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BEFORE THE PUBLIC UTILITIES COMMISSION
OF THE STATE OF CALIFORNIA

Order Instituting Rulemaking into the Review of the California High Cost Fund-A Program.	Rulemaking 11-11-007 (Filed November 10, 2011)

COMMENTS OF THE DIVISION OF RATEPAYER ADVOCATES ON THE ORDER INSTITUTING RULEMAKING INTO THE REVIEW OF THE CALIFORNIA HIGH COST FUND-A PROGRAM

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I. INTRODUCTION

Pursuant to Rule 6.2 of the California Public Utilities Commission's (CPUC or the Commission) Rules of Practice and Procedure, the Division of Ratepayer Advocates (DRA) respectfully submits its Opening Comments on the Order Instituting Rulemaking (OIR) into the review of the California High Cost Fund-A (CHCF-A or A-Fund) program. As a preliminary matter, DRA strongly supports the goals for universal service because of their critical impact on public safety and the state economy. DRA believes that the program has made great strides toward meeting universal service goals and suggests that the Commission use the "waterfall" mechanism to gradually phase down the amount the small local exchange carriers (Small LECs) are drawing from the fund today. DRA further recommends downward pricing flexibility to assist these LECs in transitioning out of rate-of-return (ROR) regulation to a modified form of the Uniform Regulatory Framework (URF).[1]

II. DISCUSSION

DRA submits the following responses to the questions raised in section 6 of the OIR:

A. CHCF-A Support Evaluation: The CHCF-A Has Met its Goal, and the Commission Should Phase it Out

1. Has the CHCF-A met its goal of promoting universal service while minimizing rate disparity?

In the Communications Division's (CD) 2010 report on residential telephone subscribership and universal service, it found that there was a 97% penetration rate for all households in California.[2] This penetration rate exceeds the Commission's bar (95%) for

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[1] DRA's silence on any issue should not be taken as consent. DRA reserves the right to address any rule, issue or changes required to implement the proposals of other parties in its reply comments.

[2] California Public Utilities Commission Report to the California Legislature in Accordance with California Public Utilities Code Section 873: Residential Telephone Subscribership and Universal Service (Dec. 2010) at ii.

meeting its universal service goals for California.[3] Based on this high penetration level, the Commission reasonably could conclude that companies receiving CHCF-A funding have successfully met the Commission's universal service goals.

In terms of rural/urban rate disparities, the Commission has acted to ensure that the Small LECs' monthly basic rates are reasonably close to the rates charged in urban areas by capping the monthly rate at $20.25. DRA supports keeping the rate cap, and notes that it may be necessary to change the cap in the future, perhaps by indexing rate changes to a cost or price index. Some degree of rate disparity is to be expected, as the small LECs cannot achieve the economics of scope and scale that characterize the large incumbent local exchange carrier (ILEC) networks.

2. If the CHCF-A has met its goal, should it be discontinued immediately or should it be phased out over time?

Because the CHCF-A program appears to have met its goals, DRA supports using the waterfall mechanism to phase down the companies' draw from the fund over time. The waterfall mechanism will provide the Small LECs with an assured level of funding while the Commission implements the phase-down cycle. Use of the waterfall mechanism is both logical and efficient, given that the mechanism is already in place and familiar to the Small LECs, thus potentially minimizing litigation and implementation issues that a new mechanism might raise.

In addition, DRA does not support the use of a "flash cut" subsidy reduction, because the impact may be too harsh: the affected companies and their customers would have little time to transition to a new regulatory scheme. By contrast, use of the waterfall mechanism represents a more measured approach to phasing down the program.

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[3] Throughout D.10-11-033, *Decision Adopting Forward Looking Modifications to California LifeLine in Compliance with the Moore Universal Telephone Service Act*, the Commission refers to the goal of meeting 95% subscribership (a.k.a penetration rate) as a measure of achieving universal service. *See,.e.g.*, D.10-11-033 at 35, 38, 39, Finding of Fact 1. The Commission noted at that time actual telephone subscribership at 96.7% has exceeded the 95% goal (based on a June 2008 report). *See id.* n.156. Clearly, the 2010 penetration rate of 97% continues to exceed that goal.

