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November 17, 2004

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**Via HAND DELIVERY**

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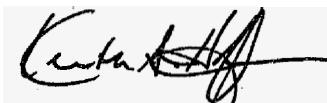
RE: Docket No. 040604-TL - In re: Adoption of the National School Lunch Program and an income-based criterion at or below 135% of the Federal Poverty Guidelines as eligibility criteria for the Lifeline and Link-Up programs.

Dear Ms. Bayo:

Enclosed for filing in the above-referenced docket on behalf of TDS Telecom d/b/a TDS Telecom/Quincy Telephone, Alltel Florida, Inc., Northeast Florida Telephone Company d/b/a NEFCOM, and GTC, Inc. d/b/a GT COM are the original and fifteen copies of the Prefiled Direct Testimony of Thomas M. McCabe.

Please acknowledge receipt of this document by stamping the extra copy of this letter "filed" and returning the copy to me. Thank you for your assistance with this filing.

Sincerely,



Kenneth A. Hoffman

KAH/tls  
Enclosures

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**CERTIFICATE OF SERVICE**

I HEREBY CERTIFY that a true and correct copy of the foregoing has been furnished by U.S. Mail on this 17th day of November, 2004 to:

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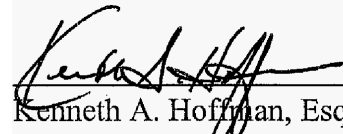
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Inc., Northeast Florida Telephone Company  
d/b/a NEFCOM, and GTC, Inc. d/b/a GT  
COM

**BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION**

**IN THE MATTER OF DOCKET NO. 040604-TL RE: ADOPTION OF THE  
NATIONAL SCHOOL LUNCH PROGRAM AND AN INCOME-BASED  
CRITERION AT OR BELOW 135% OF THE FEDERAL POVERTY  
GUIDELINES AS ELIGIBILITY CRITERIA FOR THE LIFELINE AND LINK-  
UP PROGRAMS**

**DIRECT TESTIMONY OF  
THOMAS M. MCCABE**

**ON BEHALF OF  
TDS TELECOM d/b/a/ TDS TELECOM/QUINCY TELEPHONE , ALLTEL  
FLORIDA, INC., NORTHEAST FLORIDA TELEPHONE COMPANY d/b/a  
NEFCOM, AND GTC, INC. d/b/a GT COM**

1 TDS TELECOM d/b/a/ TDS TELECOM/QUINCY TELEPHONE , ALLTEL  
2 FLORIDA, INC., NORTHEAST FLORIDA TELEPHONE COMPANY d/b/a  
3 NEFCOM, AND GTC, INC. d/b/a GT COM

4 DIRECT TESTIMONY OF THOMAS M. MCCABE  
5 BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION  
6 DOCKET NO. 040604-TL  
7

8 **PLEASE STATE YOUR NAME, YOUR EMPLOYER, AND YOUR BUSINESS**  
9 **ADDRESS.**

10 My name is Thomas M. McCabe. I am the External Relations Manager for TDS  
11 Telecom, 107 West Franklin, Street, P.O. Box 189, Quincy, FL 32353-0189.  
12

13 **PLEASE PROVIDE A BRIEF DESCRIPTION OF YOUR EDUCATIONAL**  
14 **BACKGROUND AND TELECOMMUNICATIONS EXPERIENCE.**

15 I graduated with a Bachelor of Arts Degree in Economics from the University of North  
16 Carolina – Charlotte in 1982. I have been employed by TDS Telecom (“TDS”) for 9  
17 years. My current responsibilities include managing regulatory, legislative and industry  
18 relations for TDS companies in the states of Florida, Georgia, and Virginia. Prior to  
19 joining TDS, I served nine years on the staff of the Florida Public Service Commission  
20 (“Commission” or “FPSC”). During that time, I had an active role in developing  
21 telecommunications policy for the FPSC. In addition to developing state  
22 telecommunications policy, I represented the FPSC on the National Association of  
23 Regulatory Utility Commissioners Staff Subcommittee on Communications, the Federal

1 Communications Commission (“FCC”) Federal/State Joint Board on Separations and  
2 Settlements, and the Joint Conference on Open Network Architecture.

