

Jeffrey M. Heller
President and Chief Operating Officer

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September 26, 1997

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The Honorable Reed Hundt
Chairman
Federal Communications Commission
1919 M Street, NW
Washington, DC 20554

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Re: Ex Parte Presentation; CC Docket No. 96-45

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Dear Chairman Hundt:

I am writing regarding the Commission's recent Universal Service Order. For the first time, EDS and other systems integrators will be subject to new and substantial regulatory burdens by requiring us to pay directly into the Universal Service Fund. This additional complexity has been imposed despite the fact that we already contribute to support universal service in a much less burdensome manner. We currently pay for universal service through the rates which we pay to our common carrier for the use of their telecommunications facilities. We expect to continue to contribute to universal service in a cost-effective and reasonable manner.

I would appreciate your review of what we believe to be an unintended situation. The issuance of some communication that clarifies the intention of the Commission to retain the current methodology for systems integrators to contribute to the Universal Fund would rectify this problem. I feel that such an action is justified for the following reasons:

- This order subjects an internationally competitive segment of the U.S. services industry to unnecessarily burdensome and costly regulation.
- Systems integrators already contribute to the Universal Fund through a more efficient mechanism and any additional revenue generated by direct payments is marginal.
- Due to contractual obligations this order will require systems integrators to make double payments to the Universal Service Fund.

New Costly and Burdensome Regulation

As you are well aware, the U.S. information services industry is one of the most competitive industries in the world and our trade flow is substantially positive. Certainly a

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contributing factor to this good news is the historic position of the U. S. Government and your agency to leave this industry relatively free of unnecessary rules and regulation. Further, this position has been reinforced very recently by the Administration's Global Electronic Commerce Framework.

The Universal Service Order requires systems integrators, for the first time, to report revenues for their provision of basic telecommunications services to their customers. Since the provision of these services is typically incidental to other types of unregulated services incorporated into our systems integration contracts, we do not currently maintain the accounting systems and administrative mechanisms which allow us to break these costs out in an efficient and cost-effective manner. There has been no need to do so in the past, and to create and maintain these systems now would add considerable administrative cost to our intensely globally competitive industry.

In the short term, we feel these costs will make us much less competitive with non-U.S. firms. In the longer term, we feel that other countries will follow the U.S. lead and force the entire industry to install and maintain a complex reporting infrastructure. This will make our services more costly which will have a dampening effect on the industry and, possibly, on entire economies. As we argued in the GBT negotiations, the telecommunications industry and those which depend on it had an important and beneficial impact on global economies.

Current Contribution Methodology Is More Efficient

Systems integrators such as EDS currently contribute to the Universal Service Fund through the rates which we pay for the telecommunications facilities we procure from common carriers. Over the years as our telecommunications needs have grown exponentially due to new technology and new services, this has amounted to substantial contributions to the Fund by systems integrators. Due to the nature of our business, this has occurred at the same time that, as a portion of our total contracts, basic telecommunications services which we provide are only incidental to our core business.

While our contributions have been significant, the current collection mechanism is not overly burdensome or time consuming. The necessary accounting systems and administrative mechanisms are already in place by the carriers and well understood by them. On the other hand, direct payments by systems integrators will result in only marginal, if any, increased contributions to the Universal Service Fund while imposing substantial new costs.

Contractual Obligations Result in Double Payments

One characteristic of the systems integration industry is relatively long-term contracts. Thus, EDS, like other systems integrators, has negotiated contracts in place with both our carriers and our customers. The practical impact of this Order is that we end up making double payments into the Universal Service Fund.

Payments are required to be made directly by systems integrators as a result of the Order. At the same time, the contracts we have negotiated with our carriers have the universal

service payments anticipated by the carriers embedded in them. While the Commission stated an assumption that the carriers would pass their reduction in cost on to their customers, who themselves are subject to making payments, they have been unwilling to renegotiate these contracts to date.

Our contracts with our customers which include the provision of services subject to the Order, require us to provide these services at a negotiated rate. Like the carriers, our customers have been unwilling to renegotiate these terms to permit us to pass through the additional costs imposed by the Commission.

Until such time as these contracts expire and new ones are negotiated, EDS, like other systems integrators, will be making double payments into the Universal Service Fund.

Conclusion

EDS has participated actively in the reconsideration phase of the Universal Service Proceeding. I sincerely appreciate the opportunity to present our views to you on this very important matter to EDS and to other systems integrators. I am sure that you will consider our views carefully and am hopeful that you will resolve the issue in a way which does not disadvantage this very important and intensely competitive industry.

If you have any questions or need additional information, please contact Allen Miller in our Office of Government Affairs at +1 202 637 6742. He can also be reached via e-mail at allen.miller@oga.eds.com.

Sincerely,



JMH/azm

cc: Acting Secretary William Caton (2 copies) for CC Docket No. 96-45
The Honorable James H. Quello
The Honorable Rachelle B. Chong
The Honorable Susan Ness