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June 25, 2001

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FEDERAL COMMUNICATIONS COMMISSION
OFFICE OF THE SECRETARY

95-116

VIA HAND DELIVERY

Magalie Roman Salas, Esq.
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Federal Communications Commission
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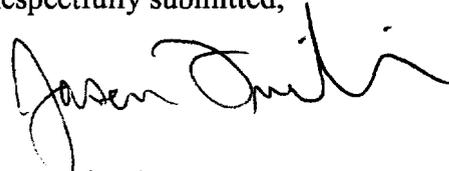
Re: CC Docket No. 96-45
Comments of Nextel Communications, Inc.

Dear Ms. Salas:

On behalf of Nextel Communications, Inc. ("Nextel"), we submit herewith an original and four copies of Nextel's comments regarding the *Federal-State Joint Board on Universal Service* CC Docket No. 96-45.

Please contact the undersigned if you have any questions about this submission.

Respectfully submitted,



Jason Friedrich

Enclosures

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

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FEDERAL COMMUNICATIONS COMMISSION
OFFICE OF THE SECRETARY

In the Matter of)	
)	
Federal-State Joint Board on Universal Service	)	CC Docket No. 96-45
)	
1998 Biennial Regulatory Review – Streamlined Contributor Reporting Requirements Associated with Administration of Telecommunications Relay Service, North American Numbering Plan, Local Number Portability, and Universal Service Support Mechanisms	)	CC Docket No. 98-171
)	
Telecommunications Services for Individuals with Hearing and Speech Disabilities, and the Americans with Disabilities Act of 1990	)	CC Docket No. 90-571
)	
Administration of the North American Numbering Plan and the North American Numbering Plan Cost Recovery Contribution Factor and Fund Size	)	CC Docket No. 92-237 NSD File No. L-00-72
)	
Number Resource Optimization	)	CC Docket No. 99-200
)	
Telephone Number Portability)	CC Docket No. 95-116

COMMENTS OF NEXTEL COMMUNICATIONS, INC.

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June 25, 2001

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

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Federal-State Joint Board on)	CC Docket No. 96-45
Universal Service)	
1998 Biennial Regulatory Review –)	CC Docket No. 98-171
Streamlined Contributor Reporting)	
Requirements Associated with)	
Administration of Telecommunications)	
Relay Service, North American Numbering)	
Plan, Local Number Portability, and)	
Universal Service Support Mechanisms)	
Telecommunications Services for	)	CC Docket No. 90-571
Individuals with Hearing and Speech)	
Disabilities, and the Americans with)	
Disabilities Act of 1990)	
Administration of the North American	)	CC Docket No. 92-237
Numbering Plan and the North American	)	NSD File No. L-00-72
Numbering Plan Cost Recovery)	
Contribution Factor and Fund Size)	
Number Resource Optimization	)	CC Docket No. 99-200
Telephone Number Portability	)	CC Docket No. 95-116

COMMENTS OF NEXTEL COMMUNICATIONS, INC.

Nextel Communications, Inc. (“Nextel”), by its attorneys, hereby files its comments with the Federal Communications Commission (“Commission or FCC”) in the above-captioned proceedings.¹ The *Notice* seeks comment on proposals to simplify existing carrier assessment mechanisms in the federal universal service program.

¹ Federal-State Joint Board on Universal Service et. al, *Notice of Proposed Rulemaking*, FCC 98-171 (rel. May 8, 2001) (hereinafter “*Notice*”).

I. INTRODUCTION AND SUMMARY

Nextel is a national provider of Commercial Mobile Radio Services (“CMRS”). Nextel provides CMRS service to approximately seven million domestic U.S. customers through several licensee subsidiaries. Nextel’s wireless service offerings typically include fixed price packages of a specified number of airtime access minutes for cellular service and Direct Connect service. When customers exceed their monthly allotment of minutes, Nextel charges per minute fees for any “overage.”² Reflecting the vibrancy of competition in the CMRS market, Nextel often introduces new rate plans and maintains literally hundreds of service offerings.