3 **ON WHOSE BEHALF ARE YOU TESTIFYING?**

4 I am testifying on behalf of Quincy Telephone Company, d/b/a TDS Telecom/Quincy  
5 Telephone, ALLTEL Florida, Inc., GTC, Inc. d/b/a GT COM, and Northeast Florida  
6 Telephone Company d/b/a NEFCOM, collectively referred to as the small incumbent  
7 local exchange companies or “Small LECs.”

8 **WHAT ISSUES DOES YOUR TESTIMONY ADDRESS?**

9 My testimony addresses Issues 2, 4, 5A, 6, and 6A.

10

11 **WHAT IS THE PURPOSE OF YOUR TESTIMONY?**

12 The purpose of my testimony is to address the need for a state universal service fund or  
13 alternative cost recovery mechanism to recover the cost of the \$3.50 state discount for  
14 Lifeline customers. Pursuant to FPSC Order No. PSC-95-1150-FOF-TL, issued  
15 September 15, 1995, the Small LECs were required to implement a Lifeline Assistance  
16 Plan. As part of the Lifeline Assistance Plan, the Small LECs were required to provide a  
17 state discount of \$3.50, matching the federal credit equal to the subscriber line charge at  
18 that time. Furthermore, my testimony will address the Commission’s proposed decisions  
19 to adopt the National School Lunch Program, the income-based criteria at or below 135%  
20 of the Federal Poverty Guidelines, and to allow customers to self-certify for Lifeline  
21 credits.

22

23 **WHAT IS THE PURPOSE OF THE LIFELINE ASSISTANCE PROGRAM?**

1 The Lifeline assistance program was initiated by the FCC in 1985 to make telephone  
2 service more accessible to customers that may not be able to otherwise afford service.  
3 The program's objective was to advance the basic goal of universal service, whereby all  
4 customers, including low-income consumers, would have access to affordable  
5 telecommunications service.

6

7 **PLEASE PROVIDE A BRIEF HISTORY OF THE LIFELINE ASSISTANCE**  
8 **PROGRAM.**

9 Since 1985, the FCC has administered two programs designed to increase subscribership  
10 by reducing low-income consumers' telephone charges. The Lifeline program reduced  
11 qualifying consumers' monthly charges and Link-Up provided federal support for  
12 eligible consumers' through a reduction of up to one-half of initial connection charges.

13

14 When the FCC first implemented the Lifeline program, a consumer could receive \$3.50  
15 in federal support plus an additional \$3.50 for a total of \$7.00 if the state provided a  
16 matching reduction in intrastate rates; however, state participation in the Lifeline program  
17 was not mandated.

18

19 In the FCC's Report and Order adopted on May 7, 1997, the Commission determined that  
20 Lifeline service should be made available to all low-income consumers in every state,  
21 regardless of whether the state provides matching funds. As a result the FCC established  
22 differing levels of support depending on whether or not a state provided matching  
23 support.

1

2 Page 7 of FPSC Order No. PSC-04-0781-PAA-TL (the "PAA Order") sets forth the four  
3 tiers of monthly federal Lifeline support established in the FCC rules, as well as the  
4 applicable level of state support:

5

6 • The first tier of federal support is a \$6.50 credit for the federal subscriber line charge,  
7 which is available to all eligible subscribers.

8

9 • The second tier of federal support is a \$1.75 credit that is available to subscribers in  
10 those states that have approved the credit. All fifty (50) states have approved this tier of  
11 support.

12

13 • The third tier of federal support is one-half the amount of additional state support up to  
14 a maximum of \$1.75 in federal support. Because Florida presently requires Eligible  
15 Telecommunications Carriers ("ETCs") to provide an additional \$3.50 credit to Lifeline  
16 customers' bills, Florida Lifeline subscribers currently receive a total monthly credit of  
17 up to \$13.50, consisting of \$10.00 (\$6.50+\$1.75+\$1.75) in federal support and \$3.50 in  
18 state support. The telephone subscriber may receive a credit less than \$13.50 if the  
19 subscriber's bill for basic local telephone service is less than the maximum available  
20 credit. At no time is the customer's bill for local service less than zero.