3. If the CHCF-A support should be phased out, should it be done in accordance with the current "waterfall" mechanism?

As stated above, DRA proposes that the Commission use the existing CHCF-A phase-down cycle process found in Commission Decision (D.) 91-09-042 as a guide:

> The phase-down cycle under this reinitiation will be six years: three years at 100% funding level followed by three succeeding years at 80%, 50% and 0%, respectively[.][4]

This phase-down will provide the Small LECs with adequate predictable funding as they prepare to exit the ROR regulatory scheme, as discussed in further detail below.

4. If the CHCF-A fund is discontinued or altered, is there a need for a monitoring mechanism to assure that the universal service goals continue to be met?

If the Commission discontinues the use of the CHCF-A, DRA supports a monitoring mechanism to assure that universal service goals continue to be met. The monitoring mechanism should be a periodic (monthly or quarterly) report the Small LECs submit to the Commission and DRA to demonstrate how the Small LECs are continuing to meet the Commission's universal service goals.

5. If the CHCF-A has met its goals, should new goals be adopted based on changes in the needs of consumers, technological advancements, competition in the market, and California objectives?

Although the CHCF-A appears to have met its goals for universal service, DRA strongly supports setting service quality monitoring and performance reporting, as set forth in DRA's January 30, 2012 Opening Comments in the Service Quality OIR (R.11-12-001). In addition, DRA expects to respond to the proposals of other parties in this proceeding.

If companies need further funding to build out their networks, they can access various federal and state subsidies, such as the California Advanced Services Fund and

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[4] D.91-09-042 at 3.

the Rural Infrastructure Grant (RIG) program. Further, low income customers can enroll in the Lifeline program to protect access to affordable basic telephone service.

B. Review of Program Implementation Rules: the Commission Should Retain the "150% Rule" for Rural Rates as a Benchmark Rather Than a Requirement and Transition Small LECs from Rate of Return Regulation to a Modified URF Regulatory Scheme

1. What rules must be revised to account for proposed changes?

With the exception of service quality and monitoring reports, DRA does not presently see a need for the Commission to adopt a set of entirely new rules, as the Commission instead could take a quicker and simpler approach by adopting DRA's proposal to modify the existing rules regarding the waterfall mechanism and the classification of the Small LECs as ROR carriers.

The primary rule change required to use the current waterfall mechanism to gradually reduce the need for CHCF-A subsidy funding arise from the Commission's conclusions in D.91-09-042, including the "150%" rate disparity rule.[5] According to the 150% rule, as set forth in the Appendix to D.91-09-042, a Small LEC's "average local exchange rates contained in any rate design . . . shall not exceed the target level of 150% of comparable California urban rates."[6] The Commission further stated that "[t]he 150% level of comparable California urban rates shall constitute a benchmark against which specific company rate designs are measured rather than a rigid requirement that each rate design element be set at 150% of the underlying urban rate."[7] Thus, the 150% rule provides a guide for the establishment of rural rates in relation to urban rates.

To open the Small LECs' territories to competition, DRA sees no need to change that 150% rate disparity guideline. However, it is less relevant today. Because the

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[5] DRA provides the following discussion of necessary implementation rule changes in the context of its own recommendations and reserves the right to address other parties' proposed rule changes in DRA's reply comments.

[6] D.91-09-042, Appendix at 1.

[7] *Id.*

Commission has eliminated rate regulation -- including geographic averaging of rates -- for URF carriers, the rates of URF carriers can change quickly, making it virtually impossible as well as impractical to attempt to peg the Small LECs' basic rate to that of AT&T. URF ILECs have full pricing flexibility in pricing their "urban basic rate"; for example, AT&T's prices for all of its services are not regulated, can increase upon 30 days notice, and can vary in different regions or metropolitan areas of the state.

Since the 150% rule is merely a benchmark and not a rigid requirement, DRA proposes that the Commission retain it as a goal. According to DRA's waterfall mechanism proposal, all Small LECs' basic residential service rates should come up to the current cap of $20.25 per month. By raising the current basic residential service rates to the current cap, the Commission can use the 150% rule as a benchmark, indexed periodically to account for inflation. Because nine of the fourteen Small LECs have current basic residential rates less than $20.25 a month, this revised rule will allow the majority of small ILECs to benefit from additional revenue generated from adjusted rates that may not have been included in the revenue requirement for their individual GRCs.[8] Moreover, the revised rule is self-executing, does not require a general rate case review, and does not implicate a need to account for revenue changes. DRA will recommend a specific index at a later date.

