

STATE OF FLORIDA

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**Public Service Commission**

June 21, 2007

**VIA ELECTRONIC FILING**

The Honorable Marlene H. Dortch, Secretary  
Federal Communications Commission  
445 12th Street, SW  
Washington, DC 20554

**Re:** WC Docket No. 05-337, High-Cost Universal Service Support  
CC Docket No. 96-45, Federal-State Joint Board on Universal Service

Dear Ms. Dortch:

Forwarded herewith are reply comments of the Florida Public Service Commission in the above dockets with regard to comprehensive high-cost universal service reform.

Greg Fogleman at (850) 413-6574 is the primary staff contact on these comments.

Sincerely,

/ s /

Cindy B. Miller  
Senior Attorney

CBM:tf

cc: Brad Ramsay, NARUC

**Before the  
Federal Communications Commission  
Washington, D.C. 20554**

In the Matter of	)	
	)	
High-Cost Universal Service Support	)	WC Docket No. 05-337
	)	
Federal-State Joint Board on Universal Service	)	CC Docket No. 96-45
	)	
	)	

**REPLY COMMENTS OF THE  
FLORIDA PUBLIC SERVICE COMMISSION  
IN RESPONSE TO THE UNIVERSAL SERVICE JOINT BOARD'S  
PUBLIC NOTICE SEEKING COMMENT ON  
COMPREHENSIVE HIGH-COST UNIVERSAL SERVICE REFORM**

CHAIRMAN LISA POLAK EDGAR

COMMISSIONER MATTHEW M. CARTER II

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June 21, 2007

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## **Introduction and Summary**

The Florida Public Service Commission (FPSC) submits these comments in response to the Federal-State Universal Service Joint Board's Public Notice (Notice) released on May 1, 2007.<sup>1</sup> In this Notice, the Federal-State Joint Board on Universal Service (Joint Board) seeks comment on various measures to reform the federal high-cost universal service programs.

The FPSC supports the Joint Board's recommendation to place an interim cap on the support available to CETCs while it completes a more comprehensive recommendation. As noted in our previous comments, the growth in the number of competitive eligible telecommunications carriers (CETCs), and the support they receive, has strained the program.<sup>2</sup> Current high-cost distribution methods have failed to balance the needs of those receiving support with those that ultimately have to pay for such support. The escalation of the fund's size threatens the affordability that the program is intended to safeguard. As the Tenth Circuit recognized, "excessive subsidization may affect the affordability of telecommunications services, thus violating the principles in §254(b)(1)."<sup>3</sup> Regarding the issues raised in this Notice, the FPSC takes the following positions:

*Reverse Auctions:* The FPSC believes that reverse auctions have the potential to stop the alarming growth in the universal service fund, recognize the benefits of a market approach, and mitigate the inequities in the current program. Of the proposals, Verizon's is the most fully developed. In contrast, the CTIA proposal perpetuates the current excesses of the high-cost fund.

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<sup>1</sup> FCC, Public Notice. *Federal-State Joint Board on Universal Service Seeks Comment on Long Term, Comprehensive High-Cost Universal Service Reform*. CC Docket No. 96-45, WC Docket No. 05-337. FCC 07J-2. Released May 1, 2007.

<sup>2</sup> Ex Parte Comments of the FPSC in CC Docket No. 96-45. Filed on November 20, 2006. In 2002, fewer than 30 designated CETCs received approximately \$189 million in high-cost support. By 2006, the approximately 650 designated CETCs received more than \$1 billion in support.

<sup>3</sup> *Qwest Communications International v. FCC*, 398 F.3d 1222, 1234 (2005).

*Use of GIS data:* The FPSC has traditionally endorsed improvements and updates to the FCC's Synthesis Model in order to more accurately estimate carriers' costs. The FPSC believes that incorporating geographic information systems (GIS) data would be an improvement and has the potential to more accurately distribute support. A revised forward-looking model, that more accurately targets support while capturing important key characteristics affecting costs, is desirable.

*Competitive ETC Support:* The FPSC reiterates our prior position that a carrier's support should be based on its own costs, capped at the support level of the incumbent eligible telecommunications carrier. Competitive neutrality should not be interpreted as requiring that every carrier receive the same amount of support, but rather, that all eligible carriers have an equal opportunity to compete for support. Universal service should not be used as a tool to create incentives for uneconomic competition.