21



1 • The fourth tier of support, available only to eligible subscribers living on tribal lands,  
2 provides an additional credit up to \$25.00 per month. This amount is limited to the extent  
3 that the credit does not bring the basic local residential rate below \$1.00 per month.

4

5 **PLEASE DESCRIBE THE LINK BETWEEN LIFELINE AND UNIVERSAL**  
6 **SERVICE?**

7 The Lifeline Program is one of several universal support mechanisms used to support the  
8 advancement of state and federal universal service objectives to ensure availability of  
9 telecommunications services at affordable rates. Section 254 of the federal  
10 Communications Act of 1996 (the “Act”), 47 U.S.C. § 254(b) (1-7) sets forth the  
11 following principles for the preservation and advancement of universal service:

- 12 1. Quality service should be available at just, reasonable, and affordable rates.
- 13 2. Access to advanced telecommunications and information services should be  
14 provided in all regions of the Nation.
- 15 3. Consumers in all regions of the Nation, including low-income consumers and  
16 those in rural, insular, and high cost areas, should have access to  
17 telecommunications and information services, including interexchange  
18 services and advanced telecommunications services, that are reasonably  
19 comparable to those services provided in urban areas and that are available at  
20 rates that are reasonably comparable to rates charged for similar services in  
21 urban areas.

1           4. All providers of telecommunications services should make an equitable and  
2           nondiscriminatory contribution to the preservation and advancement of  
3           universal service.

4           5. There should be specific, predictable and sufficient Federal and State  
5           mechanisms to preserve and advance universal service.

6

7           **ARE THE STATE AND FEDERAL PRINCIPLES OF UNIVERSAL SERVICE**  
8           **CONSISTENT?**

9           Yes, the federal principles outlined in Section 254(b) of the Act are consistent with the  
10          principles of universal services set forth in Section 364.025, Florida Statutes, which  
11          describes universal service as:

12                 “an evolving level of access to telecommunications services that, taking into  
13                 account advances in technologies, services, and market demand for essential  
14                 services the commission determines should be provided at just, reasonable and  
15                 affordable rates to consumers, including those in rural, economically  
16                 disadvantaged, and high-cost areas.”

17

18          **PLEASE EXPLAIN THE RELATIONSHIP BETWEEN LIFELINE, BASIC**  
19          **SERVICE AND UNIVERSAL SERVICE?**

20

21          It is generally accepted that universal service, at a minimum, includes basic local  
22          telecommunications service, which is defined under Section 364.02(1), Florida Statutes,  
23          as:

1 “voice-grade, flat rate residential and flat-rate single line business local exchange  
2 services which provide dial tone, local usage necessary to place unlimited calls  
3 within a local exchange area, dual tone multi-frequency dialing, and access to the  
4 following: emergency services such as 911, all locally available interexchange  
5 companies, directory assistance, operator services, relay services, and an  
6 alphabetical directory listing. For a local exchange telecommunications company,  
7 such term shall include any extended area services routes, and extended calling  
8 service in existence or ordered by the commission on or before July 1, 1995.”

9 Under the Federal and Florida Lifeline Programs, customers that are determined to be  
10 eligible for Lifeline service receive a discount of up to \$13.50 off of their basic  
11 telecommunications service.

