

W. Scott Randolph  
Director – Regulatory Affairs



Verizon Communications  
1300 I Street  
Suite 500E  
Washington, DC 20005

Phone: 202 515-2530  
Fax: 202 336-7922  
srandolph@verizon.com

July 2, 2002

Ms. Marlene H. Dortch  
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**

**Appropriate Framework for Broadband Access to the Internet over Wireline Facilities; Universal Service Obligations for Broadband Providers, CC Docket No. 02-33**

Dear Ms. Dortch:

In comments filed in the Commission's Universal Service and Broadband proceedings, Verizon has proposed that all broadband providers be required contribute to only the school and library portions of the federal universal service program. This approach would create competitive neutrality between broadband providers that is noticeably absent in today's contribution method, and would broaden the base of contributors to ensure stability of the fund as the industry is transformed over the next few years.

The schools and library program greatly expands the customer base to which broadband providers can sell their services, so it is appropriate for broadband providers to contribute to furtherance of that program. Limiting broadband contributions to only the school and library portion also moots potential arguments that if broadband providers contribute to all portions of the federal program, broadband services should also be supported by the fund.

In response to questions from certain members of the Federal-State Joint Board on Universal Service, Verizon has estimated the impact of including all broadband revenues in only

the school/library portion of the federal universal service program. Using publicly available information gathered by Verizon, it is estimated that the 3Q2002 revenues for DSL that now contribute to all components of the federal universal service programs are approximately \$700M. Total cable modem revenues are estimated to be approximately \$1.4B for the same 3Q2002.

If cable modem, DSL and all other broadband service revenues were included in the calculations for only the schools and library components of the federal universal service program (removing DSL from support for high cost and other program components), the contribution factor would become bifurcated. If the fund size and all other revenues are held constant, Verizon estimates the bifurcated factors would be approximately 2.6% for the school and library portion, and 4.6% for all other components. Customers with broadband service would contribute 2.6% of only their broadband revenues, and 7.2% (2.6% + 4.6%) of all their other interstate revenues. For consumers with broadband service, the overall contribution would be less than 7.2% of their total interstate revenues.

Attached is a chart that shows the consumer impact of adopting Verizon's bifurcated universal service contribution approach. For demonstration purposes, it is assumed that a consumer has \$15 per month charges for interstate long distance, \$7.50 per month charges for interstate wireless (15% of a hypothetical \$50 service package), \$6.00 per month Subscriber Line Charge (SLC) for ILEC local service customers, and that both cable modem service and DSL have the same market price of \$40.

The "Today" upper portion of the attached chart shows the disparity in contribution amounts (from \$1.64 to \$4.99 per month) that result from the regulatory classification of the service providers chosen by the consumer. The "Verizon Proposal" lower portion of the chart addresses and corrects much of that disparity by having: (1) all broadband revenues contributing 2.6%, and (2) all other interstate revenues contributing 7.2%. The overall contribution from ILEC customers with broadband service would be about 4.5% in this hypothetical example (2.6% x \$40 plus 7.2% x \$28.50, divided by \$68.50) irrespective of whether the broadband service was DSL or cable modem.

Note that disparity remains in the amount consumers contribute if a CLEC is chosen as the local service provider rather than an ILEC. This disparity results because ILECs are required to charge an interstate SLC, and CLECs are not required to do so. This disparity resulting from regulatory treatment of firms competing to provide local service could be corrected if CLECs were required to report as interstate revenues an amount approximately equal to a statewide or nationwide average SLC.

Unlike other plans, Verizon does not propose that Internet Service Providers (ISPs) offering dial up services be required to report or to contribute to the federal program administrator. Neither does Verizon propose that ISPs that purchase DSL or access to a cable modem platform and sell their information services to end users be required to report and contribute to the federal program administrator. Instead, just as is common practice today, ILECs providing DSL to ISPs would report the DSL interstate revenues, contribute to the administrator based on those revenues, and pass their contributions through to the ISP as a line item on the bill for DSL. For example, if the DSL rate is \$40 per month, today Verizon recovers its contributions through a line item charge of 7.2% times \$40, or \$2.88. Under the Verizon proposal, the pass through charge on the ISP's bill for DSL would be reduced to approximately 2.6% times \$40, or \$1.04. And, under the Verizon

Ms. Marlene H. Dortch  
July 2, 2002  
Page 3

proposal, cable modem service providers would follow the same reporting and contribution procedures as ILECs that provide DSL.

