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FEDERAL COMMUNICATIONS COMMISSION

47 CFR Part 54

[WC Docket Nos. 11-42, 09-197, 10-90; FCC 15-71]

Lifeline and Link Up Reform and Modernization, Telecommunications Carriers

Eligible for Universal Service Support, Connect America Fund

AGENCY: Federal Communications Commission.

ACTION: Final rule.

SUMMARY: In this document, the Federal Communications Commission (the Commission) seeks to rebuild the current framework of the Lifeline program and continue its efforts to modernize the Lifeline program so that all consumers can utilize advanced networks.

DATES: This Order on Reconsideration and Second Report and Order is effective

[INSERT DATE 30 DAYS AFTER DATE OF PUBLICATION IN THE FEDERAL REGISTER]. The amendments to these rules contain information collection

requirements that are subject to Paperwork Reduction Act that have not yet been approved by the Office of Management and Budget (OMB). Upon OMB approval of the information collection requirements, the Commission will publish a document in the Federal Register announcing the effective date of the regulations.

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SUPPLEMENTARY INFORMATION: This is a summary of the Commission’s Order on Reconsideration and Second Report and Order (Order on Recon and 2nd R&O) in WC Docket Nos. 11-42, 09-197, 10-90; FCC 15-71, adopted on June 18, 2015 and released on June 22, 2015. The full text of this document is available for public inspection during regular business hours in the FCC Reference Center, Room CY-A257, 445 12th Street, SW., Washington, DC 20554 or at the following Internet address: <https://www.fcc.gov/document/fcc-releases-lifeline-reform-and-modernization-item>.

I. INTRODUCTION

1. For nearly 30 years, the Lifeline program has ensured that qualifying low-income Americans have the opportunities and security that voice service brings, including being able to find jobs, access health care, and connect with family. As the Commission explained at the program’s inception, “[i]n many cases, particularly for the elderly, poor, and disabled, the telephone [has] truly [been] a lifeline to the outside world.” Thus, “[a]ccess to telephone service has [been] crucial to full participation in our society and economy which are increasingly dependent upon the rapid exchange of information.” In 1996, Congress recognized the importance and success of the program and enshrined its mission into the Telecommunications Act of 1996 (1996 Act). Over time, the Lifeline program has evolved from a wireline-only program, to one that supports both wireless and wireline voice communications. Consistent with the Commission’s statutory mandate to provide consumers in all regions of the nation, including low-income consumers, with access to telecommunications and information services, the program must continue to evolve to reflect the realities of the 21st Century communications marketplace in a way that ensures both the beneficiaries of the program,

as well as those who pay into the universal service fund (USF or Fund), are receiving good value for the dollars invested. The purpose of the Lifeline program is to provide a hand up, not a hand out, to those low-income consumers who truly need assistance connecting to and remaining connected to telecommunications and information services. The program's real success will be evident by the stories of Lifeline beneficiaries who move off of Lifeline because they have used the program as a stepping stone to improve their economic stability.

2. Over the past few years, the Lifeline program has become more efficient and effective through the combined efforts of the Commission and the states. The Lifeline program is heavily dependent on effective oversight at both the Federal and the state level and the Commission has partnered successfully with the states through the Federal-State Joint Board on Universal Service (Joint Board) to ensure that low-income Americans have affordable access to voice telephony service in every state and territory. In addition to working with the Commission on universal service policy initiatives on the Joint Board, many states administer their own low-income programs designed to ensure that their residents have affordable access to telephone service and connections. These activities provide the states the opportunity and flexibility to develop new and innovative ways to make the Lifeline program more effective and efficient, and ultimately bring recommendations to the Commission for the implementation of improvements on a national scale. As the Commission continues to modernize the Lifeline program, it deeply values the input of the states as it, among other reforms, seeks to streamline the Lifeline administrative process and enhance the program.

3. The Commission's 2012 Lifeline Reform Order, 77 FR 12951, March 2,

2012, substantially strengthened protections against waste, fraud, and abuse; improved program administration and accountability; improved enrollment and consumer disclosures; and took some preliminary steps to modernize the program for the 21st Century. These reforms provided a much needed boost of confidence in the Lifeline program among the public and interested parties, increased accountability, and set the Lifeline program on an improved path to more effectively and efficiently provide vital services to the Nation's low-income consumers. In particular, the reforms have resulted in approximately \$2.75 billion in savings from 2012 to 2014 against what would have been spent in the absence of reform. Moreover, in the time since the reforms were adopted, the size of the Lifeline program has declined steadily. In 2012, the Universal Service Administrative Company (USAC), the Administrator of the Fund, disbursed approximately \$2.2 billion in Lifeline support payments compared to approximately \$1.6 billion in Lifeline support payments in 2014. These reforms have been transformational in minimizing the opportunity for Lifeline funds to be used by anyone other than eligible low-income consumers. The Commission is pleased that its previous reforms have taken hold and sustained the integrity of the Fund. However, the Commission's work is not complete. In light of the realities of the 21st Century communications marketplace, the Commission must overhaul the Lifeline program to ensure that it advances the statutory directive for universal service. At the same time, the Commission must ensure that adequate controls are in place as while implementing any further changes to the Lifeline program to guard against waste, fraud, and abuse. Therefore the Commission, among other things, seek to revise our documentation retention requirements and establish minimum service standards for any provider that receives a Lifeline subsidy. The

Commission also seeks to focus our efforts on targeting funding to those low-income consumers who really need it while at the same time shifting the burden of determining consumer eligibility for Lifeline support from the provider. The Commission further seek to leverage efficiencies from other existing federal programs and expand our outreach efforts. By rebuilding the existing Lifeline framework, the Commission hopes to more efficiently and effectively address the needs of low-income consumers. The Commission ultimately seeks to equip low-income consumers with the necessary tools and support system to realize the benefits of broadband independent of Lifeline support.

4. Three years ago, the Commission took important steps to reform the Lifeline program. The reforms, adopted in the 2012 Lifeline Reform Order, focused on changes to eliminate waste, fraud, and abuse in the Lifeline program by, among other things: setting a savings target; creating a National Lifeline Accountability Database (NLAD) to prevent multiple carriers from receiving support for the same household; and confirming a one-per-household rule applicable to all consumers and Lifeline providers in the program. It also took preliminary steps to modernize the Lifeline program by, among other things: adopting express goals for the program; establishing a Broadband Adoption Pilot Program; and allowing Lifeline support for bundled service plans combining voice and broadband or packages including optional calling features. Now, 30 years after the Lifeline program was founded, the Commission believes it is past time for a fundamental, comprehensive restructuring of the program.

5. In the Order on Recon, the Commission grants in part a petition for reconsideration filed by TracFone of the Commission's 2012 Lifeline Reform Order and requires Lifeline providers to retain documentation demonstrating subscriber eligibility.

In the 2nd R&O, the Commission takes further steps to adopt rules and procedures in response to proposals on which the Commission sought comment in the 2012 Lifeline FNPRM, and other outstanding issues regarding administration of the program to root out waste, fraud, and abuse. The Commission also takes further actions to put in place measures that increase accountability, efficiency, and transparency in the program. Specifically, the Commission:

- Establishes a uniform “snapshot” date each month for Lifeline providers to calculate their number of subscribers for the purpose of reimbursement;
- Eliminates the requirement that incumbent local exchange carriers (LECs) must resell retail Lifeline-discounted service, and limit reimbursement for Lifeline service to Lifeline providers directly serving Lifeline customers;
- Interprets “former reservations in Oklahoma,” as provided in the Commission’s rules, as the geographic boundaries reflected in the Historical Map of Oklahoma 1870-1890 (Oklahoma Historical Map); and
- Waives, on the Commission’s motion, the requirement to conduct desk audits on first-year ETCs for two Lifeline providers in order to maximize the use of audit program resources.

II. ORDER ON RECONSIDERATION

A. Retention of Eligibility Documentation

6. In the Order on Recon, the Commission requires ETCs to retain documentation demonstrating subscriber eligibility for the Lifeline Program as well as documentation used in NLAD processes and revise §§ 54.404 and 54.410 of the rules. In

doing so, the Commission grants in part a petition and supplement filed by TracFone, which requests reconsideration of the prohibition on retention of eligibility documentation. The Commission takes these actions as another important step to significantly reduce waste, fraud, and abuse in the Lifeline program.

7. In the Lifeline Reform Order, the Commission adopted uniform eligibility criteria for the federal Lifeline program. Consumers must qualify based on either their income or their participation in at least one of a number of federal assistance programs. The Commission required eligible telecommunications carriers (ETCs) to examine certain documentation to verify a consumer's program or income based eligibility, but prohibited ETCs from retaining copies of the documentation. Instead, the Commission directed ETCs to review the documentation and keep accurate records detailing how the consumer demonstrated his or her eligibility. In support of its decision to prohibit the retention of eligibility documents, the Commission cited to comments that raised concerns such as the risk related to retaining sensitive subscriber eligibility documentation and the burden on ETCs.