2. Should the current 14 small ILECs continue to be classified as rate of return carriers?

No, it is time for the status of the smaller carriers to change. DRA recommends that the Commission freeze carriers' draws under the current waterfall cycle during the course of this global examination of the A-Fund. The Commission may also want to restart the waterfall at 100% funding for all companies after it concludes this investigation.[9] The OIR correctly distinguishes between the three Small LECs who are eligible to receive A-Fund subsidies -- but chose not to -- and the other eligible Small

[8] According to Appendix G, 9 of the OIR, 9 of the 14 Small LECs receiving A-Fund subsidies have current basic residential rates less than $20.25 per month.

[9] Restarting the waterfall at 100% would not apply to the three Small LECs not currently drawing from the A-Fund.

LECs who do receive A-Fund subsidies. The Commission should promptly move the former group of carriers into a modified URF-style regulatory scheme that maintains basic rate caps and allows for downward pricing flexibility. It is not necessary to use the waterfall mechanism to accomplish this result, as these companies presently are effectively at a 0% A-Fund draw.

The Commission should gradually transition the other Small LECs A-Fund subsidies downward using the waterfall process. At the conclusion of the waterfall cycle, the Commission should move these Small LECs into a modified URF-style regulatory framework. Finally, carriers currently in the waterfall should have their waterfall reset to 100% for test year 2013, and the Commission should maintain the cap of $20.25 for monthly residential service.

C. Implementing a Cap on the CHCF-A: Phase-Down Using the Waterfall Would Effectively Function as Carrier-Specific Caps

1. Should the Commission implement a cap on the CHCF-A subsidy?

DRA understands this question to ask whether the Commission should institute a per-carrier cap on the amount that may be drawn from the Fund. If the Commission decides to keep the CHCF-A, it may be worth exploring a cap on carriers' fund draws. However, DRA recommends that the Commission transition down the funding amounts per carrier using the waterfall. Use of this mechanism would effectively function as carrier-specific caps on A-Fund draws.

The A-Fund also provides subsidy funding to assist in extending facilities to provide service for rural customers. DRA recommends that the Commission retain the portion of the A-Fund devoted to the RIG program. Retaining the RIG will provide these carriers with access to funding for capital projects from the A-Fund, in addition to other federal and state subsidy programs.

2. If a cap is implemented, how should the amount be determined?

As described above, DRA's recommendation is to use the waterfall phase down.

3. What affects could a cap have on universal service?

As stated above, the CHCF-A fund appears to have met its goals for universal service. Companies have access to various federal and state subsidies to build out their network. Low income customers can enroll in the Lifeline program to protect their access to affordable basic telephone service.

D. Basis For Urban Rate Caps: the Commission Should no Longer Use AT&T's Urban Rate, Should Retain the Monthly Basic Rate Cap, and Should Allow Downward Pricing Flexibility

1. Should AT&T's urban rate which is currently used as a basis for a small ILEC's rate design continue to be used going forward to determine basic service rates?

No, the Commission should no longer rely on the AT&T rate to determine "basic service rates." Since the Commission issued D.10-02-016 establishing the $20.25 basic service rate cap for the Small LECs, AT&T's urban rate has been delinked from Lifeline and is no longer used for Small LECs' rate design. It is not practical, and maybe impossible, to try to continue to use AT&T's urban rate given the URF decisions permitting AT&T and the other URF companies unlimited pricing freedom coupled with authority to geographically de-average their rates.[10]

2. Should the small ILECs' rates be adjusted automatically in response to changes in AT&T's rates?

No, as stated above, AT&T's rates have been delinked from Lifeline, and should be explicitly delinked from basic service rates for non-Lifeline customers. If the Commission adopts DRA's proposal to retain the Small LEC rate cap, it would be reasonable to regularly adjust the rate cap to reflect inflation. However, the Commission can make that rate adjustment independent from, and regardless of, whatever rate changes AT&T might make.

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[10] *See* D.06-08-030; D.06-12-044.

3. How should small ILECs' rates be determined if AT&T's rates are no longer regulated?

As explained above, the Commission should no longer automatically adjust Small LECs' rates in relation to AT&T's rates. However, DRA's proposal would replace any asserted need to maintain a relationship between the rates of the Small LECs and those of AT&T.