The inclusion of all broadband revenues for contributions only to the school and library portion of the federal program does not significantly reduce the overall contribution factor today. However, because broadband services are expected to experience a huge growth rate, including all broadband revenues will stabilize the contribution base and will have an impact the contribution factor in the future. According to a recent study entitled *U.S. and Canada Broadband Multimedia Review 2002-2008* prepared by C.A. Ingley & Co., 60 million households will subscribe to residential broadband by 2008. Given today's U.S. penetration of less than 10 million subscribers, this equates to approximately a six-fold increase in less than six years. See *Communications Daily*, June 19, 2002, at 7. Further, according to a recent Solomon-Wolff survey, broadband services will make up 30% of Internet connections compared with 6% three years ago. The study predicted that trend would continue, with broadband accounting for more than half of home Internet service connections by early 2004. See *Communications Daily*, June 25, 2002, at 9.

The anticipated large growth rate for broadband services (and revenues) will act to reduce the contribution from broadband customers, and depending on how rapidly the overall funding need grows as compared to broadband growth, could mitigate the effect of growth in funding needs for all consumers. For example, Verizon estimates that if the total cable modem service and DSL revenues doubled (holding fund size and all other revenues constant), this would result in a contribution rate of approximately 2.4% for the school and library portion, and 4.6% for all other components. If a consumer had broadband service in addition to other interstate services, that consumer would contribute 2.4% times their broadband revenues, plus 7.0% (2.4 + 4.6) times all other interstate revenues.

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: Carol Matthey  
Eric Einhorn  
Diane Law Hsu  
Paul Garnett  
John Secrest  
Vickie Byrd  
Matt Brill  
Kyle Dixon  
Jordan Goldstein  
Dan Gonzalez

**Impact on Universal Service Contribution Resulting From the Regulatory Classification  
of the Service Providers Chosen by a Consumer**

**Today**

<b>Interstate Revenue from</b>	<b>ILEC Customer without Broadband</b>	<b>CLEC Customer without Broadband</b>	<b>CLEC Customer with Cable Modem</b>	<b>ILEC Customer with Cable Modem</b>	<b>ILEC Customer with DSL</b>
Subscriber Line Charge	\$6.00	\$0.00	\$0.00	\$6.00	\$6.00
DSL*					\$40.00
Cable Modem Service*			\$40.00	\$40.00	
Interstate Long Distance	\$15.00	\$15.00	\$15.00	\$15.00	\$15.00
Wireless 15% of \$50 bundle	\$7.50	\$7.50	\$7.50	\$7.50	\$7.50
Contribution % without mark-up	7.2805%	7.2805%	7.2805%	7.2805%	7.2805%
<b>Universal Service Contribution</b>	<b>\$2.07</b>	<b>\$1.64</b>	<b>\$1.64</b>	<b>\$2.07</b>	<b>\$4.99</b>

**Verizon Proposal\*\***

<b>Interstate Revenue from</b>	<b>ILEC Customer without Broadband</b>	<b>CLEC Customer without Broadband</b>	<b>CLEC Customer with Cable Modem</b>	<b>ILEC Customer with Cable Modem</b>	<b>ILEC Customer with DSL</b>
Subscriber Line Charge	\$6.00	\$0.00	\$0.00	\$6.00	\$6.00
DSL*					\$40.00
Cable Modem Service*			\$40.00	\$40.00	
Interstate Long Distance	\$15.00	\$15.00	\$15.00	\$15.00	\$15.00
Wireless 15% of \$50 bundle	\$7.50	\$7.50	\$7.50	\$7.50	\$7.50
Contribution % for Broadband revenues (for School & Library)	2.6290%	2.6290%	2.6290%	2.6290%	2.6290%
Contribution % for all other revenues	7.2480%	7.2480%	7.2480%	7.2480%	7.2480%
<b>Universal Service Contribution</b>	<b>\$2.07</b>	<b>\$1.63</b>	<b>\$2.68</b>	<b>\$3.12</b>	<b>\$3.12</b>

\* DSL and Cable Modem price assumed to be equal

\*\* Verizon does not endorse continuation of the disparity in contribution that results from the requirement for ILECs to charge an interstate SLC.  
This disparity can be addressed by requiring CLECs to report as interstate revenues an amount equal to a statewide or nationwide SLC.