8. Subsequent to the Lifeline Reform Order, TracFone filed a petition for reconsideration and supplement. In its petition for reconsideration, TracFone argues that the Commission should not have required consumers to produce documentation to prove eligibility. In its late-filed supplement to its petition for reconsideration, TracFone argues that given that the Commission had not reconsidered the new rule requiring proof of eligibility, the Commission should require all ETCs to retain the program eligibility documentation for not less than three years, in accordance with the rules on record retention. Recently, in a petition for waiver, TracFone broadened its original request to

allow ETCs to retain documentation related to both program and income-based eligibility.

9. Procedural Issues. Section 1.429 of the Commission’s rules states that late filed supplements to petitions for reconsideration are not considered, “except upon leave granted pursuant to a separate pleading stating the grounds for acceptance of the supplement.” TracFone filed a separate pleading requesting that the Commission accept and consider the late-filed supplement because the arguments raised in the supplement are a logical outgrowth of the issues raised in the 2011 Lifeline NPRM. TracFone notes that its proposal was subject to public comment and all but one of the commenters supported its position to permit retention of eligibility documentation. The Commission finds that TracFone has stated adequate grounds to justify consideration of its supplement. The Commission view the argument raised in TracFone’s supplement as an alternative argument to Tracfone’s petition for reconsideration. The Commission also notes that both the petition for reconsideration and the supplement were the subject of public comment, and that the issue of eligibility documentation retention was directly discussed in the Lifeline Reform Order. The Commission therefore accepts TracFone’s supplement to its petition for reconsideration and discuss the substantive issues below.

10. Substantive Issues. In its petitions, TracFone argues that retention of eligibility information is necessary to prevent waste, fraud, and abuse because the current rules do not provide the Commission or USAC with a way to verify through an audit or other mechanism whether an ETC has in fact reviewed the eligibility documentation provided by the Lifeline applicant. TracFone argues that by prohibiting ETCs from retaining documentation, the Commission created an opportunity for ETCs to fabricate

records which indicate that they have reviewed valid documentation. In a related petition, TracFone argues that ETCs should retain documentation reviewed to verify the identity or information of a subscriber as part of the NLAD dispute resolution process for the NLAD. For these reasons, TracFone argues in its petitions that the Commission should change its rules to require ETCs to retain eligibility documentation in accordance with Commission retention rules.

11. All but one of the commenters filed in support of the TracFone petitions, asserting among other things that retention of documentation is in the public interest, and that requiring the retention of eligibility documents will curb waste, fraud, and abuse in the Lifeline program. Commenters also agree that the current requirement is difficult to audit. They explain that there is uncertainty in the industry with respect to what an ETC's records must contain and what auditors would consider when finding that an ETC is or is not compliant with the rules. Commenters agree that ETCs have methods to securely maintain customer eligibility documentation in an encrypted, electronic format and to limit access to such documentation to only certain employees. Some commenters also note that the administrative costs associated with retaining the documentation are minimal and, in all events, justified by the protection afforded against waste, fraud, and abuse.

12. Retention of Subscriber Eligibility Documentation. Based on the record, the Commission grants in part TracFone's request for reconsideration and require carriers to retain both program and income-based eligibility documentation. Under § 1.429 of the Commission's rules, petitions for reconsideration will only be granted when the petitioner shows that the facts or arguments relied on have changed since the last opportunity to

present such matters, the facts or arguments were not known at the time of the last opportunity to present such matters, or the Commission determines that consideration of the facts or arguments relied on is required in the public interest. For the reasons set forth below, the Commission finds that TracFone has demonstrated that “consideration of the facts or arguments relied on is required in the public interest.”

13. Based upon the record before us and for the reasons set forth below, the Commission finds that the overall benefits of requiring the retention of eligibility documentation outweigh the costs. The Commission thus revises § 54.410 of the rules to require retention of eligibility documentation. The Commission concludes that reversal of the eligibility documentation prohibition is in the public interest because it will improve the auditability and enforceability of our rules, significantly reduce falsified records, and provide certainty in the industry regarding the documents that need to be retained in the event of an audit or investigation.

14. The Commission also finds that the concerns that led us to prohibit such retention in 2012, while still relevant, are largely overshadowed by the enormous benefits of requiring ETCs to retain eligibility documentation. For example, while the Commission is still concerned with the privacy and security of subscriber information, most ETCs themselves argue that there are IT and access security measures that can be taken to minimize the risks associated with maintaining sensitive subscriber eligibility documentation. In fact, in the General Accounting Office (GAO)’s recent report on the Lifeline Program, the ETCs interviewed reiterated their comments that subscriber information can be protected using multiple measures such as, but not limited to, firewalls and other boundary protections to prevent unauthorized access, authentication

requirements for users, and usage restrictions for authorized users. Furthermore, while there still will be an additional burden on ETCs to retain eligibility documentation, the majority of ETCs contend that the burden is worth the benefits to the program and the Commission agrees. The Commission finds that the burdens of retention can be mitigated with electronic storage capabilities and the Commission concludes that the burden is outweighed by the benefits to the integrity of the program. While the Commission seeks comment on establishing a national verifier for the program, overall, the Commission finds that the Fund will be better protected, if at this time, ETCs are required to both retain and present the eligibility documentation to the Commission or USAC and that the revised rules will prevent significant waste, fraud, and abuse in the Lifeline program.

15. Retention of Documentation Used in the NLAD Resolution Processes.

For the reasons set forth above, the Commission revises § 54.404 of the rules and also require ETCs to retain documentation that was reviewed to verify subscriber information for the NLAD dispute resolution process. The NLAD dispute resolution process requires ETCs to review additional documentation to verify the identity or information of a subscriber who has failed the third-party identification verification, and address or age check for the NLAD. All but one of the comments received support TracFone's position that ETCs should be allowed to retain documents reviewed for NLAD processes. In addition to the record support for this action, the Commission also finds that there is overlap between the documents reviewed by ETCs for the NLAD dispute resolution process and the eligibility documents listed in §54.410. Furthermore, the Commission's rules on record retention mandate that ETCs retain documents demonstrating compliance

with federal Lifeline requirements.

16. Therefore the Commission revises §§ 54.404 and 54.410 of the Commission's rules and requires that all ETCs retain documentation demonstrating subscriber income-based or program-based eligibility for participation in the Lifeline program for the purposes of production during audits or investigations or to the extent required by NLAD processes, including the dispute resolution processes that require verification of identity, address, or age of subscribers. The Commission reminds ETCs that pursuant to Section 222 of the Act, they have a duty to protect "the confidentiality of proprietary information" of customers. In this context, this includes all documentation submitted by a consumer or collected by an ETC to determine a consumer's eligibility for Lifeline service, as well as all personally identifiable information contained therein.

17. The Act's requirement that such practices be "just and reasonable," also imposes a duty on ETCs related to document retention security practices. Accordingly, the Commission expects ETCs to live up to the assurances made in their comments in this proceeding that they can take appropriate measures to protect this data. In particular, the Commission expects that, at a minimum, ETCs must employ the following practices to secure any subscriber information that is stored on a computer connected to a network: firewalls and boundary protections; protective naming conventions; user authentication requirements; and usage restrictions, to protect the confidentiality of consumers' proprietary personal information retained for this or other allowable purposes. However, if the facts warrant further investigation, the Commission will still evaluate the security measures employed by ETCs on a case by case basis.

18. The Commission sought comment on extending to ten years the record

retention requirement generally in the 2012 Lifeline FNPRM. The Commission does not take action on that proposal at this time. Therefore, Lifeline providers must retain documentation demonstrating compliance with the Commission's rules for three years. Documentation required by §§ 54.404(b)(11), 54.410(b), 54.410(c), 54.410(d) and (f) must be retained for as long as the subscriber receives Lifeline service from the ETC, but no less than three calendar years. Documents covered under §§ 54.404(b)(11), 54.410(b), and 54.410(c) are those documents in existence as of the effective date of this rule.

19. Finally, given the Commission's decision in the Second Report and Order to limit Lifeline support to ETCs directly serving Lifeline customers, the Commission also amends § 54.417 to require non-ETCs that have provided Lifeline service through resale to retain records establishing compliance with state and federal rules for at least three calendar years. Non-ETCs should also retain documentation required by §§ 54.404(b)(11), 54.410(b), 54.410(c), 54.410(d) and (f) for as long as the subscriber receives Lifeline service from the ETC, but no less than three calendar years. Such retention will allow the Commission to verify non-ETCs' past compliance with the Lifeline rules.

III. SECOND REPORT AND ORDER

A. Establishing a Uniform Snapshot Date Going Forward

20. In the 2011 Lifeline NPRM, the Commission proposed to codify a rule that would require all ETCs to report partial or pro-rata dollar amounts when claiming reimbursement for Lifeline subscribers who received service for less than a month. The Commission reasoned that since ETCs are able to bill customers on a partial month basis, they should also be able to tell if a customer was a Lifeline subscriber for the full month

of requested support.

21. The majority of comments received in response to the 2011 Lifeline NPRM opposed such a requirement and raised arguments regarding significant resources and cost involved if the Commission mandated pro-rata support reporting. For example, commenters explained that fundamental changes to systems, such as programming updates, additional storage requirements, and/or creating new internal IT systems may be necessary to comply with such a requirement. The commenters noted that the Commission should not assume that ETC billing systems could readily implement pro-rata support calculations. In contrast, commenters noted that the system of using a single snapshot date to calculate support amounts would alleviate the need for partial support requests. Some commenters noted that the creation of the database, which would track the number of days that subscribers received service and when they were activated and deactivated, could solve the issue permanently.