4. How should the small ILECs' basic residential rates be determined now that full pricing flexibility has been realized by the URF ILECs?

The Commission can periodically adjust the monthly basic rate cap of $20.25 per month to account for inflation by indexing changes to the cap to an appropriate standard index. For other rates, DRA proposes to allow downward pricing flexibility (*e.g*., the ability to discount bundles of services) for the Small LECs to promote customer retention in a competitive environment. However, DRA does not support allowing the Small LECs to increase their CHCF-A draw if there is a drop in revenues due to using the downward pricing strategy. This pricing flexibility is a necessary component of transitioning Small LECs to a competitive environment. In combination with the retention of the basic service rate cap and moving the Small LECs out of ROR regulation, downward pricing flexibility will remove any reason to connect Small LEC rates to AT&T rates.

5. Should the Commission consider phasing-in the small ILECs' subsequent increases in basic rates over a defined time-period to avoid rate shock?

Yes, to the extent it is needed to avoid "rate shock" for consumers, DRA recommends that the Commission (a) keep the $20.25 per month rate cap, indexed for inflation, and (b) not grant authority to the Small LECs to geographically de-average because their service areas are too small to need that particular form of rate flexibility.

6. Should the Commission consider granting current CHCF-A eligible small ILECs full pricing flexibility?

It is not yet time to grant the CHCF-A Small LECs full pricing flexibility. DRA proposes a gradual approach to phasing down the Small LECs out of the CHCF-A and granting full pricing flexibility at the end of the phase down, except for retention of the basic rate cap.

7. Should the Commission adopt a different mechanism for determining the CHCF-A basic residential service rate?

DRA supports keeping the current cap on residential basic rate of $20.25 per month. If the Commission adopts DRA's proposed phase-down cycle, the current cap should stay in place. After the phase down is completed, then the Commission should index the capped rate.

E. Standardizing Accepted Costs Among Carriers: Phase Down Using the Waterfall Would Avoid the Need for Cost Studies

1. Which carrier costs can be standardized for eligible carriers?

DRA is concerned about the Small LECs' abilities to pass through costs to statewide ratepayers via excessive CHCF-A surcharge needs. These carriers lack incentives for efficient provisioning of rate regulated services, but possess incentives to assign costs for provision of regulated and non-regulated services to the regulated entity while allowing the revenue to accrue to the non-regulated affiliate businesses such as broadband or video. Adoption of DRA's proposal would likely negate the incentives to cross-assign to regulated activities costs associated with unregulated activities.

As the OIR discusses, CD found large discrepancies between different Small LECs' costs for similar elements.[11] These discrepancies raise questions about whether inefficient procurement and operations practices exist. Carrier costs related to the direct

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[11] OIR at 28.

provisioning of regulated services must be reasonable, and sharing of costs and revenues for non-regulated services with affiliates must be reasonable and transparent.

2. Should standard costs be established?

Costing exercises are almost inevitably protracted disagreements about reasonableness of costs, what sort of cost drivers and geographical features should be modeled, and how costs should be allocated to regulated equipment and services, to name a few. If the Commission decides to continue the CHCF-A, standard costs could be useful benchmarks in the absence of meaningful competition. However, DRA proposes formally opening the Small LECs' service areas to competition. Establishing a rigorous statewide formula based on standard costs is difficult, so some local flexibility in setting rate changes is likely to be necessary. Selecting a benchmark cost is further complicated by the fact that the modeling process would have to be run a number of times in order to attempt to proxy a group of standardized costs. Adoption of DRA's waterfall phase-down proposal would avoid the need to conduct cost studies.

3. How often and by what means should costs be reviewed and/or adjusted?

This sort of costing exercise is not needed if the Commission adopts DRA's simple waterfall proposal.

