NATIONAL ASSOCIATION OF STATE UTILITY CONSUMER ADVOCATES NASUCA

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New report adds to growing list of why drastic changes are not needed to federal Universal Service Fund

SILVER SPRING, MD. – Nov. 3, 2008 – A report issued Friday on the next quarter's projected need for the Universal Service Fund (USF) adds to the growing list of reasons why drastic changes to the fund by the Federal Communications Commission (FCC) are not needed, the National Association of State Utility Consumer Advocates (NASUCA) said today.

According to the report by the Universal Service Administrative Company (USAC), the projected need for the federal USF for the first quarter of 2009 was $1.6 billion. If the revenues subject to assessment for the first quarter are consistent with prior quarters, the USF assessment factor for the first quarter will likely be at its lowest since the end of 2006.

"These figures demonstrate what NASUCA has been arguing for years, that the current revenue-based mechanism is not in crisis," said David C. Bergmann, Assistant Ohio Consumers' Counsel and Chair of the Telecommunications Committee of NASUCA. "Clearly, there is no need for a switch to a numbers-based, connections-based, or hybrid system. Unfortunately, that is what it still appears the FCC is considering at its meeting scheduled for this Tuesday, November 4."

"The FCC has been asked by many parties not to adopt a global order addressing intercarrier compensation and USF issues on Tuesday," said David Springe, Consumer Counsel for the State of Kansas and President of NASUCA. "This includes members of Congress, state governors and legislators, state regulators and advocates, and a wide variety of members of the telecommunications industry, rural carriers, competitors, wireless carriers and Internet providers. The news about the first quarter 2009 USF factor adds to the reasons why the FCC should not adopt the order that has been discussed in the media in recent weeks."

Intercarrier compensation is the payments that carriers pay each other for the use of their networks. The intercarrier compensation issue involves some $8 billion in payments each year; the related universal service fund payments are about $5 billion each year.

Currently, intercarrier compensation rates vary depending on the type of company involved (incumbents, competitors, wireless, voice over Internet protocol) and on the jurisdiction of a call (local, intrastate or interstate). Over the years, there have been many proposals to unify those rates, including the Missoula Plan. In August 2008, the two largest carriers, AT&T and Verizon, put forth a proposal to unify the disparate intercarrier compensation rates, by radically decreasing many of those rates. The rate level proposed was below the costs of many rural carriers. Under the AT&T/Verizon proposal, the revenues lost to carriers due to the lowered rates would be made up through increases in the subscriber line charge and from the USF, which implements the federal policy to ensure that rates are affordable and that rural rates are reasonably comparable to urban rates. AT&T and Verizon also proposed to change the current funding mechanism for the USF -- based on interstate revenues -- to one where assessments are made on telephone numbers.

In mid-October, FCC Chairman Kevin Martin circulated a draft order at the FCC that would largely grant the AT&T/Verizon requests, but contained many other problematic provisions, including preempting state authority over intrastate and local intercarrier compensation. The draft order was ostensibly prompted by a remand from the United States Court of Appeals on a relatively narrow issue (the payments to local companies when dial-up calls are made to Internet service providers), that is subject to a deadline of November 5, 2008.

About the National Association of State Utility Consumer Advocates (NASUCA)
NASUCA is a non-profit, national organization of more than 40 state offices designated to represent consumers in state and federal utility proceedings. NASUCA regularly participates in proceedings before the FCC and other federal regulatory agencies.

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