12  
13 **IS THE STATE LIFELINE PROGRAM CONSISTENT WITH STATE AND**  
14 **FEDERAL UNIVERSAL SERVICE OBJECTIVES REQUIRING COMPETITIVE**  
15 **NEUTRALITY?**

16 No. In the FCC's First Report & Order on Universal Service, the FCC adopted a  
17 competitive neutrality principle. It stated:

18 "COMPETITIVE NEUTRALITY. Universal service support mechanisms and  
19 rules should be competitively neutral. In this context, competitive neutrality  
20 means that universal service support mechanisms and rules should neither unfairly  
21 advantage nor disadvantage one provider over another, and neither unfairly favor  
22 nor disfavor one technology over another." (Report and Order, Federal-State Joint

1 Board on Universal Service, CC Docket No. 96-45, 12 FCC Rcd 8776, 8801,  
2 para. 47 (1997)).

3 Based on the FCC's competitive neutrality principle, Florida's state Lifeline program, as  
4 currently structured, places Florida incumbent local exchange companies at a competitive  
5 disadvantage, and is not competitively neutral. It is indisputable that Lifeline service is a  
6 component of universal service. Furthermore, under the current structure, requiring the  
7 ETC to provide a \$3.50 state credit with no cost recovery is inconsistent with both state  
8 and federal statutes with respect to advancing universal service objectives. Specifically,  
9 Florida Statute 364.025(2) "...finds that each telecommunications company should  
10 contribute its fair share to the support of the universal service objectives and carrier-of-  
11 last-resort obligations." The fact that other Florida telecommunications providers are not  
12 required to support the state Lifeline credit is inconsistent with the Florida Legislature's  
13 goal of promoting universal service.

14

15 **ARE THE ACTIONS PROPOSED BY THE COMMISSION IN THIS**  
16 **PROCEEDING REASONABLE AND NON-DISCRIMINATORY?**

17 No. Through this proceeding, the Small LECs are in no way intending to undermine the  
18 importance of the Lifeline program, and in fact support the need for a competitively  
19 neutral program at the current level of customer support. In the PAA Order, the  
20 Commission appropriately recognized that the Small LECs often have a disproportionate  
21 share of low-income consumers and inclusion of an income-based criterion could result  
22 in a significant increase in participation in the Lifeline program. Further, the  
23 Commission recognized the financial challenge this would present to the Small LECs.

1 The concerns expressed by the Commission underscore the concerns of the Small LECs  
2 with expanding the Lifeline eligibility program without implementation of a cost  
3 recovery mechanism that is competitively neutral to all telecommunications providers.

4

5 **WHAT ARE THE ECONOMIC AND REGULATORY IMPACTS WITH**  
6 **RESPECT TO EXPANDING THE LIFELINE ELIGIBILITY REQUIREMENTS?**

7 First and foremost, expansion of the Lifeline eligibility criteria will only extend the Small  
8 LECs' competitive disadvantage in today's marketplace without an appropriate cost  
9 recovery mechanism. The Small LECs typically service rural high-cost areas, and may  
10 have a disproportionate percentage of eligible Lifeline subscribers as a percentage of total  
11 customers. For example, TDS Telecom's service area is limited to Gadsden County.

12 Based on 2002 census data, 19.9% of the county residents meet the federal poverty  
13 guidelines. Although TDS is unable to determine the exact number of eligible Lifeline  
14 customers, it's possible that 25%-30% of the company's customer base could be eligible  
15 for Lifeline discounts if Lifeline eligibility is expanded to 135% of the federal poverty  
16 guidelines.

17

18 Furthermore, the Small LECs are not immune to competition as we are experiencing  
19 increasing competitive activity from Competitive Local Exchange Carriers ("CLECs"),  
20 wireless carriers, and Voice over Internet Providers ("VoIP") providers. To require  
21 Small LECs to provide a \$3.50 discount to Lifeline subscribers without a competitively  
22 neutral cost recovery mechanism creates a competitive disadvantage.

1 **ARE SMALL LECs EXPERIENCING AN INCREASE IN LIFELINE**  
2 **SUBSCRIBERSHIP?**

3 Yes. Although the Commission, Office of Public Counsel, and others may be  
4 disappointed with the number of Lifeline subscribers, the efforts to promote the  
5 availability of Lifeline service has shown an increase in subscribership over the last  
6 several years. Since 2000, the Small LECs have seen an increase in Lifeline subscribers  
7 from 2,666 to 6,329. Given the increased efforts to promote Lifeline we believe this  
8 figure will increase over time.

