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

Ex Parte: Proposed First Quarter Universal Service Contribution Factor, CC Docket No. 96-45

Dear Ms. Salas:

On December 13, 2001, AT&T submitted a letter regarding the Commission's Proposed First Quarter Universal Service Contribution Factor. The December 7 Public Notice on the factor proposed a reduction in the contribution factor from 6.9% to approximately 6.8% for the first quarter of 2002. Although not submitted as a formal petition for waiver, AT&T nonetheless requests a waiver of Commission rules to permit it to base its USF contribution on projected revenues, as opposed to its actual third quarter 2001 revenues, as required by the rules. That request should be denied.

AT&T claims that the six-month lag between the assessment and recovery of its universal service contributions, coupled with declining interstate and international revenues, will require it increase its assessment to residential customers from its current 9.9% factor to 11.5%. AT&T does not offer any factual data in support for its request, nor does it demonstrate that it cannot recover its USF obligations under the current rules.

A reduction in the Commission's overall USF contribution factor may not always result in decreases in assessments to end users to recover a carrier's universal service obligations. Reductions in revenues and other factors could result in increases in those charges. However, AT&T's filing provides no support as to why, with the contribution factor decreasing from 6.9% to only 6.8%, it must increase its charge as much as 16%. AT&T does not explain how it derived its 11.5% assessment factor, whether this factor includes costs other than AT&T's USF obligations, and the magnitude of AT&T's actual revenue losses that it claims contributes to the increase. AT&T should be required explain what its increased charges include before it asks for special relief.

AT&T claims that the increase in its USF recovery charge would impact over 50 million residential customers. However, it is not clear from AT&T's filing whether AT&T is imposing a disproportionate burden on those customers. As a non-dominant carrier, AT&T may choose to recover a greater portion of its contribution from certain types of customers. However, a waiver of the Commission's rules certainly would not be warranted if AT&T has reasonable alternatives to

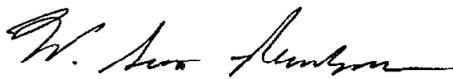
increase its contribution assessment from other users, thereby reducing the overall assessment rate for all its customers.

Even if AT&T had provided support for its request, the request should be denied based on its impact on other carriers. If one carrier were allowed to use a different assessment method, it would require a recalculation of the contribution factor, with other carriers taking on a relatively greater assessment. Moreover, AT&T does not, and can not allege it is the only carrier with declining interstate revenues. For example, Verizon's wireline business has experienced declining line counts from losses due to local telephone competition as well as other competitors including cable modems and wireless. As AT&T increases its market share in cable modems and local service, Verizon is forced to pay the USF contribution on those lost lines due to the six-month lag, even though AT&T may now be collecting the revenues from these subscribers. AT&T has not shown that it faces unique circumstances that justify a departure from reporting current revenues to determine its USF contribution amount, nor has it shown how such a waiver is consistent with Section 254(d)'s requirement that the assessment be equitable and non-discriminatory.

Finally, AT&T's filing is an attempt to circumvent the Commission's rulemaking process. The Commission is currently considering amending the USF contribution methodology, including the possible elimination of the existing six-month lag or replacement of the current revenue-based system with other mechanisms.¹ A grant of AT&T's petition would unfairly pre-judge the outcome of that proceeding. The Commission should reject AT&T's request and instead evaluate the full record and consider what, if any, changes are required to the assessment system based on the impact to all participants, not just AT&T.

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

cc: Dorothy Attwood
Rich Lerner
Carol Matthey
Katherine Schroeder

Kyle Dixon
Matthew Brill
Sam Feder
Jordan Goldstein

¹ Notice of Proposed Rulemaking, CC Docket Nos. 96-45, 98-171, 90-571, 92-237, 99-200 and 95-116, FCC 01-145, Released May 8, 2001.