Nextel has been a mandatory contributor to the federal universal service fund (“USF”) since the FCC reformed the program in response to the requirements of section 254 of the Communication Act, as amended.³ As a wireless carrier that is constantly working to expand service area coverage and sell services to new customers, Nextel’s contributions to the federal USF have grown as USF quarterly contribution factors have risen and as Nextel’s revenues and subscriber base have grown.

As the *Notice* recognizes, the Commission’s present method of assessing wireless carriers’ USF contributions is complex and could be modified in ways that streamline the USF programs’ budgeting and collection process while at the same time simplifying the process for carriers and removing the possibility of confusion for end users. While there is no perfect tax or mandatory assessment program, Nextel’s experience with federal and state USF programs, and other mandatory contribution programs such as state sales tax

² Service packages may also include a cellular phone, and enhanced services such as voice mail and Internet access.

³ Nextel also participates in a number of state USF programs.

and state wireless Enhanced 911 (“E911”) programs, suggests that there are more simple, more competitively neutral ways for the Commission to go about collecting the necessary universal service funds.

Wireless carriers like Nextel have provided good faith estimates of their interstate end user telecommunications revenues, but continue to struggle to translate the USF reporting worksheet’s landline terminology into something that a wireless carrier can use. There is no question that the Commission must either provide additional guidance to remove the ambiguity for wireless carriers’ reporting or take a new direction by specifying a more transparent basis for carrier assessments.⁴ Nextel believes a new direction that either borrows from some aspects of the state USF programs or that abandons a revenue reporting method in favor of a flat fee assessment would better serve the Commission’s articulated goals.

The simplest assessment method for wireless carriers would be application of a flat fee. Under this approach, wireless carriers would be assessed a per unit fee per activated mobile phone. Assessing contributions based on a flat fee method is a straightforward way to satisfy the requirement in section 254 of the Communications Act

⁴ Nextel notes, for example, that at the inception of the program, CTIA requested expedited guidance in a number of areas where wireless carriers simply did not have the tools to make good faith estimates or where the treatment of particular types of wireless service revenue was ambiguous. *See* Letter from Randall S. Coleman, Vice President Regulatory Policy and Law, to Jeanine Poltronieri, Associate Chief, Wireless Telecommunications Bureau, Federal Communications Commission (August 21, 1997). While the FCC initiated a proceeding to provide some critical answers to these questions, that rulemaking remains pending and Nextel assumes other wireless carriers, like itself, have done their best in the interim to report data in a manner consistent with the FCC’s unarticulated expectations. *See* Federal State Board on Universal Service, *Memorandum Opinion and Order and Further Notice of Proposed Rulemaking*, 13 FCC Rcd 21252 (rel. October 26, 1998).

that providers of interstate telecommunications services “contribute, on an equitable and nondiscriminatory basis” to preserve and advance universal service.⁵

In the alternative, if the FCC decides not to adopt a flat fee approach, it should modify its revenue reporting process to make it more consistent with state USF programs. Specifically, the Commission should allow for: 1) simplified monthly reporting of current revenues, 2) write-offs of uncollectible revenues; and 3) set-off of the modest carrier administrative costs associated with their mandatory participation in the program. It also is critical in any revenue-based assessment program that requires the separation of revenue by jurisdiction that there be a wireless services safe harbor for reporting of interstate revenues. There is no reason to believe that the previously adopted 15% interstate revenue safe harbor estimate is outmoded. In the absence of reliable new data, Nextel believes the safe harbor should be retained.

The Commission also seeks comment on how to improve universal service contributions in general.⁶ The contribution process would also be greatly simplified if there were only a single financial administrator for all the Commission’s mandatory contribution programs and a single source to remit payment. While this may be beyond the scope of the current proposals, such a consolidation of financial responsibility would substantially streamline the financial and administrative aspects of program compliance for carriers.

Finally, the Commission has two diametrically opposed choices in addressing non-rate regulated carrier cost recovery for USF and other similar mandatory contribution programs. It can set an assessment rate or a flat fee and insist that that amount be directly

⁵ 47 U.S.C. §254(d).