9

10 **WHAT ARE THE ECONOMIC AND REGULATORY IMPACTS OF**  
11 **IMPLEMENTING SELF-CERTIFICATION?**

12 The Small LECs understand the Commission's interest in increasing Lifeline  
13 subscribership. However, we believe that the self-certification issue will create  
14 additional administrative burdens, and provide an avenue for fraud. It has been TDS'  
15 experience that requiring customers to provide documentation of eligibility for Lifeline  
16 service has not created any undue burdens on customers. We have had very little, if any,  
17 resistance from customers to provide documentation. This holds true for the other Small  
18 LECs as well. Furthermore, we believe that requiring customers to provide  
19 documentation up front provides administrative ease and an incentive for customers to  
20 provide documentation in a timely manner. Allowing customers to self-certify, and then  
21 requiring the LEC to seek verification based on an annual statistical sample, will create  
22 significant workload. We believe that it is important to recognize that Small LECs may  
23 implement different verification procedures than the larger LECs. For example, it may

1 be cost effective for a large LEC to provide a data dump to the Department of Children  
2 and Family Services to determine eligibility. However, that same procedure may not be  
3 cost effective for Small LECs. We believe that the current processes used today by the  
4 Small LECs are efficient and useful to both the consumer and company. Additionally,  
5 the Small LECs disagree that self-certification under penalty of perjury will do much to  
6 prevent fraud. Those customers that choose to commit fraud will do so whether they sign  
7 an affidavit of not. Additionally, if the LEC determines a customer has committed fraud,  
8 we do not want the responsibility of prosecuting customers. Unfortunately, it does not  
9 take long for customers that are willing to commit fraud to learn that the likelihood of any  
10 company taking legal action is small.

11

12 **HOW SHOULD THE COMMISSION ENSURE LIFELINE IS COMPETITIVELY**  
13 **NEUTRAL?**

14 The Small LECs believe that the Commission should establish a competitively neutral  
15 funding mechanism to support the state matching \$3.50 Lifeline discount. The  
16 telecommunications landscape has changed significantly since the Commission  
17 implemented the Lifeline program in 1995. Prior to 1995, local exchange carriers were  
18 monopoly providers of telecommunications services. With the passage of the 1995  
19 Florida Telecommunications-Competition Act, and the Federal Act of 1996, competition  
20 in the local exchange market was opened. CLECs have had an opportunity to establish  
21 themselves in the marketplace, while cellular service has shown dramatic growth to the  
22 point that the number of wireless lines is approximately equal to the number of traditional  
23 wirelines and the FCC has granted two wireless providers ETC status in Florida.

1 Additionally, there is a growing demand for advanced services such as broadband, which  
2 is changing customer demands for telecommunications services. We believe that a  
3 specific, targeted universal service fund is necessary to ensure the preservation and  
4 advancement of universal service in Small LEC services areas, while not placing the  
5 incumbent LEC at a competitive disadvantage with its competitors.

6

7 **SHOULD CONSUMERS BE ALLOWED TO SELF-CERTIFY FOR PROGRAM**  
8 **BASED LIFELINE AND LINK-UP ELIGIBILITY?**

9 No. The FCC recognizes that the Low-Income programs can only be successful if there is  
10 coordinated action on the part of the federal and state governments. The recent FCC  
11 order adopted April 2, 2004 demonstrates that belief. Although the FCC preserved the  
12 ability of a consumer to self-certify for program-based qualifications, within the federal  
13 default states, the FCC also preserved the states' ability to develop additional certification  
14 measures if the state operates its own Low-Income program. In doing so, the FCC  
15 **acknowledged that states** are in a better position to set the program parameters that meet  
16 the needs of citizens.

17

18 The Florida Commission, in its comments filed on August 18, 2003 in WC Docket No.  
19 03-109, accurately communicated the distress that may arise if appropriate protections are  
20 not created when enrolling consumers in the Low Income programs. The FPSC stated

21 "It has become increasingly clear that greater emphasis must be placed on  
22 accountability. The FPSC believes the long-term sustainability of the fund is



1 critical, and that appropriate accountability standards are necessary to insure the  
2 long-term success of the program. To protect the integrity of the program, we  
3 believe only those customers who are eligible and are in need of support should  
4 be allowed to participate” (page 2).

