the USF pass through charge that is on an invoice.

I would also encourage everyone to consider the bill and remit concept with a component that allows carriers to recover for their administrative fees; especially, as I said, this structure which I believe will cause XO to convert to, and it also allow for some time of bad debt issue that’s out there because these days we’ve seen a lot of it. It’s something we’re dealing with -- we’re struggling with at this time.

MR. GREGG: Thank you.

MR. COPPS: A third connection, which inevitably brings up the charge that it’s regressive in its impact.

I’d like to ask the first three speakers who seemed inclined against a system like that, assume things go south for you, like the previous question did, and we go to a per connection regime, what specific steps might there be to alleviate so of the regressive problems without jeopardizing the viability of the fund and still raising the dollars that are need? Then maybe, Mr. Blaszak, would you like to comment on after that.

MR. TRAVIESO: I would have a hard time with your assumption, but I will go forward because, obviously, the folks don’t want to argue with your assumption. I guess one of the things I would urge is the cap for an extended time period on all residential consumers so that at least the
inequity wouldn't grow. So if you had -- for example, if
you had a 50 cent surcharge, that it would remain 50 cents
for five years.

I think the consumers then would -- they wouldn't
like the surcharge, but they would have some assurance that
it wouldn't affect their bill for some substantial time
period.

MR. COPPS: Okay.

MR. EDNIE: I mean, I would say that addressing
the rates maybe one way to try to get around that. I don't
know how you do that and still be -- you would be equitable,
but I think that's obviously an avenue that's worth
pursuing. That is one mechanism to get you there.

MR. SHEARD: I would recommend definitely not
charging life line customers any kind of assessment to
recover contributions.

Also, I think we need to closely scrutinize the
capacity-based proposals for the residual amounts that need
to be collected on the higher volume users -- make sure that
they're being assessed fairly.

MR. BLASZAK: Thanks for giving me the chance,
Commissioner.

Your question really gets at a very important
issue -- another issue is not very popular to talk about.
Since I represent business users, I've got to do that.
I've heard a lot of talk about regressicivity. I've heard a lot of talk about impact, but let's remember what universal service is about. Universal service is not about rate structures that are designed to simply repress residential telephone rates.

Universal service is about maintaining telephone subscribership penetration levels. The rates for the underlying services are certainly an issue, but there is no evidence in the record in this proceeding -- and I emphasize "no credible evidence" that there will be any decline in telephone subscribership levels if the COSAS proposal were to be adopted.

I didn't hear any of the consumer advocates address the issue of demand elasticity for basic telephone service. The evidence in the record indicates that demand elasticity for telephone service is very, very low. If we are to assume that universal service is something like a tax, good public finance principles and good tax policy would spread that tax across as broad a base as possible to avoid dead weight economic loss.

Now what about capping the residential rate at 50 cents? The Adhoc Committee supports the COSAS' proposal, even though the COSAS' proposal starts by loading a residual on multi-line business customers, so that the per line rate is over two times as much as the residential customer would
pay -- almost three times as much.

The COSAS' proposal, as Mr. Nakahata explained, would also result in those contribution levels moving up proportionally by the same percentages for residential consumers and business consumers.

Starting with that residual approach was a compromised decision on the part of the business-user community. The compromise is a much different compromise is what we're talking about is a scheme in which residential consumer contribution charges are frozen.

It's bad public policy, not only because it shifts costs away from those who can easily afford to pay it. It's bad public policy because it takes residential consumers skin out of the game. This is not a free ride. Somebody has got to pay for all these services folks want supported through a universal services. A buck floating up with all the other charges, or down as the case may be, is not too much to ask.

Now I would ask the consumers something. Are they willing to allow all rate reductions, as a result of growth and demand, to flow to business users if their rates are capped at a given level?

MR. TRAVIESO: Well, I can respond to that. I think our position is the market ought to deal with the way these costs are recovered. I don't think our organizations
supports the concept of Moran's (phonetic) pricing, which is
you load the costs on the consumers who are least able or
least likely to have any kind of competitive choices, which
is what he's advocating.