⁶ *Notice* at ¶16.

passed through to end users, which is the most competitively neutral approach, or it can leave the decision of what to charge and how to charge it to individual carriers. Rather than take either of these approaches, up to now the FCC has staked out a middle of the road position that tries to maintain some flexibility while at the same time constraining aspects of carrier end user cost recovery. This is worse than making either the decision to clamp down or to deregulate entirely, as it provides a carrier with no certainty or safe harbor that its particular recovery is reasonable. Moreover, the current approach may even encourage anti-competitive manipulation of end user charges.

II. MODIFICATION OF THE CURRENT ASSESSMENT METHOD IS WARRANTED.

One of the Commission's stated reasons for issuing the *Notice* was its concern about the extent to which the monthly USF line item fees recovered from customers vary among carriers despite the fact that the quarterly contribution factor set by the FCC is uniform for all carriers.⁷ While the *Notice* acknowledges that carriers are not proscribed by rule in the manner of their cost recovery, the *Notice* also asks whether some other assessment methodology might contribute to a more transparent pass through of carrier assessments to their end user customers.

Two alternative proposed changes would be to assess universal service contributions on a flat-fee basis, such as a per-line or per-account charge or to assess a percentage of revenue fee on current collected revenues, rather than on reported, historical billed revenues.⁸ Depending upon the details of their implementation, either modification would represent a substantial improvement over the current program which

⁷ *Id.* at ¶5.

⁸ *Id.* at ¶25.

experiences reporting lags, resulting in the subsequent need for annual true-ups to reconcile reported and actual data.

A. Flat Fees Are Simple to Administer and Are Competitively Neutral

The Commission evaluated several proposals in developing its current universal service contribution methodology. When the Commission initially decided to assess universal service contributions based upon end-user telecommunications revenues, it decided that such a system would be “administratively easy to implement.”⁹ In adopting this end-user revenue approach the Commission assumed without investigation that telecommunications carriers routinely tracked end-user sales and knew the appropriate jurisdiction to classify each dollar of end user revenue.¹⁰

In making these determinations, the Commission rejected the alternative of a flat fee approach. The flat fee structure then advocated by many commenters would have been based entirely on non-revenue and non-jurisdictional measures, such as a per-phone, per-minute or per-line basis.¹¹ Commenters at that time argued that per-phone, per-line or per-account contributions were easily quantifiable and would simplify the overall reporting and contribution process for both carriers and the Commission. The Commission rejected a flat-fee assessment approach, stating a concern that it not be

⁹ See Federal-State Joint Board on Universal Service, *Report and Order*, 12 FCC Rcd 8776, Para. 848 (rel. May 8, 1997).

¹⁰ Another reason the Commission adopted the end-user revenue reporting approach was its determination that reporting of end-user revenues would eliminate the economic distortions it believed were present in a net revenue reporting and assessment method.

¹¹ Federal-State Joint Board on Universal Service, *Report & Order*, 12 FCC Rcd 8776, ¶ 852 (rel. May 8, 1997).

drawn into administering “equivalency ratios” for calculating appropriate contributions from carriers that do not offer services on a per-line, per-phone or per-minute basis.¹²

Despite this previously expressed concern, the Commission now is seeking comment on the desirability of a flat fee assessment. Nextel supports the idea of a non-revenue based, non-jurisdictional flat fee assessment. Not only is a flat fee administratively simple for all program participants, it is also competitively neutral. It has the added benefit, from the Commission’s perspective, of being far more transparent to end users than the present system.¹³

In establishing a flat fee, Nextel envisions that the FCC or its program administrator would use past program need estimates to establish an annual budget for the federal USF program.¹⁴ Using historical information on the relative contributions individual carrier segments have made to the program, the FCC or its administrator could assess a per unit fee as appropriate for each industry segment. The appropriate assessment unit for wireless carriers would be per activated phone, rather than on a per line or per account basis.¹⁵

¹² *See id.*

¹³ As discussed in these comments in the carrier cost recovery section, a flat fee can be passed through to end users directly, although Nextel believes that the FCC’s program should, like many state USF and E911 programs, allow some modest discount to account for the carrier’s administrative costs for program participation.