5 The FPSC also expressed concerns that self-certification may result in increased fraud:

6 “Consistent with our comments to the Joint Board<sup>1</sup>, the FPSC has concerns with  
7 the application of self-certification due to the increased risk of waste, fraud, and  
8 abuse. As stated earlier, we believe the long-term sustainability of the fund is  
9 contingent upon the application of appropriate accountability standards. We  
10 believe rigid verification is appropriate and believe that if states want to exercise  
11 the flexibility to have self-certification, they must implement effective verification  
12 procedures on a going forward basis” (Page 4).

13

14 The FPSC’s comments highlighted California’s Lifeline consumer participation – a state  
15 that utilizes self-certification. The comments noted that California’s program  
16 participation exceeds 100% of the eligible population (page 5). The FPSC appropriately  
17 called into question the strain self-certification could place on the universal service fund  
18 and that self-certification without proper documentation could lead to abuse of the  
19 system. The FPSC’s comments stated:

20 “The FPSC has reservations that a verification process that relies on end-users  
21 validating their eligibility can be effective at minimizing waste, fraud, and abuse.

1 For example, under existing federal rules, customers can simply sign a document  
2 stating that they are eligible to receive Lifeline support without providing any  
3 documentation demonstrating this to be the case. If a verification process is  
4 intended to confirm a customer's eligibility, allowing self-certification as a means  
5 of verification by its very nature defeats this purpose. At a minimum, a periodic  
6 verification process should affirmatively validate a customer's eligibility. This  
7 could be done through documentation such as providing a copy of a customer's  
8 most current Medicaid card, filing a form certified by a representative of a  
9 qualifying agency, or through automatic enrollment" (page 5).

10  
11 The FPSC's comments identified potential problems with the federal rules, and the FPSC  
12 should be commended for expressing their apprehension. The FPSC should exercise its  
13 ability to develop specific state certification procedures that meet the needs of the Florida  
14 citizens while maintaining the program's integrity.

15  
16 **IS THE ESTABLISHMENT OF A STATE UNIVERSAL SERVICE MECHANISM**  
17 **FOR LIFELINE CONSISTENT WITH PRIOR COMMISSION POLICY**  
18 **RECOMMENDATIONS?**

19 Yes, in December 1996, the Commission issued its report to the legislature on universal  
20 service titled "Universal Service in Florida". In the report, the Commission states at page  
21 47:

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<sup>1</sup> The FPSC's comments filed December 26, 2001 in CC Docket No. 96-45, Federal State Joint Board on

1           “At present, no universal service funding at the state level is provided for Lifeline  
2           and Link Up assistance. While this lack of funding may have been appropriate  
3           under rate of return regulation, under which a LEC could apply for rate increases  
4           if needed, we believe it is less appropriate in a competitive climate. Those  
5           companies with qualifying customers could provide a disproportionate share of  
6           the funding for those customers, while companies with no customers would not  
7           contribute anything. This could be a disadvantage to the company serving the  
8           most low-income customers. Therefore, we believe provisions should be made to  
9           allow future funding of these programs through the state universal service fund, to  
10          the extent not funded through federal programs.”

11

12   **IS THE COMMISSION AUTHORIZED UNDER STATE OR FEDERAL LAW TO**  
13   **ESTABLISH A STATE LIFELINE FUNDING MECHANISM?**

14   Yes, the Small LECs believe the Commission has the authority to establish a state  
15   funding mechanism under Section 364.025(2), Florida Statutes. As discussed above,  
16   Lifeline assistance is an integral program designed to advance universal service  
17   objectives for low-income consumers. Section 364.025(1) and (2), Florida Statutes,  
18   grants the Commission the specific authority to establish a state interim universal service  
19   fund to ensure that universal service objectives are maintained after the local exchange  
20   market was opened to competition. Section 364.025(2) specifically states:

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Universal Service, at page 6, stated “We believe that it is necessary to certify consumers’ eligibility and perform periodic verifications in order to prevent waste, fraud, and abuse, and ensure the integrity...”