22. After reviewing the comments received, the Commission declines to adopt our proposal to require ETCs to calculate partial month support amounts. As the current FCC Form 497 does not collect pro-rata support requests, our actions today do not affect ETCs' FCC Form 497 filings currently pending with USAC.

23. Instead of requiring pro-rata support requests, at this time, the Commission revises § 54.407 of its rules to require ETCs to use a uniform snapshot date to request reimbursement from USAC for the provision of Lifeline support. As the commenters state, the Commission agrees that it is possible that subscribers who initiate service may offset those who terminate service mid-month. The Commission finds, therefore, that a uniform snapshot date will reduce waste in the program as effectively as

partial support reporting would have done, but at much lower administrative and compliance cost to ETCs. The Commission also finds that a uniform snapshot date will be efficient for USAC to administer and will ultimately ease future changes to reimbursement processes if, for example, the Commission adopts proposals herein to reimburse based on the NLAD.

24. Following the 2012 Lifeline Reform Order, USAC encouraged ETCs to select a single “snapshot date” during the month (e.g., the 15th of every month) to determine the number of eligible consumers for which it would seek reimbursement for that month. As a result, the snapshot dates vary from ETC to ETC. The Commission now decides that ETCs should all use the same snapshot date to determine the number of Lifeline subscribers served in a given month and report that month to USAC on the FCC Form 497. The Commission concludes that a snapshot date will produce substantial benefits. First, a uniform snapshot date will reduce the risk that two ETCs receive full support for providing service for the same subscriber in the same calendar month. Second, a uniform snapshot date will make it easier for USAC to adopt uniform audit procedures. Third, a uniform snapshot date will help ease the transition to a reimbursement process that calculates support based on the number of subscribers contained in the NLAD. Given the industry support and comment around the establishment of a snapshot date, compliance with the Commission’s rules will be high and the administrative costs associated will be low. To promote efficiency and ease of administration, the Commission revises § 54.407 and directs ETCs to take a snapshot of their subscribers on the first day of the month.

25. Therefore, within 180 days of the effective date of this 2nd R&O, ETCs

should transition to using the first day of the month as the snapshot date. Such a transition period is appropriate to ensure that ETCs have sufficient time to make whatever changes are necessary to their billing systems to take a snapshot on the first day of the month. In the interim, ETCs should use the same snapshot date of their choice from month to month.

B. Resale of Retail Lifeline Supported Services

26. The Commissions next attacks a potential source of waste and abuse in the Lifeline program by addressing issues raised by the Commission in the 2012 Lifeline FNPRM pertaining to resold Lifeline services. The Commission now finds that only ETCs providing Lifeline service directly to the consumer may seek reimbursement from the Lifeline program for the service provided. The Commission revises §§ 54.201, 54.400, 54.401, and 54.407 to reflect this change. The Commission will no longer provide any Lifeline reimbursement to carriers for any wholesale services to resellers, and the Commission therefore forebear, to the extent discussed herein, from the incumbent LECs' obligation under section 251(c)(4) to offer their Lifeline services to resellers.

27. By way of background, section 251(c)(4) of the Communications Act of 1934 as amended, states that incumbent LECs have the duty "to offer for resale at wholesale rates any telecommunications service that the carrier provides at retail to subscribers who are not telecommunications carriers." In 1997, to encourage competition in the Lifeline market, the Commission concluded that resellers "could obtain Lifeline service at wholesale rates that include the Lifeline support amounts and could pass these discounts through to qualifying low-income consumers." In its 2004 Lifeline Report and

Order, the Commission required non-ETCs that provide Lifeline-discounted service to eligible consumers through resold retail service arrangements with the incumbent LECs to comply with all Lifeline/Link Up requirements, including certification and verification of subscribers. As of February 2014, there are approximately 46,281 lines offered to resellers for which incumbent LECs are seeking reimbursement.

28. In the 2012 Lifeline Reform Order, the Commission expressed concerns that permitting ETCs and non-ETCs to offer Lifeline-discounted service through resale of retail Lifeline service posed risks to the Fund. In particular, the Commission was concerned with the possibility of over-recovery by both wholesalers and resellers seeking reimbursement from USAC for the same Lifeline subscriber and the lack of direct oversight of non-ETC resellers by state and federal regulators. In the case where both the wholesaler and the reseller are ETCs, there is currently no way for USAC to determine whether both the wholesaler and the reseller are seeking reimbursement for the same subscriber. Meanwhile, while non-ETC resellers do not pose the same risk of duplicate discounts, they may not be complying with federal and state Lifeline rules. Even though non-ETC resellers must retain records to demonstrate compliance with the Lifeline program rules, the Commission found it difficult to oversee compliance “where the entity with the retail relationship with the consumer is not interfacing directly” with regulators.

29. In light of these concerns, the Commission sought comment in the Further Notice of Proposed Rulemaking section of the Lifeline Reform Order on a variety of proposals to reform or eliminate the resale of retail wireline Lifeline service. First, the Commission proposed to restrict reimbursement from the Fund to ETCs when they provide Lifeline-discounted service directly to retail customers. Under this proposal, if

an ETC wholesaler provides retail telecommunications service to an ETC reseller for resale, only the ETC reseller can seek reimbursement from the Fund—the wholesaler ETC would not be permitted to take from the Fund on behalf of the reseller ETC. Second, the Commission proposed to eliminate incumbent LECs' obligation to resell retail Lifeline-discounted service. The Commission sought comment on whether it should eliminate this requirement by either reinterpreting the section 251(c)(4) resale obligation to exclude the resale of retail Lifeline-discounted service or by forbearing from the incumbent LECs' obligation to offer retail Lifeline service via section 251(c)(4) resale.

30. Commenters overwhelmingly support eliminating the resale of retail Lifeline service. Parties agree that only ETCs that provide Lifeline-discounted service directly to subscribers should be eligible to receive Lifeline support from the Fund. Commenters also support the Commission's proposal to eliminate the incumbent LECs' obligation to resell retail Lifeline-discounted services. A few commenters suggest that if the Commission were to eliminate the resale of Lifeline retail service, it should provide a transitional period during which non-ETC providers could attempt to obtain ETC status.

31. To promote transparency and to protect the Fund from potential waste and abuse, the Commission now decides that only ETCs that provide Lifeline service directly to subscribers will be eligible for reimbursement from the Fund. The Commission will no longer provide reimbursement to incumbent LECs who sell Lifeline-discounted service to resellers. Since the Commission will not provide reimbursement to incumbent LECs for this purpose, the Commission now forbears from requiring incumbent LECs to resell retail Lifeline-discounted service under section 251 of the Act. The Commission's

revised rules will effectively eliminate non-ETC resellers. Therefore, the Commission establishes a 180-day transition period following the effective date of this order during which non-ETC resellers may either obtain ETC status or cease providing Lifeline-discounted service after complying with state and federal rules on discontinuance. Following the 180-day period described below, the Commission will no longer provide any reimbursement to carriers for any wholesale Lifeline services sold to resellers. In the transition period section below, the Commission discusses potential issues such as amendments to interconnection agreements that may need to be resolved during the transition period and potential solutions for ETCs who need more time.

32. Reimbursement Restricted to ETCs Directly Serving Lifeline Subscribers.

The Commission first determines that ETCs can only receive reimbursement from the Fund in instances where they provide Lifeline service directly to subscribers. Pursuant to the revised rules, only a single entity that is registered with USAC will provide Lifeline service, maintain the relationship with the subscriber, seek reimbursement from the Fund, and be subject to state and Commission oversight. The Commission's decision to only reimburse ETCs that directly serve subscribers is consistent with the Lifeline rules, the majority of which deal with the ETC-subscriber relationship.

33. In addition, this restriction will further protect the Fund from the risk of two ETCs seeking funds for the same subscriber. There is currently no way for USAC to determine if a particular service for which an ETC wholesaler sought reimbursement is also being used as a basis for reimbursement by the reseller ETC. When an incumbent LEC provides Lifeline retail service for resale, it provides the retail service for the "wholesale rate" discount minus the Lifeline discount. The incumbent LEC then seeks

reimbursement from the Fund for that line to make itself whole for the Lifeline discount passed-through to the ETC reseller. Regardless of any contractual agreements that the wholesaler and ETC reseller may have for the reseller to forgo reimbursement from the Fund for that same line, the reseller could seek reimbursement from the Fund. Currently, there is no way for USAC or the incumbent LEC wholesaler to determine if the reseller has in fact sought reimbursement for the same subscriber. The NLAD is not able or intended to detect duplicate reimbursement by the wholesaler and reseller because the incumbent LEC's wholesale "subscriber" in this instance is the reseller, not an end-user. The NLAD only shows the reseller and all its customers (i.e., end-users). For the foregoing reasons, the Commission amends §§ 54.201, 54.400, 54.401(a), and 54.407 of the rules to clarify that the ETC must have a direct service relationship with the qualifying low-income consumer to receive reimbursement from the Fund.

