead to a very substantial transaction cost, that the SBC Bell South Plan raises, relates to what Sprint calls the zero billers. A quite substantial portion of our residential customers in any given make no calls. We would not normally send them a bill since they are making no calls and generating no revenues.

If we have to send a bill for the USF charges that Bell South SBC propose, that's going to cost us more to get the bill out than it is for the charge we are trying to collect, and the poor consumer is going to have to stick a 34 cent stamp on an envelope that contains a check that might cost 10 cents, all for a fee that may be a quarter or half a buck. It makes no sense.

MS. ABERNATHY: We are running short. I am going to go ahead and let this panel run until 3:15 p.m. Hopefully, we can get our questions, and then, we'll be more efficient in the next panel or we'll run a little late.

I have two quick questions. The first one, Mr. Nakahata, your proposal to assess contributions of a dollar to residential consumers and recover residual amounts from business customers -- how can you be assured that this approach would not over recover from the residential customers and let the large business users pay too little?

Is there magic to this dollar amount?
MR. NAKAHATA: Actually, Commissioner, what we try to do -- it's not a dollar and then the residual on business. When you start the plan, it's a dollar and a residual on business. Then after that -- which is going to be something like $2.75 -- the chart is going to move up or down together as you move to collect more or less money for the fund.

That will keep a fixed relationship between these charges. For instance, if demand went down or if lines went up tremendously, and so you didn't need to collect as much in each connection overall, the residential charge and the business charge would both go down proportionally.

This, by the way -- the change in all lines together, was meant to do something else, which goes to what Commissioner Dunleavy said in the beginning -- keeping everybody a little a scheme in the game as to the balance between spending more for the universal, and what it is going to cost is -- everybody shares the pain and everybody gets a little bit of a benefit.

MS. ABERNATHY: Mr. Day, a quick question, as you know, with the revenue-based approach, we aren't able to audit all the companies. We can't really check on the where are the numbers they're coming up with as far as the collection. If you moved to a connection-based approach it seems to be simpler.
Is there any scenario under which, if you have protections for life line and income consumers, and assuming you look at a number that you think doesn't harm low volume users, is there an approach under which your client would support a connection-based approach or are they pretty much against that?

MR. DAY: I think the particular connection-based approaches that we've seen so far hit low income, low users much harder. To the extent that a proposal was changed so the connection charge was much less and more was shifted to the higher-end business users, that would certainly be better, combined with very hard caps on making sure that there aren't excess in administrative recovery.

Again, I think that we think that revenue-based system is certainly the preferably approach.

MS. ABERNATHY: Thank you very much.

MR. ROWE: First question, to Mr. Travieso, there is obviously a threshold over which every proposal has to pass. Some of the proposals strikes me go to some great length to avoid the interstate-intrastate divide, and that is a potential source of inefficiency.

If we can do two things, first of all, assume that one could assess both inter- and intrastate telecommunication service revenue; and second, if we could lower the rouser and veil of ignorance so that none of you
here advocating your own proposal, but could simply answer
the question -- what do you think is best?

With those two assumptions, raise your hand if you
would support an assessment on both intra- and interstate
telecommunications revenue.

MR. NAKAHATA: That's a concern I haven't thought
about in a long time.

MR. ROWE: My second question, and I do have -- I
would appreciate your answers to the written questions. I
look forward to those.

The second question; primarily, for John, but
also, possibly for others, the residual charge -- the
capacity charge is three or four issues; in particular, in
the COSAS.

First, there was an objection that the capacity
factor could be gamed where everyone draws a line --
obviously, been centered to stay on the right side of that
line.

Second, there appeared to be a concern about
potential, longer term effects on competitive neutrality and
on economic incentive towards some kinds of substitution.

Third, concern about a particular impact on the
small business customers and especially, small businesses
whether I use Edmond Forth's concern that the structure
might create some additional uncertainty about
predictability and sustainability of the fund. If you could respond to those concerns.

MR. NAKAHATA: I don’t know where to start. We’ve tried to proposed a structure that we think is the most sustainable and stable in the sense that one thing we know about a network is that we don’t have a network unless people connect to it.

That’s sort of functionally the definition of a network. If you assess it at the point where people connect to the network, you’re getting the one non-bypassable point that you’re trying to assess.

Second, in terms of gaming or converter que, we’ve tried to address that, in part, by designing a system where the charges really aren’t all that great, especially, in comparison with the price. When you get to even 40 times the Tier I for the DS-3 and above, that’s not a lot of money when you compare it to an actual charge for a DS-3.

So that will limit the extent they may be gaming at the absolute margins, but that will limit the extent to which there is real incentive to literally to start network engineering or something like that.

MR. ROWE: So you’ll work with Mr. Day concerning the BMW in the parking lot on that point?

MR. NAKAHATA: Well, I don’t think I agree with Mr. Day on that part of his BMW in the parking lot because
if he really is -- first of all, it's a nice story he's
telling, but the facts in this marketplace demonstrate that
not once -- we have not, through 20 years almost of business
administrative select, not seen subscribership drop because
we've had an increase in the select.