*Support for Broadband:* The FPSC believes that it is premature to add broadband to the list of supported services at this time. While consumer adoption of broadband services has been consistently increasing, a "substantial majority of residential consumers" have not yet adopted it.<sup>4</sup> Furthermore, expanding the definition of supported services to include broadband would significantly increase the size of the fund at a time when it is already under significant pressure.

### **Reverse Auctions**

The Joint Board seeks comment on certain proposals from Alltel Wireless, Verizon, and CTIA. Verizon and CTIA have provided the most comprehensive proposals for the use of reverse auctions (competitive bidding) to determine support for high-cost areas. Verizon and CTIA presented competing reverse auction proposals at the FCC's *en banc* hearing in February

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<sup>4</sup> 47 U.S.C. § 254(c)(1)(B)

2007; Verizon has since provided an update to its proposal.<sup>5</sup> In addition, Alltel Wireless filed a February 16, 2007, proposal that supported broadband auctions and certain interim reforms to the high-cost mechanism. The FPSC has previously stated that: “reverse auctions have the potential to stop the alarming growth in the universal service fund, recognize the benefits of a market approach, and mitigate the inequities in the current program.”<sup>6</sup> We provide comment on each of these proposals below.

*Comments on the Verizon Proposal*

The FPSC believes certain aspects of Verizon’s proposed auction mechanism have merit. In particular, Verizon proposes that carriers bid for a given area on a lump sum (or flat amount) basis, as opposed to a per line basis, as suggested by CTIA. According to Verizon’s flat amount auction, high-cost support for a geographic area would then be distributed to a single “winner,” (i.e., the lowest bidder). The distribution of support using a flat amount approach requires bidders to take into consideration their own costs for implementing the required universal service obligation, thus revealing their required support levels. This aspect of reverse auctions would allow policy makers to focus on defining and enforcing the provision of supported services, while allowing market participants to arrive at the level of support that is sufficient to provide supported services.

The FPSC notes that reverse auctions, particularly the use of flat payments to distribute high-cost support, could address many of the more pressing reform issues before the Joint Board and the FCC. Verizon lists several advantages of this approach:<sup>7</sup>

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<sup>5</sup> Verizon comments submitted May 31, 2007, in response to the FCC’s Public Notice on Comprehensive Reform.

<sup>6</sup> FPSC *ex parte* comments submitted November 20, 2006, in response to the FCC’s August 2006 Public Notice, p.11.

<sup>7</sup> Verizon letter to Commissioners Tate and Baum, Feb 9, 2007. pp.6-7.

- It eliminates the need to apportion support among different providers, avoiding controversial issues regarding whether support should be provided to primary or second lines, wireless handsets, or on some other basis.
- It also eliminates one of the main sources of growth in the fund in recent years: the addition of multiple handsets by each household.
- The format is simpler, and places the responsibility for estimating demand with the bidders themselves.
- The flat amount approach avoids distorting the incentive each ETC would have to gain or lose a customer.
- It would not prevent competition from occurring in an area that would otherwise have supported it.

In addition, auctions which result in a flat amount to a single winner provide a unique solution to the issue of competitive neutrality. Such an approach would allow every ETC the opportunity to bid for support, but would avoid funding multiple carriers in high-cost areas. Current high-cost distribution methods have failed to balance the needs of those receiving support with those that ultimately have to pay for such support. Reverse auctions that provide a flat amount of support to a single winner address many of the conflicts that arise when multiple competitors seek support in a high-cost area.

#### *Concurrent Wireline and Wireless Auctions*

One major issue for consideration regarding Verizon's proposal would be whether to conduct separate auctions in each area for wireless ETCs, with wireline auctions to follow at some later time. CTIA has expressed concern that reverse auctions might be applied solely to ration support to wireless ETCs, while wireline ETCs (largely incumbents) would maintain their existing support. Verizon proposes a multi-year transition to a reverse auctions mechanism by first implementing auctions in areas with multiple wireless CETCs, then implementing auctions in areas with multiple wireline carriers (including the incumbent and other wireline CETCs). After the FCC reviews the results of the auctions experience, Verizon mentions the possibility of

a general auction. In this case, both wireline and wireless ETCs would bid against each other to select a single universal service provider for each area.

