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OFFICE OF THE SECRETARY

November 27, 2001

Ms. Magalie R. Salas
Secretary
Federal Communications Commission
445 Twelfth Street, S.W.
Washington, DC 20554

Ex Parte: **Federal-State Joint Board on Universal Service, CC Docket No. 96-45; 1998 Biennial Regulatory Review – Streamlined Contributor Reporting Requirements, 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 North American Numbering Plan Cost Recovery Contribution Factor and Fund Size, CC Docket No. 92-237, NSD File No. L-00-72; Numbering Resource Optimization, CC Docket No. 99-200; and Telephone Number Portability, CC Docket No. 95-116**

Dear Ms. Salas:

On November 1, 2001, Verizon submitted a study performed by Cambridge Strategic Management Group (CSMG) that demonstrates how a per-line recovery mechanism for universal service would dramatically increase the telephone service bills for households with lower long distance usage. Attached are responses to various staff questions regarding the model.

Pursuant to Section 1.1206(a)(1) of the Commission's rules, and original and one copy of this letter are being submitted to the Office of the Secretary. Please associate this notification with the record in the proceedings indicated above. If you have any questions regarding this matter, please call me at (202) 515-2530.

Sincerely,

W. Scott Randolph

Attachment

cc: Katherine Schroeder
Anita Cheng
Paul Garnett
Greg Guice
Jim Lande
Geoff Waldau

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FCC Questions and Responses 11/27/01:

1) Referring to ex-parte Worksheet "Consumer", what is the source of column J *Per Line USF* with each cell equal to $0.83? The worksheet states at the bottom, "Source for all data (except 2000 per line USF, which was generated by this model): TNS Bill Harvest Database 7/99 - 9/00." However, the cells in column J do not refer to other cells in the workbook, hence they appear not to be generated by the model. The contents of Column J appear to be model input assumptions, rather than data generated by the model. Explain.

   Answer: The $0.83 value is indeed generated in the model in cell I96 of the "NatlUSF" worksheet. It appears as an input in the "Consumer" worksheet because the consumer analysis was originally a stand-alone analysis that used an input from the model.

   a) What class of customers is represented in columns J (current system) and column L (per-line system)? Residential?

      Answer: The entire analysis on the "Consumer" worksheet is based on residential customers only with data gathered from the TNS Telecoms Bill Harvest Database. Monthly bills and USF charges are presented on a per household basis.

   b) What is the weighted average per-line USF charge for customers represented in columns J (current system) and column L (per-line system)? If different, why?

      Answer: The weighted average USF landline charge per household in 2000 was $1.30 under the current USF assessment methodology and would have been $1.71 under a per-line assessment methodology, which would represent a 31% increase if a per-line assessment methodology were in place.

   c) What is the percentage of the fund paid for by these customers under the current system and per-line system?

      Answer: We calculate the percentage of the fund contributed by each customer type under both the current and per-line assessment methodologies by extrapolating our analysis of the TNS database to the entire US. The table below shows: 1) the percentage of the fund contributed by each customer segment (landline only) using the current USF assessment methodology, and 2) what the contribution would have been under a per-line assessment methodology (landline only). Overall, for landline only, consumers contributed 33% of the USF in 2000 using the current methodology; however, under a per-line system, this would have increased to 44% of the USF in 2000.

	Current Methodology		Per-Line Methodology	
Customer Class	2000 USF Contribution ($M)	% of USF	2000 USF Contribution ($M)	% of USF
No LD Spend	$139	3%	$481	10%
Low LD Spend	$136	3%	$311	6%
Medium LD Spend	$714	14%	$889	18%
High LD Spend	$656	13%	$480	10%
Total Consumer	$1,646	33%	$2,161	44%

d) Answer B-C above using as weights the % of Households data appearing in the Verizon presentation at page 11. (25% no LD, 15% low LD, 40% medium LD, 20% high LD). If the result is different than B-C, explain.

<u>Answer</u>: See table above.

e) What is the percentage of the fund paid for by residential customers under the current system and per-line system?

<u>Answer</u>: See table above.

2) In the same worksheet, explain the source or derivation of columns B and H (LD Usage, LD USF).

<u>Answer</u>: The data in columns B and H was obtained directly from the TNS Bill Harvest Database. After using LD spend to segment the database into four classes of households (No, Low, Medium, and High LD Usage Households), we calculated the average LD usage and LD USF fees for each customer class.

3) In the Verizon presentation at page 11, explain the cell "30% No LD Calls on Bill" found in the column "No LD Spend HHs." (Should there be 100% no LD calls on Bill?)

<u>Answer:</u> While 100% of the No LD Spend Households have no LD calls on bill, 30% of these households do not have a long distance carrier identified in the TNS Bill Harvest database, i.e., 30% do not have a PIC. We use this in our per-line assessment calculations when determining whether or not the household must contribute for a long distance account as shown on page 51 of the same presentation.

4) Does the TNS data track the same customer for a single month, or for a period of several months. How would the results differ if the data for a customer is recorded for several months or a year? Provide any Verizon-conducted study that shows toll usage by residential customers tracked for the same customer over several months.

<u>Answer:</u> The TNS Telecoms Bill Harvest Database requires a customer to submit all telecom-related bills for a period of one month but does not track the same customer

over time. It is unclear how the results would differ if data for a customer were recorded over several months.

5) Referring to the worksheet "Inputs", explain the concepts "LOCAL – Average monthly bill", "Average monthly charge" and "basic connection charge" (e.g., is this a local usage charge, dial-tone line charge, installation charge)?

   Answer: The "Average Monthly Charge" includes all monthly fees except the SLC, touch tone service, taxes, 911 and other, and any connection charges. The "Basic Connection Charge" is the average installation charge assessed to connect a phone to the network. These inputs were obtained from the FCC Statistics of Common Carriers (p. 232-233 of 2000/2001 Edition) and Reference Book of Rates, Price Indices, and Expenditures for Telephone Service (p. 1, 4, 17, 25, and 31 of the June 1999 Edition) and were not altered in any way from these publications. The growth rates are calculated from a historical time series found in the two reports.