34. Forbearance from the Obligation to Provide Lifeline at Resale. Since the Commission will no longer provide reimbursement to the incumbent LEC for reselling retail Lifeline services, consistent with Section 10 of the Act, the Commission forbears the incumbent LECs' obligation to provide Lifeline-discounted service at resale pursuant to Section 251(c)(4) of the Act.

35. Under Section 10(a)(1) of the Act, the Commission must consider whether enforcement of the duty to offer Lifeline-discounted services at wholesale rates is necessary to ensure that the charges, practices, classifications, or regulations are just and reasonable and not unjustly or unreasonably discriminatory. Even if incumbent LECs are not allowed to offer for resale Lifeline-discounted services at wholesale rates, low-income consumers will still be able to receive Lifeline-supported services from both

wireless and wireline providers. The percentage of resold lines by incumbent LECs in the Lifeline program is minimal, and wireline CETCs have a variety of methods to offer service without using resold Lifeline-discounted service, such as, but not limited to, the use of unbundled network elements (UNEs), wholesale telecommunications service provided at generally available commercial terms, as well as non-Lifeline section 251 resale. The Commission therefore concludes that applying the Section 251(c)(4) requirements in this context is not necessary to ensure that the charges, practices, classifications, and regulations for Lifeline service are just and reasonable.

36. Section 10(a)(2) requires the Commission to consider whether requiring incumbent LECs to offer Lifeline-discounted services at wholesale under Section 251(c)(4) is necessary to protect consumers. Even absent that requirement, low-income consumers will continue to have access to Lifeline-supported services from numerous providers. Furthermore, the Commission notes that, unlike ETCs, non-ETC resellers are not scrutinized by federal and state regulators prior to market entry. Non-ETC resellers are not required to obtain approval from the Bureau of their compliance plan nor, by definition, are they required to obtain an ETC designation. Therefore, following forbearance, consumers will be better protected because all providers of Lifeline will be required to comply with state and Federal Lifeline rules and be subject to direct USAC oversight. Requiring incumbent LECs to offer Lifeline-discounted services at wholesale rates is therefore not necessary for the protection of consumers.

37. Finally, Section 10(a)(3) requires that the Commission considers whether enforcement of section (c)(4) resale requirements for Lifeline-discounted service is in the public interest. The Commission has made clear its ongoing commitment to fight waste,

fraud, and abuse in the Lifeline program. The Commission finds that it is in the public interest that Lifeline-discounted service be provided only by ETCs who have the federal or state designations. Furthermore, by limiting reimbursements to carriers that are directly subject to regulation as ETCs, the Commission will reduce the risk of waste, fraud, and abuse of the program, which is in the public interest. Section 10(b) requires that the analysis under Section 10(a)(3) include consideration of whether forbearance would promote competitive market conditions. Although the Commission does not believe that forbearance will necessarily increase competition in the market for Lifeline-discounted services, the Commission finds that the market for Lifeline services is already competitive and will remain so following forbearance. Incumbent LECs, wireline CETCs utilizing means other than Lifeline resale to serve their subscribers, and wireless ETCs offer Lifeline consumers significant competitive choice.

38. Transition Period. To provide for an orderly transition period for ETCs, non-ETCs and their consumers to move away from Lifeline resale services, the changes in this order will go into effect 180 days after the effective date of this Order. The comments received noted that 180 days would be sufficient time for incumbent LEC wholesalers to make the necessary changes to tariffs, interconnection agreements, and other regulatory filings. Forbearance here may trigger change of law provisions in ILEC interconnection agreements. The Commission reminds ILECs and CETCs to negotiate in good faith to make appropriate amendments for such agreements. Therefore, starting 180 days after the effective date of this Order, incumbent LECs no longer have an obligation under Section 251(c)(4) of the Act to offer for resale their Lifeline-discounted retail offerings. Also, starting at that time, USAC will no longer reimburse incumbent LECs

for their Section 251(c)(4) services. Thereafter, USAC should only reimburse ETCs who directly provide Lifeline service to qualified low-income consumers, in accordance with all of the Lifeline program rules. This transition time will allow affected ETCs an opportunity to utilize other means of providing Lifeline service (e.g., UNEs or non-Lifeline resale service). In order to participate in the Lifeline program, all ETCs and newly designated ETCs must be in compliance with all of our rules, including but not limited to, providing subscriber information into the NLAD, obtaining annual subscriber certifications, and de-enrolling subscribers in accordance with our rules.

C. Defining the “Former Reservations in Oklahoma”

39. Background. In this section, the Commission departs from the staff’s prior informal guidance and interpret the “former reservations in Oklahoma” within § 54.400(e) of the Commission’s rules as the geographic boundaries reflected in the Historical Map of Oklahoma 1870-1890 (Oklahoma Historical Map). The Commission is convinced that this map, provided to us by BIA, is illustrative of the “former reservations in Oklahoma.” To ensure all impacted parties have sufficient time to transition to the new map, the Commission provides a transition period of 180 days from the effective date of this Order. During this time, the Commission will actively engage in consultation with the Tribal Nations of Oklahoma on the operational functionality and use of the Oklahoma Historical Map at the local and individual Tribal Nation level.

40. When the Commission first adopted Tribal Lifeline and Link Up support, it adopted a rule that stated consumers were eligible to receive enhanced support if they lived on “Tribal lands.” In further defining the term “Tribal lands,” the Commission stated in the 2000 Tribal Order that the term included “any federally recognized Tribe’s

reservation, Pueblo, or Colony, including former reservations in Oklahoma,” as well as “near reservation” areas. The Commission, however, has not formally defined the boundaries of the “former reservations in Oklahoma” for the purpose of the Lifeline rules, and there are inconsistencies between various maps at the state and Federal level that define the boundaries of the former reservations in Oklahoma. In practice, USAC has distributed Tribal support in Oklahoma based on a map displayed on the OCC’s website, which was based upon informal guidance provided by FCC staff in 2004.

41. There is a vast and complicated legal history of Tribal property in the United States which involves “the whole range of ownership forms known to our legal system.” A large part of Oklahoma was once Indian Territory, and as the Tribal Nations of Oklahoma experienced many changes to their land tenures, Tribal lands in Oklahoma are an excellent example of that intricate legal history. The Commission’s actions comport with the complex legal history within Oklahoma and uphold our government-to-government responsibilities to the Oklahoma Tribal Nations, while also improving administration of the Lifeline program and distribution of enhanced Tribal support.

42. Discussion. To provide efficiency, transparency, and clarity within the Lifeline program, and to ensure that universal service funds are distributed as intended, the Commission departs from the staff’s prior informal guidance and interpret the “former reservations in Oklahoma” as the boundaries reflected in the Oklahoma Historical Map 180 days after the effective date of this Order. The Commission concludes that interpreting the “former reservations in Oklahoma” in § 54.400(e) of the Commission’s rules based on the Oklahoma Historical Map will provide clarity to both Tribal consumers and ETCs, and will also be an accurate reflection of Tribal lands in

Oklahoma.

43. The Tribal lands of Oklahoma and “all land titles in Oklahoma stem from treaties with Indian tribes and acts of Congress vitalizing treaty provisions.” The U.S. Department of Interior, through the delegated authorities of its Bureau of Indian Affairs, is the lead federal agency with respect to delivering federal services based on provisions of those treaties with Tribal Nations, as well as the administration of the federal government’s trust relationship and responsibilities to Tribal Nations and Indians with respect to land titles and management. For these and other purposes, BIA maintains two Regional Offices in Oklahoma – the Southern Plains Regional Office in Anadarko, OK, and the Eastern Oklahoma Regional Office in Muskogee, OK, both of which have Land, Titles, and Records Departments. In inter-agency coordination, the Commission’s Office of Native Affairs and Policy (ONAP) and the Bureau received the Oklahoma Historical Map from the Land, Titles, and Records Department of the Southern Plains Regional Office. Therefore, to better address the difficult administrative and eligibility issues in Oklahoma law, and for the purpose of determining eligibility for enhanced Tribal Lifeline and Link Up support in the state of Oklahoma, the Commission identifies and relies upon the Oklahoma Historical Map to determine the boundaries of “former reservations in Oklahoma” for purposes of § 54.400(e) of the Commission’s rules.

44. The Commission recognizes that, given the Department of Interior’s jurisdictional authority over many administrative trust responsibilities with respect to the Tribal lands in Oklahoma, adopting the Oklahoma Historical Map to identify the “former reservations in Oklahoma” is a more accurate representation of “former reservations in Oklahoma” than the map referenced on OCC’s website. The Oklahoma Historical Map is

a clear and historically accurate representation of “former reservations in Oklahoma” at a time prior to Oklahoma statehood in 1907. While the Commission concludes here that it was not unreasonable for USAC, the OCC, and ETCs to rely on the OCC website map for disbursing Tribal support consistent with prior informal staff guidance, going forward, the Commission believes the Oklahoma Historical Map provides more clarity to both Tribal consumers and Lifeline providers to ensure that funds are allocated for the intended purpose of assisting those living on Tribal lands, which typically have lower adoption rates for telecommunications services.