¹⁴ The quarterly changes in contribution factors substantially complicate the program and should, if at all possible, be eliminated. The FCC and its program administrator should have sufficient experience in budgeting to arrive at a reasonable estimate on an annual basis. Nextel’s own experience with state USF programs suggests that there is no need for quarterly tinkering with the assessment rate once the program has become established.

¹⁵ Wireless phones often have the capability of having more than a single line and a single wireless customer account could service one or one hundred phones. As a result,

If the Commission chose to implement flat-fee universal service assessments for wireless carriers only, it would not need to be concerned about establishing any type of equivalency ratio. The only potential reason for developing any ratio is to compare two different types of carriers, for example, wireless and wireline carriers.¹⁶ If the appropriate flat fee were assessed on all wireless carriers uniformly, equivalency ratios would be unnecessary because similarly situated carriers would be assessed in the same manner. Flat fees would not only simplify the contribution process for the wireless industry, but would ensure uniform reporting among wireless carriers. They also would place all wireless carriers on similar footing with respect to cost recovery from end user customers because much of the discretion related to unresolved ambiguities in wireless carrier reporting would be removed and all wireless carriers would be contributing to USF on exactly the same basis.

A final benefit to per activated phone flat fee assessments for wireless carriers is that they are simple to determine, thus allowing carriers to report total activated mobile units on a more frequent basis and remit payment monthly based on that reporting. This would greatly reduce the administrative burden currently shouldered by wireless carriers because they would be relieved of periodic reviews of revenue and “true-ups” of reported versus actual revenue information. The current true-up process could be

a per activated phone flat fee is far less susceptible to manipulation than a per line or per account assessment.

¹⁶ To maintain a fair allocation of assessments at the outset, the FCC could establish the ratio of total wireless carrier contributions to total carrier contributions to the USF. This ratio could form the basis for an industry-wide wireless carrier assessment that could be translated into a flat fee to be spread across the entire base of wireless subscribers on a per activated phone basis.

replaced by an audit of a carrier's records by USAC when USAC deems an audit necessary or desirable.

B. Nextel's Experience with State USF Programs Demonstrates that Revenue-Based Assessments Can Be Simplified Without Harming Program Integrity.

Nextel believes that the current reporting and assessment complexities of all of the Commission's mandatory contribution programs are unnecessary and waste the resources of all participants. Nextel pays state sales taxes, state and local E911 program assessments and, in several states, Nextel pays into a state universal service fund. The majority of these state USF programs are administered by the National Exchange Carrier Association ("NECA"), the parent of USAC, the Commission's current federal USF administrator. In most cases the state USF programs that rely on carrier revenue as a basis for assessment either allow or require carriers to file simplified monthly returns reporting actual revenue.¹⁷ Those carriers that must estimate revenue have the ability to true-up their reporting on an annual basis, but filers with actual data have no need to true-up. NECA bills carriers on a monthly basis using very streamlined carrier-provided data. In a number of state USF programs, there is an explicit allowance or discount for bad debt.

It would substantially streamline the process if USAC's program was structured more like the state programs its parent company, NECA, already administers. Required monthly reporting of basic revenue information, monthly filing and billing and explicitly permitting carriers to retain a modest percentage of the fees collected to reimburse the

¹⁷ Two states Nextel is familiar with, Idaho and Kansas, have USF programs that are not administered by NECA. These states do not assess state USF on a revenue basis. Instead, they apply a flat fee "per access line" reported and there is no provision for any true-up. In addition, Idaho provides a discount to account for the administrative expenses of the carriers.

carrier for its administrative expenses incurred by participation in the program are the hallmarks of a system that works.¹⁸