This lengthy road map towards an eventual intermodal auction may not be necessary in all areas. In particular, areas where one or more CETCs are capable of fulfilling the responsibilities outlined by the auction may move to a single auction more quickly than Verizon proposes. The critical factor for such a general auction is that eligible bidders be capable of, and commit to, providing supported services throughout the area to be auctioned. Where multiple unaffiliated carriers are willing, and able, to bid for the provision of supported services, there seems little reason to prolong a general auction to determine the most effective provider. To conduct auctions for only wireless ETCs, in such instances, would only delay needed cost accountability for the high-cost program.

The FPSC believes that any decision to implement a reverse auction mechanism would require a period of transition. Furthermore, an explicit determination of the responsibilities and penalties for an auction winner is also necessary and should be part of the FCC's request for proposals.

#### *Service Quality*

The FPSC again expresses its concern about whether a competitive bidding program may adversely affect the service quality provided to consumers, since CETCs generally rely on the incumbent wireline provider's network.<sup>8</sup> For example, the incumbent's wireline network terminates calls that originate on a wireless network and terminate on the wireline network, connects cell towers, and transports wireless long distance traffic. Clearly, it is an important element to most competitive providers. Therefore, when exclusive support is awarded to a carrier other than the incumbent, the FCC and the state would have to carefully ensure that the

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<sup>8</sup> Ex Parte Comments of the FPSC in CC Docket No. 96-45, p5. Filed on November 20, 2006.

winning carrier is able to meet its service quality obligation. Should the funded ETC be unable to sustain service quality standards, the FCC should either revoke the carrier's designation as the funded ETC and hold a new auction, or impose significant penalties and prescribe remedial actions required of the bid winner.

*Jurisdictional Roles*

The FPSC has also provided comment on the need to consider jurisdictional roles under an auction mechanism. As mentioned in our ex parte comments, the FPSC believes that selection of an auction winner should be subject to overarching federal guidelines. In order for reverse auctions to achieve the desired objectives, we believe it is necessary to have consistency in the implementation and administration of the reverse auction process.<sup>9</sup> In addition, we note that the FCC, with input from the states, should establish the applicable procedures and implementation guidelines for administration of auctions that should be applied nationally. The FCC should also select the auction winner in consultation with the state commission to ensure consideration of state-specific factors such, as carrier-of-last-resort (COLR) obligations and service quality requirements existing under state law.

We stress the need to carefully weigh COLR obligations under any reverse auction implementation. Florida law currently requires each incumbent local exchange telecommunications company to furnish basic local exchange service to any person requesting service within the incumbent local exchange company's (ILEC's) service territory.<sup>10</sup>

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<sup>9</sup> Id. p.4.

<sup>10</sup> Section 364.025(6)(b), Florida Statutes, identifies limited circumstances where an incumbent LEC can request relief from its carrier-of-last-resort obligation upon a showing of good cause. Such areas where an incumbent LEC may make such requests include multitenant business or residential property when the owner (or developer) prohibits installation of LEC equipment or collects telecommunications fees directly from occupants or residents.

*Comments on the CTIA Proposal*

CTIA also submitted a proposal for reverse auctions to determine high-cost universal service support.<sup>11</sup> CTIA's model for reverse auctions differs from that of Verizon by proposing:

- multiple high-cost support recipients, with the auction winner receiving more than other eligible carriers (i.e., rejection of "winner-takes-all" model).
- reverse auctions to determine support on a per line basis, as opposed to a lump sum.

While CTIA's approach provides equal funding opportunities to both incumbents and competitive ETCs, it does so by continuing the current policy of supporting unlimited competitors in high-cost areas. The allocation of support on a per line basis results in equal high-cost payments for an unlimited number of lines (both wireline and wireless) per household. The FPSC opposes this proposal because it retains the problem of providing support to multiple carriers at consumers' expense.

Alternatively, Verizon's proposal to allocate support in a flat amount per area would require bidders to estimate the economic cost of each primary and additional line when calculating their bid. Verizon's approach would allow for support of multiple lines, thus avoiding the primary line restriction.

*Comments on the Alltel Wireless Proposals*

Alltel Wireless proposes several transitional reforms to the existing universal service system, which would provide needed reform to the high-cost fund immediately.<sup>12</sup> Alltel proposes a means to curb growth in per-line support by allowing the per-line support in a study area to increase each year only by the amount of inflation. This approach may be a short-term measure while a more comprehensive reform is considered. However, it improves the current

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<sup>11</sup> CTIA reply comments, filed November 8, 2006.