45. In addition, the Oklahoma Historical Map represents actual former reservation boundaries prescribed by Acts of Congress – both laws and treaties – as opposed to areas identified for statistical purposes reflected in the Census Bureau’s American Indians and Alaska Natives (AIAN) map of the Oklahoma Tribal Statistical Areas (OTSAs). Further, our inter-agency work with BIA reveals that the Oklahoma Historical Map is a more accurate representation of the individual former reservations of each Tribal Nation in Oklahoma. The Commission believes, therefore, that it is proper and accurate to adopt the Oklahoma Historical Map, and that the use of this map for purposes of the Lifeline program, which is a household based program that relies in large part on addresses for determining eligibility, will facilitate verification that consumers are in fact residing on Tribal lands. To further improve on these efforts, the Commission also seeks comment above on other ways for Lifeline providers to more accurately verify that consumers are residing on Tribal lands.

46. This clarification will result in a reduction in the geographical scope of “former reservations in Oklahoma.” In basic terms, use of the Oklahoma Historical Map

will now result in:

- Exclusion from the “former reservations in Oklahoma” the region within central Oklahoma historically and commonly known as the “Unassigned Lands” – referred to in the Oklahoma Historical Map as “Oklahoma: Opened to settlement April 22, 1889” – which includes the majority of the area within the Oklahoma City municipal boundaries;
- Exclusion of the “Cherokee Outlet;”
- Continued exclusion from the “former reservations in Oklahoma” the “Panhandle,” also historically known as the “Cimarron Strip,” or “Neutral Strip,” – reflected in the Oklahoma Historical Map as the “Public Lands Strip” – which presently encompasses Cimarron, Texas, and Beaver counties; and
- Continued exclusion of the southwest corner of the state lying within the western bank of the North Fork of the Red River – referred to in the map as “Greer County: Disputed Territory” – which presently encompasses Greer, Harmon, and Jackson counties and includes the portion of Beckham county south of the North Fork of the Red River.

47. Transition Period. To ensure all impacted parties have sufficient time to transition to the Oklahoma Historical Map, the Commission provides a transition period of 180 days from the effective date of this Order. While the Commission believes that the Oklahoma Historical Map provides an accurate reflection of the “former reservations in Oklahoma” under the Commission’s rules, it adopts this map and directs the Bureau, in coordination with the Office of Native Affairs and Policy to actively seek government-

to-government consultation with Tribal Nations in Oklahoma on the efficacy and appropriateness of other maps and geospatial information assets developed both by federal agencies and individual Tribal Nations. The Commission recognizes that, as rightful governmental entities, Tribal Nations are an important source regarding the efficacy of the mapped boundaries of their lands. The Commission directs the Commission's Office of Native Affairs and Policy to coordinate with the Bureau, and other Commission Bureaus and Offices, as appropriate, to engage in government-to-government consultation with the Tribal Nations in Oklahoma for the specific purposes of ensuring the accuracy and operational effectiveness of the boundaries as presented in the Oklahoma Historical Map.

48. If, based on these consultations, the Bureau finds that the Oklahoma Historical Map should be departed from in any way to better reflect the complex legal history of the "former reservations in Oklahoma" for purposes of interpreting § 54.400(e) of the rules, the Commission directs the Bureau, in coordination with ONAP, to recommend to the Commission an order based on that consultation that would – if adopted by the Commission – provide a further revised interpretation of the appropriate boundaries of the former reservations in Oklahoma. The Commission anticipates that any such recommended order would also provide impacted parties an appropriate additional transition period prior to the new interpretation of the boundaries being applied.

49. The Commission also seeks the input of the OCC to ensure that the OCC and Tribal Nations in Oklahoma can work with ETCs to implement a seamless transition to the newly interpreted boundaries, which will impact those that receive enhanced

Lifeline support under the boundaries that previously had been used in practice, but will no longer receive enhanced support under the Oklahoma Historical Map's boundaries. The Commission will work closely with Tribal Nations, the OCC, ETCs, and consumers to make this transition as seamless as possible. The Commission directs ETCs to work with the OCC to ensure Lifeline consumers have sufficient information regarding how the Oklahoma Historical Map's boundaries will affect them, so that consumers can adjust to any changes or alterations to the Lifeline service plans to which they currently subscribe.

D. Conserving Audit Resources

50. The Commission waives, on its own motion, the Commission's requirement in § 54.420(b) for two ETCs in order to maximize the use of audit program resources. The Commission has directed USAC to establish an audit program for all of the universal service programs, including Lifeline. As part of the audit program, in the 2012 Lifeline Reform Order, the Commission required USAC to conduct audits of new Lifeline carriers within the first year of their participation in the program, after the carrier completes its first annual recertification of its subscriber base. The Commission specifically declined to adopt a minimum dollar threshold for those audits and instead directed USAC to conduct a more limited audit of smaller newly established Lifeline providers.

51. USAC has indicated that two first-year Lifeline providers that must be audited pursuant to the Commission's rule in the near future have one subscriber within the scope of the audit. The carriers are Glandorf Telephone Company in Ohio and NEP Cellcorp Inc. in Pennsylvania. The Commission finds that these carriers have so few

subscribers that an audit is not warranted and, in fact, would not provide a sufficient sample size for the auditor to infer compliance with Commission rules. The Commission also finds that delaying the audits until they are more useful will avoid wasting the resources of the Commission, of USAC and of these two providers. As such, the Commission waives the requirement that the audits for Glandorf Telephone Company and NET Cellcorp be conducted within a year of their receiving Lifeline support for their customers. The Commission finds that a waiver of our rules is in the public interest in these cases to more effectively and efficiently implement the Commission's overall audit strategy. The Commission directs OMD to work with USAC to obtain the data necessary for OMD to determine when these carriers should undergo an audit to evaluate their compliance with Commission rules, and USAC should conduct the audit at that time. In particular, OMD's determination should consider, based on the totality of the circumstances, when a quality audit of the relevant Lifeline provider would be useful considering, at a minimum, whether the Lifeline provider has a sufficient scope of Lifeline operations to provide a sufficient sample size for the auditor to infer compliance with Commission rules.

52. The Commission also delegates to OMD the authority to waive the deadline for audits under § 54.420(b) of the Commission's rules as necessary in the future for similarly situated Lifeline providers, that is, those Lifeline providers for which OMD determine, based on a totality of the circumstances, that the first year audit specified in current § 54.420(b) of the rules would not be useful. The Commission emphasizes that it did not intend these Lifeline providers to avoid being audited, but OMD should grant appropriate waivers to delay the audits until such time as it would be

possible to conduct a quality and cost-effective audit, as discussed above. The Commission seeks comment on revising our rules accordingly.

IV. PROCEDURAL MATTERS

A. Final Regulatory Flexibility Analysis

53. As required by the Regulatory Flexibility Act of 1980 (RFA), the Commission has prepared a Final Regulatory Flexibility Analysis (FRFA) relating to this Order on Reconsideration and Second Report and Order of the possible significant economic impact on a substantial number of small entities by the policies and rules proposed in the 2012 Lifeline FNPRM in WC Docket Nos. 12-23, 11-42, 03-109, and CC Docket No. 96-45. The Commission sought written public comment on the proposals in the 2012 Lifeline FNPRM, including comment on the IRFA.

B. Paperwork Reduction Act Analysis

54. This Order on Reconsideration and Second Report and Order contains new information collection requirements subject to the Paperwork Reduction Act of 1995 (PRA), Public Law 104-13. It will be submitted to the Office of Management and Budget (OMB) for review under section 3507(d) of the PRA. OMB, the general public, and other Federal agencies are invited to comment on the revised information collection requirements contained in this proceeding. In addition, we note that pursuant to the Small Business Paperwork Relief Act of 2002, Public Law 107-198, the Commission previously sought specific comment on how it might further reduce the information collection burden on small business concerns with fewer than 25 employees.

C. Need for, and Objectives of, the Final Rule

55. The Commission is required by section 254 of the Communications Act of

1934, as amended, to promulgate rules to implement the universal service provisions of section 254. The Lifeline program was implemented in 1985 in the wake of the 1984 divestiture of AT&T. On May 8, 1997, the Commission adopted rules to reform its system of universal service support mechanisms so that universal service is preserved and advanced as markets move toward competition. When the Commission overhauled the Lifeline program in its 2012 Lifeline Reform Order, it substantially strengthened protections against waste, fraud and abuse; improved program administration and accountability; improved enrollment and consumer disclosures; and took preliminary steps to modernize the Lifeline program for the 21st Century. In light of the realities of the 21st Century communications marketplace, the Commission must overhaul the Lifeline program to ensure it complies with the statutory directive to provide consumers in all regions of the nation, including low-income consumers, with access to telecommunications and information services. At the same time, the Commission must ensure that adequate controls are in place to implement any further changes to the Lifeline program to guard against waste, fraud and abuse. In this Order on Recon and 2nd R&O, the Commission thus seeks to rebuild the current framework of the Lifeline program and continue our effort to modernize the Lifeline program so that all consumers can utilize advanced networks. In doing so, the Commission adopts several rules that may potentially economically impact a substantial number of small entities. Specifically, the Commission: (1) requires eligible telecommunications carriers (ETCs) to retain documentation demonstrating subscriber income-based or program-based eligibility and (2) limits reimbursement under the Lifeline program to ETCs for services provided directly to low-income consumers.