C. **Aspects of Wireless Services May Require Specific USF Program Accommodations.**

As the Commission knows, the structure and operating history of the wireless industry differs greatly from that of incumbent local exchange carriers or even landline interexchange carriers. One important difference is that wireless licenses are issued for specific market areas that often cross state boundaries and have far larger, often interstate “local” exchange areas. In many cases it is nearly impossible for a wireless carrier to determine whether a particular call is interstate or intrastate in nature. Jurisdictional classification of revenues associated with wireless traffic is even more complicated, as wireless carriers cannot easily separate interstate from intrastate minutes to determine revenues associated with each used or unused minute in any one of hundreds of available bucket-rate plans. For example, a flat rated plan costs the customer the same amount each month whether the customer uses all or none of the included minutes. Additionally, carriers may realize further revenue from the overage minutes beyond those included in a flat rate price plan. Without extensive analysis and use of simplifying assumptions that must be uniformly developed and applied, no firm conclusions can be drawn about which minutes produced which revenue, much less reach a determination of the appropriate jurisdiction of these wireless service revenues.

¹⁸ Nextel is not advocating a system where carriers would be required to file the equivalent of the current USF worksheet on a monthly basis. Rather, Nextel envisions a simple monthly statement of revenues.

Recognizing that wireless carrier revenue cannot easily be tracked to determine whether the revenue originated from interstate or intrastate use,¹⁹ the FCC adopted a wireless carrier interstate safe harbor of 15%.²⁰ Wireless carriers that report 15% or more of their revenue as interstate revenue are thus within an established safe harbor. The *Notice* questions whether 15% is still an appropriate safe harbor with the advent of bucket pricing and the proliferation of wireless phones.

Nextel supports the current 15% safe harbor. There is no new evidence that any other threshold is more appropriate, and at least one state USF program maintains a policy of collecting its fee on the remaining 85% of the wireless carrier's presumed intrastate telecommunications revenues.²¹ While reasonable parties can disagree as to whether a 15% threshold is too high or too low, any form of safe harbor contains risks that the carriers relying upon it may have overpaid one jurisdiction and underpaid another. This is one reason Nextel supports abandoning a jurisdictional, revenue reporting method in favor of a per activated phone assessment. Under the flat fee approach, there would be no continuing need for a wireless safe harbor that is absolutely critical to the functioning of a jurisdictional, revenue-based system.

Another area where the realities of the wireless marketplace should be accommodated is in the reporting of wireless carrier end user telecommunications

¹⁹ The Commission has previously recognized the unique jurisdiction of wireless phone traffic. *See* Implementation of the Local Competition Provisions in the Telecommunications Act of 1996; Interconnection Between Local Exchange Carriers and Commercial Mobile Radio Service Providers, CC Docket No. 96-98, *First Report and Order*, 11 FCC Rcd 15499 (1996).

²⁰ *See* Federal-State Joint Board on Universal Service, *Memorandum Opinion and Order and Further Notice of Proposed Rulemaking*, FCC 98-278, 13 FCC Rcd 21252, 21258 (1998).

²¹ The Kansas USF program allows for an 85% intrastate estimated payment.

revenues on a “consolidated” basis. As the Commission is aware, it is not unusual for a wireless carrier to consolidate the operations of several licensee entities for operational and accounting purposes. Unlike incumbent local exchange carriers which have been required to maintain separate books for separate legal entities, wireless carriers have never been required to do so. In fact, wireless carrier billing records are not organized on an individual licensee basis, thus requiring wireless carriers needlessly to divide revenues on an essentially arbitrary basis rather than simply allowing a single report for all controlled subsidiaries and affiliates of a wireless carrier.

Consolidated reporting by commonly controlled operating entities will not compromise the Commission’s ability to calculate and assess universal service contributions because the total amount of reported revenue or number of activated phones would remain the same if it were reported once on a unified basis or individually using tens or hundreds of individual licensee reports. The Commission has permitted consolidated reporting in other contexts, including in its initial set up for Telecommunications Relay Services funding and in the filing of common carrier Equal Employment Opportunity Reports. Consolidated reporting could be accomplished by permitting wireless carriers to list all covered operating entities on a single reporting worksheet.²²

One final area where streamlining would benefit not only the wireless industry, but all mandatory contributors to all FCC programs, would be the establishment of a

²² In this context, it is also appropriate to consider the impact of the Commission’s decision under The Paperwork Reduction Act of 1995. *See Notice* at ¶ 51. A significant advantage of allowing wireless carriers to issue a single report for all of its associated operating entities is that it would relieve carriers, as well as the Commission, of paperwork burdens. This reduction in paperwork burdens would not sacrifice the accuracy, quality or utility of the information disclosed. In fact, USAC would have the same information, but in a more useful form.

single financial administrator for the filing of all reports and worksheets. This entity would handle, on a single source basis, all billing, payment and remittance aspects of the Commission's various programs. Establishment of a single source would reduce expense and confusion for carriers.