While it's a nice myth that increase flat line
charges would hurt subscribership, but it is absolutely
untrue and the data doesn't support it. In fact, the only
thing the data supports is that subscribership is related to
poor people running up high toll bills.

MR. FITZGERALD: Your response as to small
business and rural impacts, then, as well?

MR. NAKAHATA: Small business and rural -- small
business is -- I don't think there much -- and I guess it's
sort of mutualized between rural and urban. It's really the
same thing any where. You do not have a differential. It's
not like you're dealing with costs that are differential
between the areas that's going to be the same. So I think
in that way I think it's exactly -- it's not just
comparable, but it is really uniform.

In the sense of small business -- small business
is very hard because of the topic is the diversity in small
businesses. Some will have a lot of lines and no usages,
and some will have very few lines and a lot of usages. They
will come out -- there are winners and losers on either side
of that divide. Again, we tried to limit it and make it
predictable by having it be a certain amount per connection.

MR. ROWE: Thank you.

MR. COPPS: My first question will be for Judy.
The SBC Bell South plan is very far-reaching in what it does
and from whom it collect. Do I gather correctly that what
you propose does not require the authorization of the
Congress? Your president, and my friend and former
colleague, Bill Daily, has probably one of the keenest ears
for the sensibilities of the Congress that I’ve every run
into. I’d just like to hear a little bit more of how you
get there on that.

MS. WALSH: I believe that the law that’s
currently fashioned does give discretion to bring other
providers into the universal service system in order to make
it equitable and fair.

I think regardless of how it has to be done, the
need to make sure that as people are able to move to
different technologies -- or different technologies and
different types of carriers compete with each other, that to
get similar treatment for -- whether it’s codem (phonetic)
modem or internet telephony, it is important enough that we
need to take it on because I do think that we will end up
with substitution.

There is an article in the Washington Post on

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Wednesday that talks about Lehman going to IP telephony. It talks about the fact that businesses can save 10 percent if they are able to get out from under the universal service fund. I think that it is critical that we get common treatment, whether it’s through a discretion of this Board or by other means.

MR. COPPS: My second would be for John or anybody who cares to tackle it, but I’m still trying to get a handle on what we’re doing here in terms of whether this is a temporary fix or a long-term solution.

It seems to me that if it’s a temporary fix, we run the risk of a lot of litigation and uncertainty, and I don’t know whether it wouldn’t be easier and more expeditious just to try repair the current system we have rather than float something brand new that’s going to be subject to a lot litigation and controversy.

If, however, this is being put forward as a long-term solution, then I wonder if it has the staying power to support a more aggressive definition of the services eligible for support.

We’re going to get to advance services some day. I’m just wondering if COSAS or some of these other plans can get us there without running to the very same problems we’re dealing with right now in terms of the system we currently have.
MR. NAKAHATA: We think that this is a long-term solution. We think that it does have staying power. (Off mike) more people have more connections to the network. Wireless is the best example of that.

One reason why we can have this conversation today, and would not have been able to have it in 1996 is because the tremendous growth in wireless. So we think that does create an awful lot of staying power.

Is there some point of view that they’re too high -- yeah, probably. That is, I think, ultimately, what the Commission has to consider as its trying to figure out what are we funding -- that really goes to the value judgments and the policy choices that you have. I think any time that you’re being asked to look at increases in the fund, it’s always the same trade off.

I think that it is on the uniform makers. We’ll keep this to be sustainable. It doesn’t eliminate the hard choice that you have to make on the demand side, but it generally stabilizes the system, so whether the system will collapse is not part of the hard choice that you have to make on the demand side.

MR. NISHI: I don’t think it’s a long-term fix system from the standpoint it’s not the government portion of what Bill has discussed. You have different technologies peeling into the fund and other technologies. Once again,
the DSL versus the cable mobile divide.

MR. ALTSCHUL: We don’t see the current system being unstable. As you said, the pie has been remarkably constant in its overall size, and that’s without bringing in additional services. If the slices should change, and as Willam as said, wireless has grown. We’re very proud of our growth.

Some of our contributions of sell-to-sell share, of support of universal service fund has grown a the pace. So there is nothing inconsistent with the current system that would prevent the current system from accommodating these shifts in the way consumers use their services.

MS. ABERNATHY: Mr. Gregg, you have the last question.

MR. GREGG: Thank you. In reviewing the comments of the parties submitted in this case, and hearing the comments of the panelists today, it seems rather obvious to me that one of the biggest issues is the viability of a connection-based system under 254(d).

Mr. Nakahata, just assume for a moment that I am wildly enthusiastic about your proposal, and I think it’s a great public policy initiative. What can you tell me to give me some comfort under 254(d)?