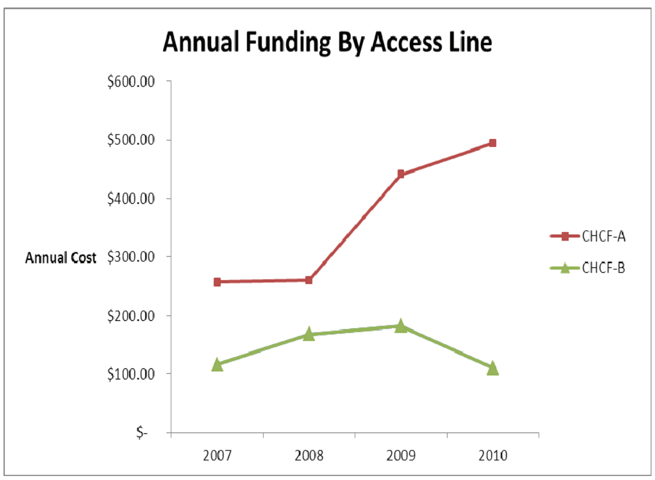
F. Per Access Line Subsidy: a Per Access Line Subsidy Could Help Control Costs and Standardize the CHCF-A

1. Should the Commission establish a per access line subsidy for CHCF-A eligible carriers?

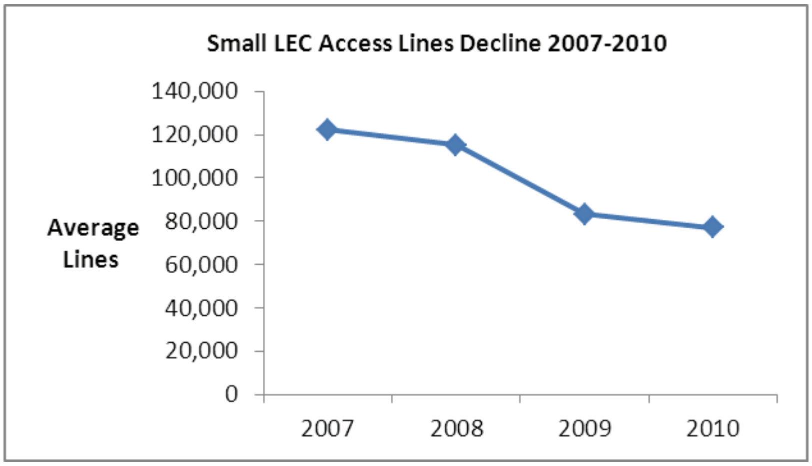
The A-Fund is not currently calculated on a per-access line basis, but on a total revenue requirement basis. While the Commission has experience with the per-access line model used for the CHCF-B, there are a number of problems with trying to adopt this approach for the Small LECs.

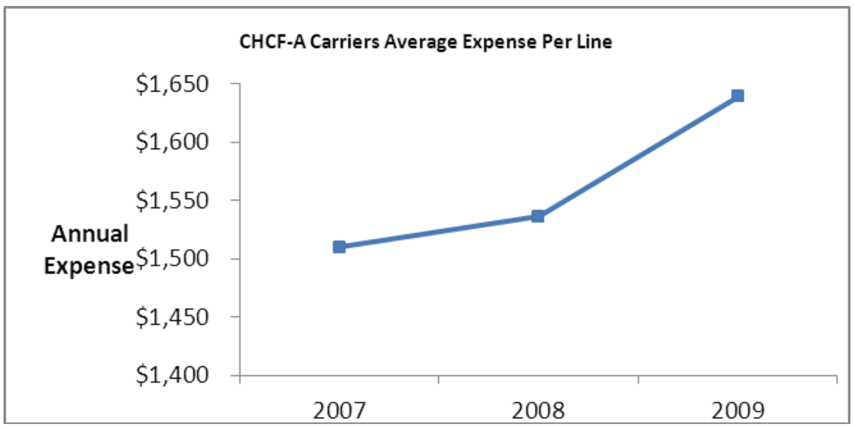
First, the Cost Proxy Model (CPM) that is used to generate the costs is defunct. It appears that neither the Commission nor the parties have a copy of the model. Second, the CPM was the subject of a great deal of dispute due to some of the model assumptions and inputs, as well as the fact that the input data is well over 10 years old. Finally, it is DRA's understanding that the model was only run for census block groups (CBGs) in the Verizon and AT&T service territories. Thus, there is apparently no modeled data comparable to the CPM for the Small LECs.

A per-access line subsidy could help to control costs of the CHCF-A, as well as help standardize costs for the program. The OIR correctly points out that the per access line subsidy model was created for use by large ILECs, and could be seen as a possible tool to eliminate the GRC process.[12] The Commission's data demonstrates the stark difference in ratepayer funding between the CHCF-B and CHCF-A ($41 v. $9.24). In addition, data shows that the expenses for the CHCF-A companies have increased over the past years despite a steady decline in the number of access lines for the Small LECs.