But it seems to me that if the Adhoc Group have
agreed to be willing to pay a higher fee than the smaller
consumers, then that's an example of the value they put on
the services that they are receiving, and they're willing to
do that. So the market would seem to indicate to me that
they're willing to pay more for their phone service and for
universal service and they should because they make more use
of the interstate services than small consumers do.

MS. ABERNATHY: All right. I will do my quick
questions which goes to Mr. Travieso.

What you said about customers and putting
surcharges on bills -- it had always seemed to us, and so I
would like for you to discuss this a little bit further,
that putting the surcharge on to show that it's for USF
contribution, and that it's a government policy we believe
is important for overall penetration services across the
United States.

It had always seemed to us that, that was
preferably to burying the charges in rates, and then
withhold the information about the costs of supporting
universal service. But you seem to be saying the contrary.
That it is actually preferable to just bury it somewhere in the bill.

Once you answer that, then my question goes to Mr. Blaszak about how would that work with the COSAS' proposal if you were allowed to effectively get a dollar per customer, but there was no line item?

MR. TRAVIESO: I would respond by saying there is two different things occurring. One is informing consumers that there is such a thing as a universal service fund and that carriers are required to contribute to it and that it is a cost of their doing business, which is included in the price we all pay for services.

The other aspect, though, is fixing it as a cost which the consumer can't avoid and putting it on an access line, so that -- for example, you could have your phone service turned off if you can't pay all of the surcharges, plus the bill that you receive in your basic service access bill.

So I think, if consumers understand that there is fund, and that carriers have to contribute, it not necessary to detail the specific amount that each carrier is seeking to recover from the consumer. Consumers hate surcharges. You have an eight-page telephone bill now.

When I go to cocktail parties, and people ask me what I do, the first thing they ask me to do is why can't
you get the phone company to send a simple bill? So to me, that’s an indication that they are -- consumers certainly are willing to pay costs of doing business charges and not have them explicitly displayed on the bill.

MR. BLASZAK: Commissioner Abernathy, I think the COSAS’ proposal, has as part of its integral nature, a distinct line item charges.

MS. ABERNATHY: That’s what I thought.

MS. THOMPSON: I’m going to pass in the interest of time.

MS. JABER: I have what I hope is quick question, but I would like to give everyone an opportunity to answer it.

With respect to retaining the revenue-based approach, and using collect and remit as an option, can you give me some feedback there? I think it’s a proposal that Verizon has floated in this proceeding. It would be based on allowing companies to submit projected revenues to USAC, allowing USAC to look at those projected revenues and look at the projected demand, creating a factor and then holding the companies accountable for any shortfall in their projections. Could you quickly comment on that, please?

Mr. Lubin, I thought you would want to say something.

MR. LUBIN: The use of a projection model in the context of using, in effect, current revenues in a collect
and remit -- obviously, there are some positive attributes. One is it gets rid of the lag. Two, it gets rid of the uncollectible dilemma.

However, here is the downside. As I said before, that if we did nothing, the assessment rate will go -- roughly, by the second quarter of '03, to roughly 9.5 percent, which is a two-quarter lag, a six-month lag. If you then move to use current revenues or projections, then, all of a sudden, you now have an assessment rate that I would project probably is approaching 9.8, 9.9 percent.

My fear, again, is if I see an assessment rate of 9.8 percent, going close to 10, business users are going to find ways around and not pay that number. So you're on this cycle that just goes bigger.

So now you have to ask yourself what's a good public policy of a collect and remit on a projection base, which is going to be 10 percent because let's go back to what does the customer see? The customer is going to see, in my opinion, come -- I'll pick second quarter '03, again, a number that the LEC charges in excess now of 75 cents.

So they're going to see a 75 cent charge on the LEC side of the equation. They're going to see from carrier, such as myself, something that's probably north of 10 percent. So when people say that this is regressive, people have to ask the question, if it's going to be 75
cents versus a buck, it's only a quarter increase. For that quarter increase, you get rid of a 10 percent -- north of 10 percent assessment on retail, interstate toll revenues.