56. Retention of Eligibility Documentation. In the 2012 Lifeline Reform Order, the Commission adopted uniform eligibility criteria for the federal Lifeline program. Consumers must qualify based on either their income or their participation in at least one of a number of federal assistance programs. The Commission required ETCs to examine certain documentation to verify a consumer's program or income based eligibility, but prohibited ETCs from retaining copies of the documentation. In this Order on Recon, the Commission requires that all Lifeline ETCs retain documentation demonstrating subscriber income-based or program-based eligibility, including the dispute resolution processes which require verification of identity, address, or age of subscribers. The Commission finds that the concerns that led us to prohibit such retention in 2012, while still relevant, are largely overshadowed by the enormous benefits of allowing ETCs to retain eligibility documentation. ETCs themselves contend that the burden on ETCs is worth the benefits to the program and that there are information technology and access security measures that can be taken to minimize the risks associated with maintaining sensitive subscriber eligibility documentation. Further, the new rules allowing retention will significantly reduce falsified records and will provide certainty in the industry regarding the documents that need to be retained in the event of an audit or investigation. The Commission also finds that the burdens of retention can be mitigated with electronic storage capabilities. Overall, the universal service fund will be better protected if ETCs are required to both retain and present the eligibility documentation to the Commission or the Universal Service Administrative Company (USAC), the Administrator of the Lifeline program, and the new rules will prevent significant waste, fraud and abuse in the Lifeline program.

57. Resale of Retail Lifeline Supported Services. In the 2012 Lifeline Reform Order, the Commission expressed concerns that permitting ETCs and non-ETCs to offer Lifeline-discounted service through resale of retail Lifeline service posed risks to the Fund. In particular, the Commission was concerned with the possibility of over-recovery by both wholesalers and resellers seeking reimbursement from USAC for the same Lifeline subscriber and the lack of direct oversight of non-ETC resellers by state and federal regulators. In light of these concerns, the Commission sought comment in the 2012 Lifeline FNPRM on a variety of proposals to reform or eliminate the resale of retail wireline Lifeline service. In this Second Report and Order, in order to promote transparency and to protect the Fund from potential waste and abuse, the Commission now decides that only ETCs that provide Lifeline service directly to subscribers will be eligible for reimbursement from the Fund.

D. Summary of Significant Issues Raised by Public Comments to the IRFA

58. No comments specifically addressed the IRFA.

E. Description and Estimate of the Number of Small Entities to Which the Final Rules May Apply

59. The RFA directs agencies to provide a description of and, where feasible, an estimate of the number of small entities that may be affected by the proposed rules, if adopted. The RFA generally defines the term “small entity” as having the same meaning as the terms “small business,” “small organization,” and “small governmental jurisdiction.” In addition, the term “small business” has the same meaning as the term “small business concern” under the Small Business Act. A small business concern is one

that: (1) is independently owned and operated; (2) is not dominant in its field of operation; and (3) satisfies any additional criteria established by the Small Business Administration (SBA). Nationwide, there are a total of approximately 28.2 million small businesses, according to the SBA. A “small organization” is generally “any not-for-profit enterprise which is independently owned and operated and is not dominant in its field.”

60. Nationwide, as of 2007, there were approximately 1.6 million small organizations. The term “small governmental jurisdiction” is defined generally as “governments of cities, towns, townships, villages, school districts, or special districts, with a population of less than fifty thousand.” Census Bureau data for 2007 indicate that there were 87,476 local governmental jurisdictions in the United States. We estimate that, of this total, 84,506 entities were “small governmental jurisdictions.” Thus, we estimate that most governmental jurisdictions are small.

61. Wireline Providers

62. Incumbent Local Exchange Carriers (Incumbent LECs). Neither the Commission nor the SBA has developed a small business size standard specifically for incumbent local exchange services. The appropriate size standard under SBA rules is for the category Wired Telecommunications Carriers. Under that size standard, such a business is small if it has 1,500 or fewer employees. Census Bureau data for 2007 show that there were 3,188 firms in this category that operated for the entire year. Of this total, 3,144 had employment of 999 or fewer and 44 firms had employment of 1,000 or more. According to Commission data, 1,307 carriers reported that they were incumbent local exchange service providers. Of these 1,307 carriers, an estimated 1,006 have 1,500 or fewer employees and 301 have more than 1,500 employees. Thus under this category

and the associated small business size standard, the majority of these incumbent local exchange service providers can be considered small.

63. Competitive Local Exchange Carriers (Competitive LECs), Competitive Access Providers (CAPs), Shared-Tenant Service Providers, and Other Local Service Providers. Neither the Commission nor the SBA has developed a small business size standard specifically for these service providers. The appropriate category for this service is the category Wired Telecommunications Carriers. Under the category of Wired Telecommunications Carriers, such a business is small if it has 1,500 or fewer employees. Census Bureau data for 2007 show that there were 3,188 firms in this category that operated for the entire year. Of this total, 3,144 had employment of 999 or fewer and 44 firms had 1,000 employees or more. Thus under this category and the associated small business size standard, the majority of these Competitive LECs, CAPs, Shared-Tenant Service Providers, and Other Local Service Providers can be considered small entities. According to Commission data, 1,442 carriers reported that they were engaged in the provision of either competitive local exchange services or competitive access provider services. Of these 1,442 carriers, an estimated 1,256 have 1,500 or fewer employees and 186 have more than 1,500 employees. In addition, 17 carriers have reported that they are Shared-Tenant Service Providers, and all 17 are estimated to have 1,500 or fewer employees. In addition, 72 carriers have reported that they are Other Local Service Providers, seventy of which have 1,500 or fewer employees and two have more than 1,500 employees. Consequently, the Commission estimates that most providers of competitive local exchange service, competitive access providers, Shared-Tenant Service Providers, and Other Local Service Providers are small entities that may

be affected by rules adopted pursuant to the Notice.

64. Interexchange Carriers. Neither the Commission nor the SBA has developed a small business size standard specifically for providers of interexchange services. The appropriate category for Interexchange Carriers is the category Wired Telecommunications Carriers. Under that size standard, such a business is small if it has 1,500 or fewer employees. Census Bureau data for 2007, which now supersede data from the 2002 Census, show that there were 3,188 firms in this category that operated for the entire year. Of this total, 3,144 had employment of 999 or fewer, and 44 firms had had employment of 1,000 employees or more. Thus under this category and the associated small business size standard, the majority of these Interexchange carriers can be considered small entities. According to Commission data, 359 companies reported that their primary telecommunications service activity was the provision of interexchange services. Of these 359 companies, an estimated 317 have 1,500 or fewer employees and 42 have more than 1,500 employees. Consequently, the Commission estimates that the majority of interexchange service providers are small entities that may be affected by rules adopted pursuant to the Notice.

65. Operator Service Providers (OSPs). Neither the Commission nor the SBA has developed a small business size standard specifically for operator service providers. The appropriate category for Operator Service Providers is the category Wired Telecommunications Carriers. Under that size standard, such a business is small if it has 1,500 or fewer employees. Under that size standard, such a business is small if it has 1,500 or fewer employees. Census Bureau data for 2007 show that there were 3,188 firms in this category that operated for the entire year. Of the total, 3,144 had

employment of 999 or fewer, and 44 firms had had employment of 1,000 employees or more. Thus under this category and the associated small business size standard, the majority of these interexchange carriers can be considered small entities. According to Commission data, 33 carriers have reported that they are engaged in the provision of operator services. Of these, an estimated 31 have 1,500 or fewer employees and 2 have more than 1,500 employees. Consequently, the Commission estimates that the majority of OSPs are small entities that may be affected by the Commission's proposed action.

66. Local Resellers. The SBA has developed a small business size standard for the category of Telecommunications Resellers. Under that size standard, such a business is small if it has 1,500 or fewer employees. Census data for 2007 show that 1,523 firms provided resale services during that year. Of that number, 1,522 operated with fewer than 1000 employees and one operated with more than 1,000. Thus under this category and the associated small business size standard, the majority of these local resellers can be considered small entities. According to Commission data, 213 carriers have reported that they are engaged in the provision of local resale services. Of these, an estimated 211 have 1,500 or fewer employees and two have more than 1,500 employees. Consequently, the Commission estimates that the majority of local resellers are small entities that may be affected by rules adopted pursuant to the Notice.

67. Toll Resellers. The SBA has developed a small business size standard for the category of Telecommunications Resellers. Under that size standard, such a business is small if it has 1,500 or fewer employees. Census data for 2007 show that 1,523 firms provided resale services during that year. Of that number, 1,522 operated with fewer than 1000 employees and one operated with more than 1,000. Thus under this category and the

associated small business size standard, the majority of these resellers can be considered small entities. According to Commission data, 881 carriers have reported that they are engaged in the provision of toll resale services. Of these, an estimated 857 have 1,500 or fewer employees and 24 have more than 1,500 employees. Consequently, the Commission estimates that the majority of toll resellers are small entities that may be affected by the Commission's action.