[12] OIR at 28.





DRA's analysis shows that if the Commission were to simply apply the average per access line monthly subsidy of $9.71 the Commission uses for CHCF-B carriers to A-Fund Carriers, the Commission could reduce the annual cost to the CHCF-A by as much as $28 million.

2. Should all small carriers be subject to the same per access line subsidy amount or should amounts be established on a per carrier basis?

As the OIR indicates, one of the purposes for reviewing the CHCF-A is to examine the usefulness of cost standardization.[13] If the Commission wishes to pursue a per-access line subsidy approach, DRA recommends that the Commission base the

[13] *See* OIR at 28.

subsidy on average cost drivers that create a uniform benchmark for applying such a subsidy.

3. Would the cost threshold model used for the CHCF-B be appropriate for the CHCF-A?

DRA does not propose a per-access line subsidy approach. The purpose of the cost threshold model in the CHCF-B was to help govern the qualified number of access lines eligible for subsidy support.[14] Pursuant to that model, only those primary residential lines in service areas in which the adopted proxy costs exceed the threshold qualify for B-Fund subsidies.[15] Use of a threshold model could help manage costs associated with the CHCF-A by ensuring that ratepayers subsidize only those access lines that meet the CHCF-A criteria. Further, a cost threshold could help control costs by limiting the impact of very high cost estimations by the Small LECs. However, the existing cost threshold model would not be useful because it is tied to either the statewide average costs of basic service or the basic flat rate plus the End-User Common Line Charge.[16]

4. If a per access line subsidy is established, how should the Commission transition from rate of return regulation to a per access line subsidy?

For the reasons set forth above, DRA does not recommend adoption of a CHCF-B subsidy structure for the Small LECs. Rather, DRA proposes use of the waterfall as a transition mechanism to a modified URF approach.

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[14] D.07-07-020 at 35.

[15] *Id.*

[16] In its August 23, 2007 Comments on The CHCF-B Phase 1, DRA stated that although there was sufficient evidence to support changing the high-cost benchmark to $36, there was insufficient evidence to support the claim that $36 was within the range of affordability for basic service.

G. Monitoring Affiliate Transactions: the Commission Must Develop a Method for Fairly Costing Access to Common Network Facilities, Common Operation Functions, and Other Shared Costs

1. Should the rules for affiliate transactions be modified?

Carriers must allocate their costs for shared plant and facilities between regulated utilities and affiliates in a more transparent manner. The OIR frames the question of affiliate payments to regulated carriers in terms of "paying fair market rates for their use of the regulated networks."[17] However, in the absence of other buyers for these same types of network access, there is no market, competitive or otherwise. The Commission would have to develop rules that create a proxy for "market rates."

2. Should the Commission adopt new reporting requirements for affiliate transactions?

DRA agrees with the OIR's assessment that affiliate transactions are "very complex, and not sufficiently transparent."[18] However, cost allocations are complex, which is a further reason why the Commission should adopt DRA's waterfall recommendation.

3. How should fair market rates for the use of regulated networks by affiliates be calculated?

One option for setting rates for affiliate transactions would be to require them to purchase services/functionalities as if it were an arms-length transaction. For example, carriers could charge affiliates the same Unbundled Network Element (UNE) rates they charge competitors.

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[17] OIR at 30.

[18] *Id.* at 29.

4. Should affiliates' rates of return be considered when determining that of the regulated entity?

If the Commission chooses to keep the Small LECs under ROR, then the Commission absolutely should consider affiliates' rates of return in determining those of the regulated utility.

H. The Commission Should Open the Small LECs' Service Areas to Competition

The Commission should promptly open the territories of the Small LECs to competition. In light of the massive changes in the communications industry since the mid-1990s, formally opening up the territories of the Small LECs is overdue. The Commission has found that "intermodal" competition is a significant factor in determining the overall competitive environment. DRA is not in full agreement that "intermodal" competition translates into true competition for wireline service, especially in areas where only one wireline provider offers service. As a practical matter, however, the existence of wireless and cable competitors means that the service areas of the Small LECs are functionally open to at least some level of competition despite the current regulatory structure.