So if people are complaining that they want to be able to compare and shop and compare price per minute to price per minute -- all of a sudden, you don't have to worry about that if you had the dollar.

My point is, you only have a quarter increase. Now people say, well, even a quarter -- it's a quarter increase. We exempt life line. So in a given month, there could be millions of people that see a quarter increase.

But here is the next point. The next point is, let's track those customers who, in a given month, are zero users. If I look at those users over five months, the first month they're at zero. So I track the zero user for six months.

The next month they maybe zero again. The next month they maybe $20. The next month they may be $30, and the next month they're back down to zero. We did a study just like that. We didn't do it when it went to 75 cents because, quite candidly, I didn't appreciate how fast demand was falling. I didn't remove and go to projections, which makes it even worse.

It turns out, if I look at it for a six-month period for a zero users in one month, that their even better
off as well. So I think you have to keep coming back and
asking the question -- relative to what? If it's a buck
relative to 75 cents, and I get rid of a double-digit line
item on the bill -- why isn't that good public policy?

MR. TRAVIESO: I would like to make a comment. I
think that a better solution to the falling revenues issue
is to broaden the contribution base, as I suggested earlier.
If you did that, and you picked up an extra 20 or $25
million in interstate and assess the carriers that provided
those services, everybody's rate would go down.

The concern that you have about the percent
assessment and consumer's understanding that there is a huge
surcharge being levied on them would be ameliorated by doing
that. So even if you kept a line item, but you increase the
contribution base, the percent assessments would go down
fairly substantially, and you would have a contribution base
that would capture substitution of wireless minutes -- for
example, for ISC minutes, which definitely happening in the
marketplace.

MS. ABERNATHY: Mr. Blaszak?

MR. BLASZAK: Thank you, Commissioner Abernathy.
The problem is more fundamental than simply
expanding the contribution base. That sounds like a very
attractive approach at first blush because it buys you time,
but it doesn't serve one of the underlying problems.
When these numbers get to be substantial, businesses -- and I suspect sophisticated consumers -- are going to look for a way to mitigate the impact of these numbers on their budgets.

Mr. Nakahata talked about bundling. There is no denying the fact that bundling is happening. You see in the MCI Neighborhood plan. You see it in the wireless buckets of minutes plans. It effectively include equipment, also because sometimes you get the phone free if you'll sign up for a couple of years.

In the dealings I do for corporate clients, I see bundling, also. They are components to the deal. There are prices for managed services. There are prices for riders. There are prices intrastate minutes. There are prices for interstate minutes. Carriers look at the overall business proposition. That's what my clients look at, also.

The beauty of the connection-based approach, again, as Mr. Nakahata pointed out, everybody needs a connection. There is no avoiding the connection. It's the best way to sustain the universal service fund. Something my clients very much want. They favor universal service. We've supported every element of the Commission's universal service program, but the current system is broken, and it is not fixable by simply including internet access providers.

MR. MARTIN: Well, I want to follow the same kind
of pattern that my first two colleagues did in their questions.

Let me make entirely sure I understand, starting Mr. Lubin, if you assume that you lose on advocation of the connection-based charge, I don’t take it from your answer to the previous question, then you would give up on the collect and remit or projection model? You would still be supportive of making that change, wouldn’t you?

MR. LUBIN: If there was no ability to get a connection-based --

MR. MARTIN: Right. That was my assumption of the question.

MR. BLASZAK: Right. A collect and remit on current revenues, which is a form of projection, is better. However, it does not address what I call the "unbillable issue." So if by that you mean, collect and remit is I no longer have to pay for that which I cannot collect on because the party will not bill it for me, if they’re doing the billing, then that solves that problem as well. If we do not solve that problem --

MR. MARTIN: So it would take both of those aspects?

MR. LUBIN: Correct.

MR. MARTIN: And then, just very quickly.