How can I square the clear language that says "every telecommunications carrier shall contribute." It
doesn't say "shall be subject to." It says "shall contribute." How can you give me comfort that your proposal is consistent with 254-D?

As just an adjunct to that, right now we have a system of assessments based on end user retail revenues. That is the way that the Commissioner interpreted the language of 254(d) or a system that was permissible.

Are there any providers of wholesale intrastate services today that are avoiding USF responsibility because of the particular assessment system that we have chosen to use?

MR. NAKAHATA: Let me answer your second question first. Certainly, I don't know the answer because I don't have access to USAC data. USAC data could tell you whether there is a carrier that has consumers reports as entirely wholesale. But an entirely wholesale carrier would, as you point out, completely avoid universal service and end user telecommunications revenue formula that is currently in place.

Let me answer your first question. I direct you back to the statute, and I guess to really answer that by reading the next phrase as well, which is "on a equitable and non-discriminatory basis."

So again, go back, first, do you have a equitable, non-discriminatory basis? Every carrier that provides
intrastate documentation shall contribute on that equitable and non-discriminatory basis.

Now on that equitable and non-discriminatory basis, it says that there can be a number of different results from zero to a lot, and that's still consistent. Every telecommunications carrier is being held on the equitable and non-discriminatory basis. If that number is then low, it can be diminimus. It can be exempted from contributions under diminimus. So that, although, the formula might require them to pay, they don't have to pay.

I think that is what harmonizes each and every provision of this statute. Again, I go back to the example I gave earlier. If you read it to say every telecommunications carrier -- that first part of the sentence -- to mean that when you apply the equitable and non-discriminatory basis, you have to come up with a positive number; that is, it can't be zero, then there is another portion. We say, okay, it's a positive number and it wouldn't be zero, instead it's a one. It is still diminimus.

The reason I'm making this point is I don't think the real issue that people have raised here is about every telecommunications carrier at the end of the day. The real issue people have raised here is about equitable and non-discriminatory basis. We do believe this is an equitable
and non-discriminatory basis because if you're competing
with somebody, and providing the same functions as your
competitor, you are going to be assessed exactly the same.

    That core principle of competitive neutrality has
to be there. That's the first test -- is it equitable and
non-discriminatory, which really means is it competitive and
neutral? If it's not really competitive and neutral, then
you'll not going to end up with something that is going to
pass the test under the statute in any event.

    MR. GREGG: Let me ask one real quick last
question. Mr. Nakahata, Ms. Walsh, under both of your
proposals, what would the following residential customer
pay? He has got a land line with long distance service.
He's got a wireless phone, plus a dial-up internet
connection. Mr. Nakahata, what would he pay under your
proposal, each one?

    MR. NAKAHATA: My land line, wireless and dial-up
internet connection -- $2 or so.

    MR. GREGG: Okay, Ms. Walsh, what would he pay
under yours?

    MS. WALSH: I'd like to talk about the whole issue
of the 254(d), if you'll allow me that. But if he has a
land line, he's going to have one charge for local exchange
hours. If he has a wireless phone, that would be an access
charge and a transport charge. It would be two for that
one. What else does he have?

MR. GREGG: Dial-up internet.

MS. WALSH: Dial-up internet would be one additional charge.

MR. GREGG: So if the land line has long distance, that would be two?

MR. GREGG: Okay, so five altogether?

MS. WALSH: The land line and the long distance would be two, and the dial-up internet would make it three.

MR. GREGG: So it would be 65 cents times 5?

MS. WALSH: I don't know that the 65 cents --

MR. GREGG: Assume it's 65 cents.

MS. WALSH: It would depend on what the charge ended up being times 5. I think because the number of units of this charge, because it's a broadbased system, then the per unit charge is going to be lower.

I would like to talk a bit about 254(d), if you will allow me.

MS. ABERNATHY: Ms. Walsh, if you could do the legal discussion off line so we can get some small break in before we start the next panel. But go ahead and finish your question here.

MR. GREGG: If you assume, hypothetically, that the charge is 65 cents, which is what the Bell South
representative told Congress on Wednesday, would you agree that those five connections would cost $3.25 per month under the SBC Bell South System?

--

MR. GREGG: Thank you.

MS. ABERNATHY: Thank you everyone. We're going to take a very brief break. We will start again at 3:30 p.m. regardless of who's here. We're going to try and get out of here by 4:30, 4:45 p.m. Thank you.

(Whereupon, at 3:21 p.m, a short recess was taken.)

MS. ABERNATHY: We are going to ahead and get started because we are running close here today. We are now going to move on to Panel II, which is recovery of contributions and once again, we'll start from my left and move right.

So we'll start with the XO Communications, Inc. representative, Steve Ednie. Once again, please be mindful on the time. Please, be sure and introduce yourself. Once all the panel presentations are over, then we'll start with questioning from the bench. Thank you.

MR. EDNIE: Thank you. I would like to thank you for allowing me to speak today on behalf of XO Communications.

My name is Steve Ednie. I'm the executive tax

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