The Commission should modify its regulatory treatment of the Small LECs to reflect the current reality. The Small LECs' customers are no less deserving of competitive choices that those of the larger incumbents. DRA therefore urges the Commission to formally open the service areas of the Small LECs to competition, and to consider the presence of all communications technologies when evaluating the level of competition and the availability of competitive choice to consumers.

I. Alternative Models to Consider

A major advantage of DRA's phase-down proposal is that it eliminates the need for conducting cost modeling proceedings and is self-executing. To the extent that the Commission remains interested in pursuing cost modeling, DRA provides some general observations about the different modeling options.

Incentive-benchmark. DRA supports improving operational efficiency and increasing market penetration of universal service. However, the Commission no longer conducts "reasonableness reviews" of the prudency of communications companies' investments. The Commission no longer applies the rules of the New Regulatory Framework (NRF), a form of incentive regulation that pre-dates URF. Because implementation of a NRF-like regulatory structure typically involved a substantial company-specific costing and pricing proceeding referred to as the "start up revenue requirement," use of a NRF-like regulatory structure with potentially seventeen companies would be a lengthy and labor intensive process.

End-user direct subsidy. If this alternative means that all end-users would receive some sort of voucher to use with the carrier of their choice, it is not clear to DRA how such a subsidy would work. The Commission already has a program that provides an end-user direct subsidy that is portable among carriers -- the California LifeLine program. While the LifeLine program provides individual income-eligible customers with a subsidy, this model would not be appropriate in the context of subsidies to a company. The degree of potential customer "churn" under this approach could be significant and highly variable as a competitive market develops, with corresponding negative effects on companies used both to ROR regulation and to a relatively high level of predictability.

Risk-sharing model. To the extent that the Commission retains some form of rate regulation, then DRA supports the Commission's consideration of a model in which business risks are shared between shareholders and ratepayers. However, calculation of that sharing will be complex and would likely at the very least require development of a sharing mechanism, regular true-up to reflect over-or-under earnings, a risk allocation ratio, and periodic audits.

Total Operations model. If the Commission chooses to retain some form of rate regulation, then the Commission should employ a total revenue approach which includes revenues from all services. Such an approach is necessary to prevent situations where all costs are loaded onto the regulated, subsidized entity, but the revenues from services flow to the unregulated affiliates.

J. General Issues

Efficient administration. Adoption of DRA's proposal would make administration of the A-Fund program more efficient. At the end of the transitional period, the only administrative tasks remaining would be essentially "closing the books" on that phase. At that point, the main ongoing responsibility would be processing requests for RIG funding. As explained above, DRA supports continuation of RIG to provide at least part of any subsidies necessary to build facilities in these higher-cost areas.

Consolidation with other programs. The Commission has already explored the question of consolidation of various public purpose programs in R.04-12-001, but the Commission has yet to issue a proposed decision in that docket. In DRA's comments in that docket, DRA explained why consolidation was not feasible due to the varying eligibility requirements and subsidy structures.[19] Adoption of DRA's waterfall transition proposal would render moot the need for any program consolidation including the A-Fund.

Service Area Eligibility. The entire service areas of the Small LECs should continue to be eligible for A-Fund subsidy consistent with the waterfall. After the waterfall phase down cycle is completed, all of the Small LEC service areas should continue to be eligible to apply for RIG grants.

Subsidy Expansion. No subsidy expansion is needed. DRA's waterfall proposal only applies to currently-subsidized companies. Wireless carriers and Voice over Internet Protocol (VoIP) service providers are not currently eligible for A-Fund subsidies. Both wireless and wireline service providers are eligible for federal subsidies.

[19] *See* DRA Comments filed on Dec. 14, 2007 and Jan. 18, 2008.

De-linking From Federal Subsidy. The amount of A-Fund money is currently linked to amounts received from federal subsidy programs. Once the waterfall phase-down is completed, there will be no link with federal subsidies.[20]

III. CONCLUSION

For the reasons set forth above, DRA proposes that the Commission use the A-Fund's waterfall provision to gradually phase down the amount the Small LECs are currently drawing from the fund, retain the RIG program, and move the Small LECs to a modified URF regulatory approach.

Respectfully submitted,

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[20] DRA reserves the right to respond to other parties' proposals regarding other issues and the FCC Universal Service Fund proceeding's effect on the A-Fund.