1           “The legislature finds that each telecommunications company should contribute  
2           its fair share to the support of the universal service objectives and carrier-of-last-  
3           resort obligations. For a transitional period not to exceed January 1, 2009, the  
4           interim mechanism for maintaining universal service objectives and funding  
5           carrier-of-last-resort obligations shall be established by the commission, pending  
6           the implementation of a permanent mechanism. The interim mechanism shall be  
7           applied in a manner that ensures that each competitive local exchange  
8           telecommunications company shall reflect a fair share of the local exchange  
9           telecommunications company’s recovery of investments made in fulfilling its  
10          carrier-of-last-resort obligations, and the maintenance of universal service  
11          objectives. The commission shall ensure that the interim mechanism does not  
12          impede the development of residential consumer choice or create an unreasonable  
13          barrier to competition...”

14

15   **WHAT IS THE APPROPRIATE STATE LIFELINE MECHANISM AND HOW**  
16   **SHOULD IT BE IMPLEMENTED AND ADMINISTERED?**

17   The Small LECs believe that the Commission should establish an interim universal  
18   service mechanism whereby all providers of telecommunications services should be  
19   required to contribute. This would include wireless carriers which the Commission has  
20   already determined are obligated to contribute if the commission was to establish a state  
21   universal service mechanism. (FPSC Order No. PSC-95-1592-FOF-TP, issued December  
22   27, 1996 in Docket No. 950696-TP). Additionally, the Small LECs recommend that the  
23   Commission require contributions from providers using VoIP technology.

1 The size of the fund should be determined based on the number of Lifeline subscribers'  
2 multiplied by the \$3.50 discount. The Commission should adjust the size of the fund on a  
3 semi-annual or annual basis to take into account the growth in Lifeline subscribership. In  
4 order to ease administrative burdens, contributions to the fund should be assessed on a  
5 quarterly or semi-annual basis. Payments from the fund could be distributed the  
6 following month.

7

8 The Small LECs believe that the Commission should explore two options regarding  
9 administration of the fund. The Commission could administer the fund, or contract out to  
10 a third party provider such as the National Exchange Carriers Association which  
11 currently administers some state universal service programs.

12

13 **WOULD THE CREATION OF A STATE UNIVERSAL SERVICE FUND OR**  
14 **FUNDING MECHANISM FOR LIFELINE BE UNIQUE TO FLORIDA?**

15 No. Under the current FCC Lifeline requirements, states are not required to provide any  
16 state matching to participate in the federal Lifeline program. Some states have elected to  
17 participate in the federal program without additional support, while others have elected to  
18 require ETCs to provide an additional state discount. TDS operates local exchange  
19 companies in twenty-eight states, and only sixteen of those states require an additional  
20 state discount. However, thirteen of those states have developed a funding mechanism  
21 either through a state universal service fund, a fund specific to Lifeline, or an end user  
22 surcharge to compensate the ETC provider for the additional Lifeline discounts.

1 **WOULD YOU PLEASE SUMMARIZE YOUR TESTIMONY?**

2 Yes, there is no disputing the fact that Lifeline service is an important component of  
3 universal service for low-income consumers. The Small LECs believe the time has come  
4 for the establishment of a competitively neutral interim state universal service fund or  
5 state Lifeline funding mechanism to recover the state \$3.50 credit to Lifeline customers.  
6 The Small LECs believe that Section 364.025(2), Florida Statutes, grants the Commission  
7 the specific authority to establish a state interim universal service fund to ensure that  
8 universal service objectives are maintained.

9

10 Furthermore, the Small LECs recommend that the Commission not authorize self-  
11 certification for Lifeline service. We believe this increases the possibility of fraud, and  
12 increases administrative burdens on the Small LECs. We do not believe that the current  
13 process of requiring customers to certify eligibility upfront is negatively impacting  
14 Lifeline subscribership in Small LEC service areas.

15

16 **DOES THIS CONCLUDE YOUR TESTIMONY?**

17 Yes.