68. Pre-paid Calling Card Providers. Neither the Commission nor the SBA has developed a small business size standard specifically for pre-paid calling card providers. The appropriate size standard under SBA rules is for the category Telecommunications Resellers. Under that size standard, such a business is small if it has 1,500 or fewer employees. Census data for 2007 show that 1,523 firms provided resale services during that year. Of that number, 1,522 operated with fewer than 1000 employees and one operated with more than 1,000. Thus under this category and the associated small business size standard, the majority of these pre-paid calling card providers can be considered small entities. According to Commission data, 193 carriers have reported that they are engaged in the provision of pre-paid calling cards. Of these, an estimated all 193 have 1,500 or fewer employees and none have more than 1,500 employees. Consequently, the Commission estimates that the majority of pre-paid calling card providers are small entities that may be affected by rules adopted pursuant to the Notice.

69. 800 and 800-Like Service Subscribers. Neither the Commission nor the SBA has developed a small business size standard specifically for 800 and 800-like service ("toll free") subscribers. The appropriate category for these services is the category Telecommunications Resellers. Under that category and corresponding size standard,

such a business is small if it has 1,500 or fewer employees. Census data for 2007 show that 1,523 firms provided resale services during that year. Of that number, 1,522 operated with fewer than 1000 employees and one operated with more than 1,000. Thus under this category and the associated small business size standard, the majority of resellers in this classification can be considered small entities. To focus specifically on the number of subscribers than on those firms which make subscription service available, the most reliable source of information regarding the number of these service subscribers appears to be data the Commission collects on the 800, 888, 877, and 866 numbers in use.

According to the Commission's data, as of September 2009, the number of 800 numbers assigned was 7,860,000; the number of 888 numbers assigned was 5,888,687; the number of 877 numbers assigned was 4,721,866; and the number of 866 numbers assigned was 7,867,736. The Commission does not have data specifying the number of these subscribers that are not independently owned and operated or have more than 1,500 employees, and thus are unable at this time to estimate with greater precision the number of toll free subscribers that would qualify as small businesses under the SBA size standard. Consequently, the Commission estimates that there are 7,860,000 or fewer small entity 800 subscribers; 5,888,687 or fewer small entity 888 subscribers; 4,721,866 or fewer small entity 877 subscribers; and 7,867,736 or fewer small entity 866 subscribers. We do not believe 800 and 800-Like Service Subscribers will be affected by the Commission's proposed rules, however we choose to include this category and seek comment on whether there will be an effect on small entities within this category.

70. Wireless Carriers and Service Providers

71. Wireless Telecommunications Carriers (except Satellite). This industry

comprises establishments engaged in operating and maintaining switching and transmission facilities to provide communications via the airwaves. Establishments in this industry have spectrum licenses and provide services using that spectrum, such as cellular phone services, paging services, wireless Internet access, and wireless video services. The appropriate size standard under SBA rules is for the category Wireless Telecommunications Carriers. The size standard for that category is that a business is small if it has 1,500 or fewer employees. For this category, census data for 2007 show that there were 11,163 establishments that operated for the entire year. Of this total, 10,791 establishments had employment of 999 or fewer employees and 372 had employment of 1000 employees or more. Thus under this category and the associated small business size standard, the Commission estimates that the majority of wireless telecommunications carriers (except satellite) are small entities that may be affected by the Commission's proposed action.

72. Wireless Communications Services. This service can be used for fixed, mobile, radiolocation, and digital audio broadcasting satellite uses. The Commission defined "small business" for the wireless communications services auction as an entity with average gross revenues of \$40 million for each of the three preceding years, and a "very small business" as an entity with average gross revenues of \$15 million for each of the three preceding years. The SBA has approved these definitions. The Commission auctioned geographic area licenses in the WCS service. In the auction, which commenced on April 15, 1997 and closed on April 25, 1997, seven bidders won 31 licenses that qualified as very small business entities, and one bidder won one license that qualified as a small business entity.

73. Satellite Telecommunications Providers. Two economic census categories address the satellite industry. The first category has a small business size standard of \$32.5 million or less in average annual receipts, under SBA rules. The second has a size standard of \$32.5 million or less in annual receipts.

74. The category of Satellite Telecommunications “comprises establishments primarily engaged in providing telecommunications services to other establishments in the telecommunications and broadcasting industries by forwarding and receiving communications signals via a system of satellites or reselling satellite telecommunications.” Census Bureau data for 2007 show that 512 Satellite Telecommunications firms that operated for that entire year. Of this total, 464 firms had annual receipts of under \$10 million, and 18 firms had receipts of \$10 million to \$24,999,999. Consequently, the Commission estimates that the majority of Satellite Telecommunications firms are small entities that might be affected by the Commission’s action.

75. The second category, i.e. “All Other Telecommunications” comprises “establishments primarily engaged in providing specialized telecommunications services, such as satellite tracking, communications telemetry, and radar station operation. This industry also includes establishments primarily engaged in providing satellite terminal stations and associated facilities connected with one or more terrestrial systems and capable of transmitting telecommunications to, and receiving telecommunications from, satellite systems. Establishments providing Internet services or voice over Internet protocol (VoIP) services via client-supplied telecommunications connections are also included in this industry.” The SBA has developed a small business size standard for All

Other Telecommunications, which consists of all such firms with gross annual receipts of \$ 32.5 million or less. For this category, Census Bureau data for 2007 show that there were a total of 2,383 firms that operated for the entire year. Of this total, 2,347 firms had annual receipts of under \$25 million and 12 firms had annual receipts of \$25 million to \$49, 999,999. Consequently, the Commission estimates that the majority of All Other Telecommunications firms are small entities that might be affected by the Commission's action.

76. Common Carrier Paging. As noted, since 2007 the Census Bureau has placed paging providers within the broad economic census category of Wireless Telecommunications Carriers (except Satellite).

77. In addition, in the Paging Second Report and Order, 64 FR 12169, March 11, 1999, the Commission adopted a size standard for "small businesses" for purposes of determining their eligibility for special provisions such as bidding credits and installment payments. A small business is an entity that, together with its affiliates and controlling principals, has average gross revenues not exceeding \$15 million for the preceding three years. The SBA has approved this definition. An initial auction of Metropolitan Economic Area ("MEA") licenses was conducted in the year 2000. Of the 2,499 licenses auctioned, 985 were sold. Fifty-seven companies claiming small business status won 440 licenses. A subsequent auction of MEA and Economic Area ("EA") licenses was held in the year 2001. Of the 15,514 licenses auctioned, 5,323 were sold. One hundred thirty-two companies claiming small business status purchased 3,724 licenses. A third auction, consisting of 8,874 licenses in each of 175 EAs and 1,328 licenses in all but three of the 51 MEAs, was held in 2003. Seventy-seven bidders claiming small or very small

business status won 2,093 licenses.

78. Currently, there are approximately 74,000 Common Carrier Paging licenses. According to the most recent Trends in Telephone Service, 291 carriers reported that they were engaged in the provision of “paging and messaging” services. Of these, an estimated 289 have 1,500 or fewer employees and two have more than 1,500 employees. We estimate that the majority of common carrier paging providers would qualify as small entities under the SBA definition.

79. Wireless Telephony. Wireless telephony includes cellular, personal communications services, and specialized mobile radio telephony carriers. As noted, the SBA has developed a small business size standard for Wireless Telecommunications Carriers (except Satellite). Under the SBA small business size standard, a business is small if it has 1,500 or fewer employees. According to the 2010 Trends Report, 413 carriers reported that they were engaged in wireless telephony. Of these, an estimated 261 have 1,500 or fewer employees and 152 have more than 1,500 employees. We have estimated that 261 of these are small under the SBA small business size standard.

80. Internet Service Providers

81. The 2007 Economic Census places these firms, whose services might include voice over Internet protocol (VoIP), in either of two categories, depending on whether the service is provided over the provider’s own telecommunications facilities (e.g., cable and DSL ISPs), or over client-supplied telecommunications connections (e.g., dial-up ISPs). The former are within the category of Wired Telecommunications Carriers, which has an SBA small business size standard of 1,500 or fewer employees. The latter are within the category of All Other Telecommunications, which has a size standard of annual receipts

of \$32.5 million or less.

F. Description of Projected Reporting, Recordkeeping, and Other Compliance Requirements for Small Entities

82. Several of the Commission's rule changes will result in additional recordkeeping requirements for small entities. For those several rule changes, the Commission has determined that the benefit the rule change will bring for the program outweighs the burden of the increased recordkeeping requirement. The rule changes are listed below.

- Retention of Eligibility Documentation. Requiring all Lifeline ETCs to retain documentation demonstrating subscriber income-based or program-based eligibility, including the dispute resolution processes which require verification of identity, address, or age of subscribers increases recordkeeping requirements and potential costs for ETCs. The Commission finds that any concerns related to the risk of retaining sensitive subscriber eligibility documentation and the burden on ETCs is outweighed by the enormous benefits of allowing ETCs to retain eligibility documentation, such as: significantly reducing falsified records; providing certainty in the industry regarding the documents that need to be retained in the event of an audit or investigation; and further reducing waste, fraud and abuse in the Lifeline program.
- Resale of Retail Lifeline Supported Services. Limiting reimbursement for Lifeline service to ETCs directly serving customers may increase compliance requirements for ETCs by potentially requiring ETCs to revise their interconnections agreements and other regulatory filings in order to comply with

our rules. For non-ETCs, it may increase compliance requirements by requiring them to become ETCs to receive Lifeline support necessitating the completion of additional paperwork for those non-ETCs seeking ETC designations. By ensuring that only ETCs that provide Lifeline service directly to subscribers are eligible for reimbursement from the Fund, the Commission can also better promote transparency. Ultimately, the Commission can more efficiently and effectively protect the USF and prevent significant waste, fraud and abuse in the Lifeline program.