<sup>12</sup> Alltel letter to Commissioner Tate and Commissioner Baum, February 16, 2007.

mechanism by preventing an upward spiraling of per-line support to both ETCs and CETCs due to a decline in ETC lines.

Alltel also supports the consolidation of multiple study areas owned by the same holding company within a state. After consolidation, high-cost support would be based on cost data for the entire combined study area. The FPSC continues to support this proposal to appropriately recognize cost savings where companies have benefited from economies of scale and scope.<sup>13</sup> This has the result of reducing support to carriers in recognition of this fact. Currently, support for each study area is determined on a stand-alone basis without recognizing the efficiencies of carriers with multiple study areas. Consolidation of study area costs is also supported by NASUCA.<sup>14</sup>

The FPSC disagrees with Alltel's proposed broadband pilot program. As we note in the "Broadband" section, we believe that it is premature to add broadband to the list of supported services. To do so would likely exacerbate the current financial strains that the universal service fund is experiencing. In addition, public/private partnerships are a preferable solution to target deployment of broadband services.

### **GIS Technology and Network Cost Modeling**

The Joint Board also seeks comment on how GIS technology could be used in network cost modeling to more efficiently calculate and target support at more granular levels. The FPSC agrees with the comments of the Nebraska Public Service Commission that: "Using GIS data already available, such as location of roads, urban centers, wireless tower location, topography, and population density provides a more complete picture of the market."<sup>15</sup> The FPSC has

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<sup>13</sup> Ex Parte Comments of the FPSC in CC Docket No. 96-45. Filed on November 20, 2006, at p.9.

<sup>14</sup> Comments of NASUCA at p.25.

<sup>15</sup> Comments of the Nebraska PSC at p.6.

traditionally endorsed making further refinements to the FCC's Synthesis Model.<sup>16</sup> Consistent with that position, the FPSC agrees with a number of other commenters that the current model is in need of reform.<sup>17</sup> To that extent, a revised forward-looking model, that more accurately targets support while capturing important key characteristics affecting costs, is desirable. Even if the Joint Board and the FCC wish to maintain distinct mechanisms for rural and non-rural carriers, an improved cost model could still be used to target support below the study area level, as suggested by Embarq.<sup>18</sup>

### **Competitive ETC Support**

In the companion Recommended Decision, the Joint Board recommends that the FCC consider abandoning the so-called identical support or portability rule. The FCC determined, in the First Report and Order, that it was appropriate to calculate per-line portable universal service support for competitive ETCs based on the support that the ILEC would receive for the same line (the identical support rule). The rule evolved from the competitive neutrality criteria that the Joint Board recommended the FCC adopt as an additional principle relating to universal service. The FCC concurred, and defined this principle in the context of determining universal service support as:

COMPETITIVE NEUTRALITY – Universal service support mechanisms and rules should be competitively neutral. In this context, competitive neutrality means that universal service support mechanisms and rules neither unfairly advantage nor disadvantage one provider over another, and neither unfairly favor nor disfavor one technology over another.<sup>19</sup>

The significant difference, however, in what the Joint Board recommended and the FCC implemented, was that the Joint Board specifically envisioned that competitors would compete

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<sup>16</sup> Comments of the FPSC in FCC Docket No. 96-45 Filed on September 6, 2000, and October 3, 2001.

<sup>17</sup> Comments of Dobson Cellular at pp.5-9, NASUCA at pp.13-14, Nebraska PSC at p.6, Sprint Nextel at pp.18-20, and Windstream at pp.5-6.

<sup>18</sup> Comments of Embarq at p.9.

<sup>19</sup> FCC, First Report and Order, FCC 97-157. FCC Docket No. 96-45. Released: May 8, 1997. ¶ 47.

for consumers.<sup>20</sup> The Joint Board, in its First Recommended Decision, and again in a subsequent recommendation,<sup>21</sup> urged the FCC to limit support to one line per household. By not limiting the amount of support, each additional line that CETCs sold to consumers was eligible for support, thus escalating the size of the fund. Currently, support for competitive ETCs is based on the per-line equivalent support amount distributed to the incumbent carriers; not on a competitive ETC's own costs.