III. CARRIER COST RECOVERY

The *Notice* raises the concern that carriers may, in the absence of specific guidance from the Commission, be recovering their mandatory contributions through unreasonable or discriminatory end user charges. Just as there is no perfect way to assess mandatory contributions, there is no perfect method to ensure that the recovery of these charges from end users is reasonable and competitively neutral in the absence of any rules, policies or guidelines.

Under the current framework, however, the FCC should appreciate that there may be many legitimate reasons why different carriers reflect different USF line item recovery amounts despite the single federal USF quarterly contribution factor which is the basis upon which all interstate end user telecommunications revenues is assessed by USAC. One may be that some carriers try not to make changes to their recovery amounts on more than an annual basis. Another may be that some carriers can easily assess federal USF cost recovery solely to interstate services, while other carriers may not be in a position to make these judgments. Certainly another reason for discrepancies is that assessments are based on the carrier's prior year's information, while the pass through for cost recovery by the carrier is applied to current customers.

In Nextel's case, a uniform percentage is assessed on the telecommunications portion of each customer's bill. Nextel's wireless rate plans are not specifically sold as an interstate or intrastate telecommunications service, but have the capability of being

used for either.²³ Nextel believes that its uniform charge, currently less than 1% of the billed rate plan, is relatively straight-forward in its application. If the Commission for whatever reason, does not move to a flat fee assessment mechanism, Nextel requests that the Commission specifically permit the type of uniform charge cost recovery Nextel has implemented.

IV. CONCLUSION

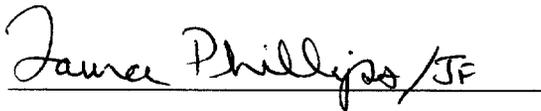
The USF contribution methodologies the Commission currently employs are unnecessarily complex and may be subject to manipulation by carriers seeking to recover more than their mandatory assessments and administrative costs from their customers. The Commission should simplify its USF contribution methodology to accommodate the unique structure of the wireless industry and ensure uniform compliance with its rules by implementing flat fee contributions to USF for wireless carriers that are based upon the number of activated phones reported each month. In the alternative, the Commission should borrow from aspects of state USF programs that allow current reporting and assessment, which eliminates the need for carrier post hoc reviews and true-ups.

Both carriers and the Commission have had sufficient experience with the current assessment methodology to know that a simplified approach would work better. Nextel requests that the Commission adopt the proposals presented in these comments.

²³ As previously noted, Nextel does not currently monitor customer usage to determine the jurisdictional use of each minute sold within a rate plan to each customer on a monthly basis. To begin to monitor this type of use would be a daunting and expensive undertaking, without any obvious public benefit.

Respectfully submitted,

NEXTEL COMMUNICATIONS, INC.



A handwritten signature in cursive script, reading "Laura Phillips / JF", is written over a horizontal line.

Laura H. Phillips
Jason E. Friedrich

Its Attorneys

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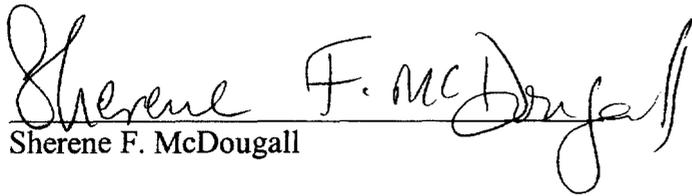
CERTIFICATE OF SERVICE

I, Sherene F. McDougall, hereby certify that a true and correct copy of the foregoing "Comments of Nextel Communications, Inc." was sent on this 25th day of June, 2001, via first-class United States mail, postage prepaid, to the following:

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