Mr. Blaszak, assuming that it was capped -- the residential
contribution of the connection-based was capped and that 50 cent fee, as some of the others were talking about earlier, does that mean that you no longer would support the proposal to go to a connection-based fee or would you still support it, even if it was capped for five years at 50 cents per resident?

MR. BLASZAK: We will not support it, Commissioner.

MR. MARTIN: Thank you.

MS. ABERNATHY: Commissioner Dunleavy?

MR. DUNLEAVY: I just have a very basic question. All the good ones have already been asked. Would you disconnect the customer if they refused to pay the USF charge?

MR. LUBIN: Would I disconnect the customer --

MR. DUNLEAVY: Would you refuse to give service if a customer unilaterally said I'm not going to pay this -- whether it was collect and remit or whether it was a connecting charge -- would you?

MR. LUBIN: The dilemma with that in competitive market is that customers, if they so elect not to pay their bill, and then, I disconnect service, they have choices of many other carriers. That is why, unfortunately, my uncollectible are higher than the incumbent LEC because if the incumbent LEC makes that offer, then a customer doesn't
have a choice, and then they pay.

This is another reason why the most efficient way of managing this process is that the party who has the connection to the network becomes the collection agent.

MR. DUNLEAVY: Does the FCC right now have the authority to require somebody to pay that USF fee?

MR. LUBIN: Not to my knowledge.

MR. DUNLEAVY: Okay, thank you.

MR. LUBIN: That's probably worth checking, but not to my knowledge.

MS. ABERNATHY: Thanks to everyone on the second panel for taking the time for educating us. It was very helpful. I think we will allow Dr. Gillis -- and I don't know if Ms. Wallman is still here -- maybe five or seven minutes to tell us a little bit of your observations as a result of what you've heard today before we terminate the meeting. Thank you.

MS. WALLMAN: I had four points that I wanted to mention having heard the presentations this afternoon.

The first is a theme that I heard that I think is worrisome, and you may find it so as well. That is, the validation of a point that Dr. Gillis made in his presentation about how regulatory choices or patterns, not only influence, but sometimes dictate business choices and consumer choices.
This is really -- through the history of regulation in this area and in the competition area has been a cycle of allowing, then identifying and then addressing different forms of arbitrage in a system. Not all arbitrage is bad in the sense that it has a negative effect on consumer welfare.

That for example the emergence of competitive access providers. That had a positive effect on consumer welfare. In many ways, the Commission's policies have encouraged that kind of arbitrage.

Here, I think, you have heard several presentations in which the problem we are addressing today has been identified as coming from market trends. The fact that people may find it more convenient and efficient to use their cell phones for long distance calling, for example, but reinforced by arbitrage -- by people making choices about what services to take and how to use them and how to allow them to be billed to them.

Now Mr. Nakahata’s example, I thought was very telling. That is exacerbating the arbitrage. So I think an important choice that the Board needs to make in thinking about his is do you think this is a bad form of arbitrage, and do you want to do something about it?

There are positive effects of some kinds of arbitrage, as I mentioned. The fact that some internet
protocol telephony has been outside the contribution base
may have had a positive effect over these last six years in
bringing access charges down.

But now you're confronted with the choice of
whether the consumer benefit that went with that is worth
continuing in light of the fact that the contribution base
is being evacuated. If we're all in this together as users
and providers, then that's a difficult choice that the Board
will have to face and address.

I was persuaded by Mr. Altshcul's point about the
sensibility of knowing something about the budget before you
figure out where you're going to get the money to pay for
it.

But I think that there are choices suggested today
that would allow the Board to make recommendations about a
collection mechanism that would be sufficiently flexible to
adapt to future needs as they may go up or down in the
system.

The impact on low incomes -- two observations.
Number one, the correlation or not between low volume and
low impact is knowable. There is data in other dockets that
the Commission, and certainly, the Board could request of
the parties who have it. You can look at that data yourself
and decide whether there is a correlation.