The FPSC agrees with the Joint Board and other commenters that the identical support rule should be abandoned.<sup>22</sup> It could be argued that the identical support rule is not completely neutral. That is, to the extent that one carrier's cost is significantly different, basing the support on the higher cost carrier's network, results in revenue windfall for the second carrier. Thus, one carrier is advantaged, while the other is disadvantaged.

Furthermore, this principle should be looked at in conjunction with other principles found in Section 254(b) of the Act.<sup>23</sup> The FCC came to the same conclusion.<sup>24</sup> Given the current state of the high-cost program, the current competitive neutrality principle must be balanced with the statutory principle of "specific, predictable, and sufficient" support. The Joint Board has repeatedly found that "sufficient" also means "no more than sufficient."<sup>25</sup> Competitive neutrality should not be interpreted as requiring that all carriers receive the same amount of support, but rather, that all eligible carriers have an equal opportunity to compete for support. If the FCC moves forward with a pilot reverse auction mechanism, the competitive neutrality principles

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<sup>20</sup> Recommended Decision, FCC 96J-3, Released November 8, 1996. ¶89.

<sup>21</sup> Recommended Decision, FCC 04J-1, Released February 27, 2004. ¶56.

<sup>22</sup> Comments of NASUCA at p.20, Frontier Communications at p.5, Iowa Utilities Board at p.4, National Exchange Carrier Association at p.9, National Telecommunications Cooperative Association at p.18, Nebraska Public Service Commission at p.11, New Jersey Board of Public Utilities at p.11, South Carolina Office of Regulatory Staff at p.3, Rural Independent Competitive Alliance at p.14, Windstream at p.7, Embarq at p.21, and Verizon at p.11.

<sup>23</sup> 47 U.S.C. § 254(b)

<sup>24</sup> FCC, First Report and Order, FCC 97-157. FCC Docket No. 96-45. Released: May 8, 1997. ¶ 52.

<sup>25</sup> Recommended Decision, FCC 98J-7, Released November 25, 1998. ¶3; Recommended Decision, FCC 02J-2, Released October 16, 2002. ¶¶14, 16.

would allow eligible carriers using different technologies an opportunity to compete for high-cost support.

The competitive neutrality principle can still be implemented by providing an opportunity for all carriers, regardless of technology, to receive support based on their own costs. As we have stated in prior comments, such support should be capped at the ILEC's per-line cost.<sup>26</sup> This position is also supported by NASUCA's comments.<sup>27</sup> Capping support would prevent competitive ETCs from reaping unreasonable per-line support on an embedded basis. This would provide sufficient support in recognition of more efficient, least-cost, technologies. Given the current stress the universal service program is undergoing, the FPSC believes that the identical support rule should be eliminated.

### **Broadband**

As part of its Notice, the Joint Board asks whether it should consider adding broadband to the list of supported services, and whether there are statutory impediments to doing so. Section 254 of the Act defines universal service as "an evolving level of telecommunications services."<sup>28</sup> While the Joint Board and the FCC could expand the definition to include additional supported services, the FPSC does not believe it is necessary or advisable to do so at this time. The Act specifies the following four criteria that the Joint Board and FCC should consider when determining if a service should be included within the definition of supported services. The criteria enumerated within the Act are that supported services:

- (A) are essential to education, public health, or public safety;
- (B) have, through the operation of market choices by customers, been subscribed to by a substantial majority of residential customers;

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<sup>26</sup> Ex Parte Comments of the FPSC in CC Docket No. 96-45. Filed on November 20, 2006, at p.10.

<sup>27</sup> Comments of NASUCA at p.20.

<sup>28</sup> 47 U.S.C. § 254(c).

- (C) are being deployed in public telecommunications networks by telecommunications carriers; and
- (D) are consistent with the public interest, convenience, and necessity.<sup>29</sup>

*Essential to Education, Public Health, or Public Safety*

The federal universal service program allocates \$2.25 billion in support, per year, to provide telecommunications and broadband services specifically for schools and libraries. From 1998 through December 31, 2005, over \$16.48 billion in schools and libraries funding commitments have been issued nationwide.<sup>30</sup> The federal universal service program also provides support to rural health care providers to provide telecommunications and broadband services. The rural healthcare program has been expanded to include the costs of interconnecting with both Internet2 and National LambdaRail, Inc. Thus, the FPSC contends that one of the primary goals in expanding the definition to include broadband is already addressed by other support mechanisms within the federal universal service program.