G. Steps Taken to Minimize the Significant Economic Impact on Small Entities, and Significant Alternatives Considered

83. The RFA requires an agency to describe any significant, specifically small business, alternatives that it has considered in reaching its proposed approach, which may include the following four alternatives (among others): “(1) the establishment of differing compliance or reporting requirements or timetables that take into account the resources available to small entities; (2) the clarification, consolidation, or simplification of compliance and reporting requirements under the rule for such small entities; (3) the use of performance rather than design standards; and (4) an exemption from coverage of the rule, or any part thereof, for such small entities.”

84. This rulemaking could impose minimal additional burdens on small entities. The Commission has considered alternatives to the rulemaking changes that increase recordkeeping and documentation requirements for small entities. The Commission finds that any minimal burdens on small entities are outweighed by the enormous benefits of the rule changes. Further, the Commission has encouraged ETCs to

take advantage of electronic storage of documents to mitigate the additional expense of now having to retain documentation demonstrating subscriber income-based or program-based eligibility, including the dispute resolution processes.

H. Congressional Review Act

85. The Commission will include a copy of the Order on Reconsideration and Second Report and Order in a report to be sent to Congress and the Government Accountability Office pursuant to the Congressional Review Act. In addition, this document will be sent to Congress and the Chief Counsel for Advocacy of the SBA pursuant to the SBREFA.

V. ORDERING CLAUSES

86. ACCORDINGLY, IT IS ORDERED, that pursuant to the authority contained in Sections 1 through 4, 201 through 205, 254, 303(r), and 403 of the Communications Act of 1934, as amended, 47 U.S.C. 151-154, 201-205, 254, 303(r), and 403, and Section 706 of the Telecommunications Act of 1996, 47 U.S.C. 1302, this Second Report and Order is effective **[INSERT DATE 30 DAYS AFTER DATE OF PUBLICATION IN THE FEDERAL REGISTER]**, except to the extent expressly addressed below.

87. IT IS FURTHER ORDERED, that pursuant to the authority contained in Sections 1 through 4, 201 through 205, 254, 303(r), and 403 of the Communications Act of 1934, as amended, 47 U.S.C. 151-154, 201-205, 254, 303(r), and 403, and Section 706 of the Telecommunications Act of 1996, 47 U.S.C. 1302, part 54 of the Commission's rules, 47 CFR Part 54, is AMENDED, as set forth below, subject to OMB approval of the subject information collection requirements, which will become effective upon

announcement by the Commission in the Federal Register of OMB approval.

88. IT IS FURTHER ORDERED that, pursuant to the authority contained in sections 1 through 5 and 254 of the Communications Act of 1934, as amended, 47 U.S.C. 151-155 and 254, and §1.429 of the Commission's rules, 47 CFR 1.429, the Petition for Reconsideration and Clarification filed by TracFone Wireless, Inc. on April 2, 2012 and Supplement to its Petition for Reconsideration and Clarification filed on May 30, 2012 ARE GRANTED IN PART to the extent provided herein, and otherwise remain pending.

89. IT IS FURTHER ORDERED that the Commission SHALL SEND a copy of the Order on Reconsideration and Second Report and Order to Congress and to the Government Accountability Office pursuant to the Congressional Review Act, see 5 U.S.C. 801(a)(1)(A).

90. IT IS FURTHER ORDERED that the Commission's Consumer and Governmental Affairs Bureau, Reference Information Center, SHALL SEND a copy of the Order on Reconsideration and Second Report and Order, including the Final Regulatory Flexibility Analysis to the Chief Counsel for Advocacy of the Small Business Administration.

List of Subjects in 47 CFR Part 54

Communications common carriers, Reporting and recordkeeping requirements,
Telecommunications, Telephone.

FEDERAL COMMUNICATIONS COMMISSION

Marlene H. Dortch,
Secretary.

Final Rules

For the reasons discussed in the preamble, the Federal Communications Commission amends 47 CFR Part 54 as follows:

PART 54—UNIVERSAL SERVICE

1. The authority citation for part 54 is revised to read as follows:

Authority: Sections 1, 4(i), 5, 201, 205, 214, 219, 220, 254, 303(r), and 403 of the Communications Act of 1934, as amended, and section 706 of the Communications Act of 1996, as amended; 47 U.S.C. 151, 154(i), 155, 201, 205, 214, 219, 220, 254, 303(r), 403, and 1302 unless otherwise noted.

2. Amend § 54.201 by revising paragraph (a)(1) to read as follows:

§ 54.201 Definition of eligible telecommunications carriers generally.

(a) ***

(1) Only eligible telecommunications carriers designated under this subpart shall receive universal service support distributed pursuant to subparts D and E of this part. Eligible telecommunications carriers designated under this subpart for purposes of receiving support only under subpart E of this part must provide Lifeline service directly to qualifying low-income consumers.

3. Amend § 54.400 by adding paragraph (k) to read as follows:

§ 54.400 Terms and definitions.

(k) Direct service. As used in this subpart, direct service means the provision of service directly to the qualifying low-income consumer.

4. Amend § 54.401 by revising paragraph (a) introductory text to read as follows:

§ 54.401 Lifeline defined.

(a) As used in this subpart, Lifeline means a non-transferable retail service offering provided directly to qualifying low-income consumers:

5. Amend § 54.404 by adding paragraph (b)(11) to read as follows:

§ 54.404 The National Lifeline Accountability Database.

(b) ***

(11) All eligible telecommunications carriers must securely retain subscriber documentation that the ETC reviewed to verify subscriber eligibility, for the purposes of production during audits or investigations or to the extent required by NLAD processes, which require, inter alia, verification of eligibility, identity, address, and age.

6. Amend § 54.407 by revising paragraphs (a) and (b) to read as follows:

§ 54.407 Reimbursement for offering Lifeline.

(a) Universal service support for providing Lifeline shall be provided to an eligible telecommunications carrier, based on the number of actual qualifying low-income consumers it serves directly as of the first day of the month.

(b) For each qualifying low-income consumer receiving Lifeline service, the reimbursement amount shall equal the federal support amount, including the

support amounts described in § 54.403(a) and (c). The eligible telecommunications carrier's universal service support reimbursement shall not exceed the carrier's rate for that offering, or similar offerings, subscribed to by consumers who do not qualify for Lifeline.

7. Amend § 54.410 by revising paragraph (b)(1)(ii), by removing paragraph (b)(1)(iii), by adding paragraph (b)(2)(iii), by revising paragraph (c)(1)(ii), by removing paragraph (c)(1)(iii), and by adding paragraph (c)(2)(iii).

The revisions and additions read as follows:

§ 54.410 Subscriber eligibility determination and certification.

(b) ***

(1) ***

(ii) Must securely retain copies of documentation demonstrating a prospective subscriber's income-based eligibility for Lifeline consistent with § 54.417.

(2) ***

(iii) An eligible telecommunications carrier must securely retain all information and documentation provided by the state Lifeline administrator or other state agency consistent with § 54.417.

(c) ***

(1) ***

(ii) Must securely retain copies of the documentation demonstrating a subscriber's program-based eligibility for Lifeline services, consistent with § 54.417.

(2) ***

(iii) An eligible telecommunications carrier must securely retain all information and documentation provided by the state Lifeline administrator or other state agency consistent with § 54.417.

8. Revise § 54.417 to read as follows:

§ 54.417 Recordkeeping requirements.

(a) Eligible telecommunications carriers must maintain records to document compliance with all Commission and state requirements governing the Lifeline and Tribal Link Up program for the three full preceding calendar years and provide that documentation to the Commission or Administrator upon request. Eligible telecommunications carriers must maintain the documentation required in §§ 54.404 (b)(11), 54.410(b), 54.410 (c), 54.410(d), and 54.410(f) for as long as the subscriber receives Lifeline service from that eligible telecommunications carrier, but for no less than the three full preceding calendar years.

(b) Prior to the effective date of the rules, if an eligible telecommunications carrier provides Lifeline discounted wholesale services to a reseller, it must obtain a certification from that reseller that it is complying with all Commission requirements governing the Lifeline and Tribal Link Up program. Beginning on the effective date of the rules, the eligible telecommunications carrier must retain

the reseller certification for the three full preceding calendar years and provide that documentation to the Commission or Administrator upon request.

(c) Non-eligible telecommunications carrier resellers that purchased Lifeline discounted wholesale services to offer discounted services to low-income consumers prior to the effective date of the rules, must maintain records to document compliance with all Commission requirements governing the Lifeline and Tribal Link Up program for the three full preceding calendar years and provide that documentation to the Commission or Administrator upon request.

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