I tend to believe, based on things that I've seen
over the years, that there is a weak correlation between the
two, but that’s knowable. The Board can look at that and
decide for itself.

Second, it’s a serious issue. A few dollars here
and there actually matter to people, but it may be possible
to mitigate it through some of the low income programs.

Then, finally, the suggestion that was made about
the bifurcation of the fund. I tend to doubt that, that
would support the stability of the fund. To suggest that
part of it belongs in the general tax bases harkens back to
the first principle’s point that was often made about
universal service -- why are we doing any of this on network
charges? Why don’t we do the whole thing on general budget,
which would then be subject to periodic appropriations?

So I tend to doubt that a bifurcation would
contribute to the stability that we’re talking about
maintaining for universal service.

MR. GILLIS: I don’t mean to trivialize the very
important decision that you are needing to make regarding
the collection mechanism, but a thought was going through my
mind that the decision process parses out somewhat with what
I need to do this weekend in discussion with my wife on
whether or not get a new car or fix up our existing one.
Actually, I want a truck, but that just complicated story.

(Laughter.)
MR. GILLIS: Fixing up the existing car is certainly an option as an existing mechanism. I think we had a balanced group before us today that suggested maybe that's the way to go.

The trade-off in parsing out that decision, which I think is one of your first level decisions you need to make in approaching this question is you can fix up the existing vehicle -- but one of the concerns that I had, listening to the panel, goes back to what I said in the opening comments is, if you fix up the existing vehicle, you're going to have the tendency to want to nurse it along and not get too aggressive in what you would want to carry in that vehicle or take some long trips.

This is my view -- you have some long trips you're going to need to take over the next couple of years, and that's something to consider versus buying a new vehicle, which involves some risk. If you can put off the decision for a couple of years, then that's good. The environment will be probably better known. The budget requirements will be better known.

But again, the reality of life is that it's always changing. There is always tomorrow. There is never any certainties.

With respect to the new car, broadly, you have two brands to choose brand -- the RXC brand and the LEC brand.
They, not completely -- for example, the small telephone
company likes, I think, for everyone one to keep -- of
fixing up the existing car.

But the concern seems to be from the LEC version
is they didn't want their existing customers paying for any
of the gas. That's a concern that the LEC had a solution,
but their solution, potentially, is complicated. So the
question is, can the vehicle even get down the road if you
don't have a collection mechanism to pay for the gas.

I think that pertinent questions from
Commissioner Copps were important as well regarding would
this new vehicle even be legal and would just be tied up in
the courts. They are important questions to be asked in
making these choices.

Ultimately, what I'm suggesting to you in parsing
this out, and what I would recommend as you approach the
question, is the first threshold question is, based on the
evidence before you, do you want to focus on fixing up the
existing car. If that is your focus, then you can avoid a
bunch of questions.

Or is it better to think about going down the road
and getting a new car and just biting the bullet, which
raises a whole bunch of other questions. I think they are
answerable. They are questions that can be answered. I do
believe, as I said in the beginning, that doing nothing
isn't an option. So it's really a question of where you want to make the investment.

MS. ABERNATHY: Thank you very much for coming back and give us a brief summary.

Since I opened the process, I'll allow Chairman Thompson a few words about some advice you might have to the parties how presented to us today.

MS. THOMPSON: I appreciated everyone's comments today, and everyone spending most of Friday afternoon here.

I was sitting here thinking about the comments that Ms. Wallman made at the beginning about consensus building and what a difficult issue this is and how helpful it would be in thinking that those of you sitting there in the audience and the room know more about the implementation of the details of these alternatives that we have been discussing than any of us do.

I wanted to encourage you to take what you heard today -- some of you may not have had a chance to hear all the different perspectives directly today or see the faces associated with the, but I wanted to encourage you to continue to try and build some kind of consensus on this issue if that's possible.

MS. ABERNATHY: Thank you again, everyone. This meeting is adjourned.
(Whereupon, at 4:39 p.m., the hearing in the
above-entitled matter was concluded.)
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