*Subscribed to by a Substantial Majority of Residential Customers*

In the second criterion, the Act specifies that the Joint Board should consider whether a “substantial majority of residential customers” have subscribed to a service. The FPSC does not believe that this benchmark has been reached. Data from the Pew Internet & American Life Project indicates that, as of March 2006, 42 percent of all American adults had a high-speed Internet connection at home. This is less than the “substantial majority” cited within the Act. Even Florida, which is one of the top ten states in broadband subscriptions, is below 50 percent of households.<sup>31</sup>

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<sup>29</sup> 47 U.S.C. § 254(c)(1)(A-D)

<sup>30</sup> Universal Service Administration Company – Fast Facts: Retrieved May 29th, 2007, from: <http://www.usac.org/about/universal-service/fund-facts/fund-facts.aspx>.

<sup>31</sup> Ex Parte Comments of Verizon, in FCC Docket Nos. 07-38, 07-45. p.3, Filed May 17, 2007.

*Deployed in Public Telecommunications Networks*

Admittedly, broadband service has to be available to consumers in order for them to purchase it. The deployment data indicates that both telecommunications and cable providers have expanded their networks to provide such access. The FCC has noted that advanced telecommunications capability is being deployed on a reasonable and timely basis to all Americans.<sup>32</sup> According to the FCC's own data, cable broadband service is available to 93 percent of all residential end-user premises where cable systems offer cable television service as of June 30, 2006.<sup>33</sup> By comparison, DSL is available to 79 percent of all residential end-user premises where ILECs offer local telephone service.<sup>34</sup> This suggests that while broadband is generally available to the majority of residential consumers, a substantial majority has not subscribed to the service at this time.<sup>35</sup> While subscribership has increased, it has not reached the threshold level identified in the Act for it to be considered a supported service. Furthermore, this information indicates that providers have been investing in their networks to make broadband available without having to expand the definition of supported services.

*Consistent with the Public Interest, Convenience, and Necessity*

Some may argue that the public interest standard, alone, is reason enough to expand the definition of supported services to include broadband, and that economic development and innovation require such action. Some have pointed to reports by the Organization for Economic Cooperation and Development (OECD) indicating the broadband deployment in the U.S. has not kept up with other developed countries. In December 2006, the OECD reported that the U.S.

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<sup>32</sup> FCC, Availability of Advanced Telecommunications Capability in the United States, Fourth Report to Congress. September 9, 2004.

<sup>33</sup> FCC, High-Speed Services for Internet Access: Status as of June 30, 2006. Table 14. Released January 2007.

<sup>34</sup> Id.

<sup>35</sup> Comments of the National Cable & Telecommunications Association, GN Docket No. 07-45 May 16, 2007, p. 5. NCTA indicates that this number may have increased since the date of the FCC report to more than 94 percent of all U.S. homes.

ranked fifteenth out of the 30-nation members in per capita broadband use. That ranking is down from twelfth place, six months earlier, and from fourth place in 2001.

The FPSC contends, as have others, that these statistics are misleading. For example, Verizon has noted that while 42 percent of U.S. households have adopted broadband, the average for the European Union countries was only 23 percent.<sup>36</sup> The comparison of smaller countries to the entire U.S. masks the significant broadband deployment achieved without the use of universal service support. In comparing the characteristics of each country:

- Thirteen of the fourteen countries that the OECD ranks higher are geographically smaller than the U.S.
- Nine of the fourteen have population densities that are greater than the U.S.
- The remaining five have populations that are less dense than the U.S., but are concentrated in specific areas.

A number of individual states share these characteristics, but these characteristics are not found throughout the nation. The FPSC contends that a more accurate assessment would compare like-sized geographic areas.

One overlooked strength in the U.S. broadband market is the presence of competing platforms. These competing platforms have resulted in lower prices without relying on universal service subsidies. AT&T noted that their monthly rate for 1.5 Mbps DSL service declined 60 percent, from \$49.95 to \$19.99, between 2004 and 2007.<sup>37</sup> Moreover, new competitive platforms are beginning to see significant growth. Commissioner McDowell noted recently that “mobile wireless broadband connections increased from 83,503 at the end of 2005, to 1.91

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<sup>36</sup> Verizon, Ex Parte Comments. FCC Docket Nos: 07-38, 07-45. May 17, 2007.

<sup>37</sup> AT&T, Comments. GN Docket No. 07-45. May 16, 2007.

million by mid-2006.”<sup>38</sup> In addition, at least one wireless provider has even offered to build a national wireless broadband network without the use of federal universal service support.<sup>39</sup> This further suggests to the FPSC that expanding the definition of supported services to include broadband is not necessary at this time.

Another criticism leveled against the current state of broadband deployment relates to the maximum speed such broadband service can provide. A recent analysis by Analysys Consulting brings new light to these allegations.<sup>40</sup> Specifically, most broadband deployment assessments focus on the advertised speed of those connections, not the speed actually experienced by most consumers. Their analysis indicated that the “differences in actual bandwidth speed among the offerings of broadband service providers internationally are less significant than simple advertised rates imply.” Thus, the broadband speeds available to U.S. consumers are not drastically slower than service in other countries.

The FPSC agrees with those commenters that note that expanding the definition of supported services at this time would add considerable strain to the already oversized universal service fund.<sup>41</sup> Given the overall success of deployment, and other funding available to provide broadband to schools and libraries, the FPSC opposes further expanding the definition of supported services to include broadband. To the extent that there are areas where consumers do not have available broadband services, the FPSC believes that public/private partnerships are a preferable solution.

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<sup>38</sup> Remarks of Commissioner Robert M. McDowell Before the National Telecommunications Cooperative Association, February 6, 2007, Orlando, Florida. [http://hraunfoss.fcc.gov/edocs\\_public/attachmatch/DOC-270406A1.doc](http://hraunfoss.fcc.gov/edocs_public/attachmatch/DOC-270406A1.doc)

<sup>39</sup> Application by M2Z Networks, Inc. for License and Authority to Provide National Broadband Radio Service in the 2155-2175 MHz Band. WT Docket Nos. 07-16, 07-30; September 1, 2006.

<sup>40</sup> Analysys Consulting Limited, “Survey of International Broadband Offerings,” Michael Kende, Principal Consultant, October 4, 2006. Retrieved May 29th, 2007, from: <http://www.analysys.com/pdfs/BroadbandPerformanceSurvey.pdf>

<sup>41</sup> Comments of the National Cable & Telecommunications Association at p.3, New Jersey Board of Public Utilities at p.11, and Sprint Nextel Corporation at p.17.

### **Conclusion**

The FPSC supports the Joint Board's recommendation to place an interim cap on the support available to CETCs while it completes a more comprehensive recommendation. The FPSC urges the Joint Board and the FCC to reform the existing high-cost program. Unless action is taken to reform the program, the growth in the size of the fund will likely continue. As we have noted in prior comments, we are generally supportive of any action that would make the high-cost program more equitable, efficient, and effective. Current high-cost distribution methods have failed to balance the needs of those receiving support with those that ultimately have to pay for such support.

If certain hurdles are overcome, the FPSC believes that a reverse auction could be a viable high-cost support mechanism in some areas. Auctions, if structured properly, could slow the growth of the fund and restrict the number of support recipients. Of the auction proposals filed to date, the FPSC believes that Verizon's proposal is more likely to limit further growth of the fund in study areas where more than one ETC is present.

To the extent that the FCC intends to continue use of its Synthesis Model, the FPSC believes that model improvements and updated inputs must be considered. A stagnant model has the potential to misallocate scarce resources. A revised forward-looking model, that more accurately targets support while capturing important key characteristics affecting costs, is desirable. The FPSC supports the use of GIS data to more accurately estimate costs, and to target distribution of support where it is needed.

The FPSC agrees with the majority of commenters that the identical support rule should be eliminated. Competitive neutrality should not be interpreted as requiring that all carriers receive the same amount of support, but rather that all eligible carriers have an equal opportunity

to compete for support. Universal service should not be used as a tool to create entry incentives for uneconomic competition.

Finally, with regard to expanding the definition of supported services to include broadband, the FPSC does not believe that the conditions outlined by Congress in the Act have been met. The FPSC agrees with other parties' comments that note the significant upward pressure such an action would have on the size of the fund.

Respectfully Submitted,

/ s /

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Dated: June 21, 2007